

The Meiji Restoration

- The Opening of Japan
 - Policy Issues
- Major Economic Objectives of the Meiji Restoration
 - Reduce Government Deficit
 - Create Banking System
 - National Banks and Central Banks
 - Banks and Money Supply
 - Establishment of National Banks
 - End of Samurai and Daimyo

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What are the problems with trade liberalization?

- How will gains from trade be distributed?
 - Could have gains for economy as a whole but losses for some
 - People with property rights in gold denominations won
 - But those with silver lost.
 - Tokyo merchants made gold denominated loans; Osaka, silver
 - Opening to trade implied a shift in economic power
 - Politically very explosive, and the Bakufu were worried about how to weather the storm
- PPF might shift
 - New technology might shift it out
 - However, PPF could also shrink
 - Invasion or political instability
 - Migration
- Dynamic Issues

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Policy Implications

- Could the Japanese government maintain the autarkic price level?
 - It could if it put a tariff on Silver imports
 - Harris wanted to prevent this and limit Japan's tariff autonomy
- Japan eventually signed the what came to be known as the Unequal Treaties
 - Foreigners were granted the right of “extraterritoriality”
 - Japanese laws did not apply to them
 - Japanese tariffs were limited to 5% tariff on raw materials 20% on manufactured goods
 - Revised in 1866 to be flat 5% level
 - J didn't get tariff autonomy until 1911
- Caused a further weakening of the shogunate

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Destabilization of Bakufu: Economic Problems

- Japanese tariffs were limited to 5% so industrial restructuring was fast
 - Gold quickly left the country
 - Osaka damaged because its loans were in silver
 - Losers from trade became dissatisfied
- World cotton prices were lower than Japan's
 - many unemployed
 - By the 1850's the bakufu was bankrupt

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Destabilization of Bakufu: Political Problems

- Previously only Tokugawa had contact with foreigners
 - Now they couldn't control access to military technology
 - New sign of weakness: Bakufu had asked for opinions about what to do
 - Never had done this before
 - most opposed opening the country --> saw collapse of system
- Tokugawa had never really beaten all enemies just kept them in check
 - Shogun means military general
 - Theoretically Bakufu were to throw out the foreigners
 - Ruled under emperor but actually controlled him
- Samurai became restless
 - A number of samurai attacks on foreigners
 - Samurai paid in rice, Price of rice relative to gold fell.
 - Began to ally themselves with coastal merchants

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The Collapse of the Bakufu

- Satsuma and Choshu han became major rivals of Bakufu
- Both Satsuma and Choshu had a lot of Samurai relative to commoners
 - Satsuma is in Southwestern part of Kyushu
 - Satsuma was the second largest han
 - Satsuma produced sugar and controlled Okinawan sugar production.
 - Became very rich
 - Far from Edo and hard to control
 - Choshu in southwestern part of Honshu
 - Choshu made a fortune selling tobacco
 - Both far from Edo, Started buying guns
- Bakufu embarrassed couldn't control daimyo in outside regions

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What Happened?

- Daimyo of Satsuma and Choshu controlled imperial court and got the emperor to ask for the removal of the foreigners
 - These groups began to urge the expulsion of foreigners
 - Effort to destabilize the government
 - Political power shifted to the Imperial court in Kyoto
- In 1868 Armed contingents of Satsuma han and others seized the palace in the name of the emperor and abolished the Shogun
 - Tokugawa counterattacked and lost
 - Last shogun surrendered in Edo
- This is called the Meiji Restoration
 - The rule of the emperor was technically restored
 - Last Tokugawa (Keiki) was pensioned off --> not executed
 - Legacy today (Sato was from one of these han)

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Policy of the Meiji Government

- Meiji government was bankrupt and adopted three pronged strategy
 - Increase government revenues
 - cut government expenditures
 - create the institutions of a market economy
- Revenue enhancement policies
 - Relied on forced loans/gifts (e.g. Mitsui “gave” the government money)
 - Received a 2.4 million pound loan from Britain
 - Received ¥5 million in loans.
 - Tended to avoid this type of financing because it might serve as a pretext for foreign intervention
 - Did get trade credits from foreign merchants

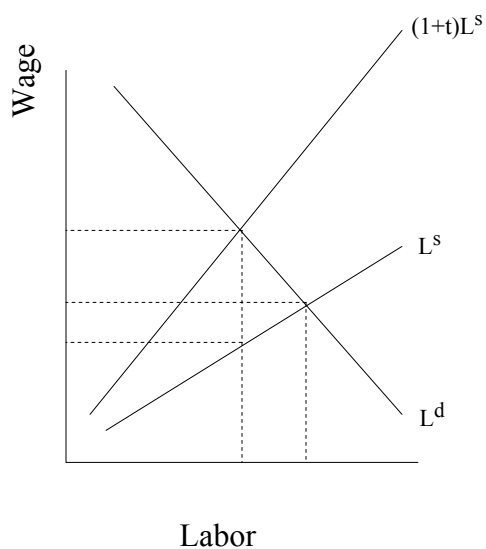
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The Land Tax

- Taxes had been in rice and had choked off income
 - Problem with Tokugawa policy was that tax was in kind
 - Large revenue fluctuations due to crop yields
- Instituted a new land tax
 - Issued titles to peasants
 - Government reassessed productivity of land
 - Placed a tax of around 3% on the value of the land
 - Also eliminated the ban on the sale of land
- Why might this matter?

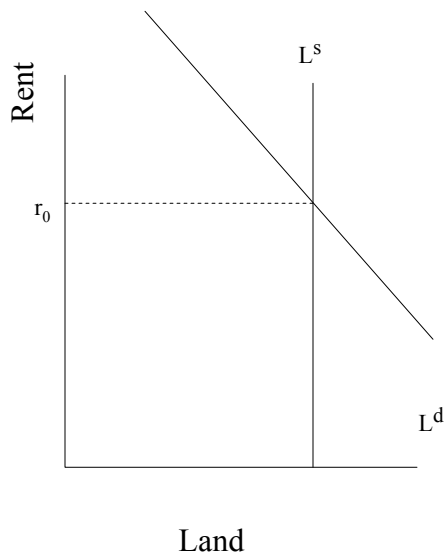
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Public Finance



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Public Finance



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Impact of Tax Reform

Year	Total Tax Revenue ¥mln	Land Taxes
1868	3.2	2.0
1870	9.3	8.2
1875	59.2	50.3

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The End of Feudalism

- Meiji Gov't wanted to convert samurai into entrepreneurs
- 1870 eliminated han and created prefectures
 - Bought off feudal lords
- But what to do with 400,000 samurai and their families?
 - 6% of Japanese population
 - 30% of gov't budget

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Rise of Money

- Began to see the development of a money based economy. Started in cities and spread to countryside
 - In 18th century 1/3 of Bakufu taxes were collected in currency
 - By 19th practically all revenue was in cash
- Unlike in Europe, where currencies were based on metallic content, in Japan at least some of the the currency had its value was assigned by the government. This was very advanced
- Take a virtual tour of the coin museum website at CJEB

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Monetary Policy

- Tried to use bond issues and monetary reform to raise revenue
 - Monetary system was about to collapse
 - There were 1694 different types of currency
 - Gold was leaving the country, Silver becoming standard
 - In 1869 switched to decimal currency of yen and sen based on gold
 - Mitsui began minting coins in 1871
 - Also issued non-convertible currency but value dropped to 20% of face value
- Desperately needed a banking system and acceptance of government bonds
 - Gov't was trying to issue bonds at 6% but no takers

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Inflation and Money Supply

Year	WPI	Gov't Paper Money	Total Non- Convertible Notes
1868	100	24	65.4
1869	123	50.1	94.4
1870	109	55.5	103.2
1871	113	60.3	108.5
1872	104	68.4	102.7

- Why so little inflation?

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Meiji Monetary Reforms

- One of the first actions of Meiji government was ordering of specie-minting machine from the UK in 1868
 - Decided to model Japanese banking on the US system
 - Several of the Ministry of Finance (MOF) leaders had spent time in the US working for a bank in New Hampshire
 - 1870 Hirobumi Ito (who later became Prime Minister) visited the US to study national banking
 - Recommended that Japan do the same
 - No central bank, but a series of national banks that could issue currency

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Banks and Money Supply: Theory

- Two ways to issue currency: National Banks and Central Banks
 - In the US today (as in Japan) only the Central Bank can issue currency
- National Banks can issue currency (as in US and Japan in 1870's)
 - National bank collects deposits and owner capital in the form of specie and paper currency
 - Keeps some on reserve and lends the rest out
 - Borrowers obtain national bank notes which are legal tender.
 - Backed by National Bank's reserves.
- In Central Bank system only Central Bank can issue currency.
 - This currency is backed by specie (if on gold standard) or not backed as in fiat money

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Banks and Money Supply: Example

- What are the implications of a 10% reserve requirement

	Assets		Liabilities
	Loans	Reserves	Deposits
1 st National Bank	90	10	100
2 nd National Bank	81	9	90
3 rd National Bank	72.9	8.1	81
And so on...			
Total	900	100	1000

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Banks and Money Supply in Words

- Suppose banks keep 10% of deposits on reserve.
- If the 1st National Bank has 100 yen in deposits, then there will be $100 * (1/0.1) = 1000$ yen in circulation
- The money multiplier is one over the reserve ratio. It tells you how much currency is generated by 1 yen of deposits.

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