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

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
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
    • Japan didn’t get tariff autonomy until 1911

• Caused a further weakening of the shogunate

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
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

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
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)

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
The Land Tax

• Taxes had been in rice and relative price movements had reduced real 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?
Impact of Tax Reform

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Tax Revenue ¥mln</th>
<th>Land Taxes ¥mln</th>
</tr>
</thead>
<tbody>
<tr>
<td>1868</td>
<td>3.2</td>
<td>2.0</td>
</tr>
<tr>
<td>1870</td>
<td>9.3</td>
<td>8.2</td>
</tr>
<tr>
<td>1875</td>
<td>59.2</td>
<td>50.3</td>
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</table>
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 currency had its value assigned by the government. This was very advanced

- Take a virtual tour of the coin museum website at CJEB

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
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

Inflation and Money Supply

<table>
<thead>
<tr>
<th>Year</th>
<th>WPI</th>
<th>Gov’t Paper Money</th>
<th>Total Non-Convertible Notes</th>
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<tbody>
<tr>
<td>1868</td>
<td>100</td>
<td>24</td>
<td>65.4</td>
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<tr>
<td>1869</td>
<td>123</td>
<td>50.1</td>
<td>94.4</td>
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<tr>
<td>1870</td>
<td>109</td>
<td>55.5</td>
<td>103.2</td>
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<tr>
<td>1871</td>
<td>113</td>
<td>60.3</td>
<td>108.5</td>
</tr>
<tr>
<td>1872</td>
<td>104</td>
<td>68.4</td>
<td>102.7</td>
</tr>
</tbody>
</table>

- Why so little inflation?
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