

# THE ARMAMENTS EXPANSION BUDGETS AND THE JAPANESE ECONOMY AFTER THE RUSSO-JAPANESE WAR\*

By MASAZO OHKAWA

*Assistant Professor of Public Finance*

## I. *Introduction*

The Russo-Japanese War (February 1904–September 1905) cost Japan ¥1,716 million including indirect war expenditures. Considering that the estimated national income of the time was roughly a little more than ¥2,000 million, we can easily see that those war expenditures were a very heavy burden upon the Japanese economy. This explains why four foreign loans totaling ¥700 million had to be raised to meet the immediate war expenditures of ¥1,500 million.

The foreign loans not only enabled Japan to carry on the unprecedentedly large-scale war without putting excessive pressure upon the domestic money market, but also they contributed to the funds for the armaments restoration and expansion program which was implemented soon after the end of the war. The armaments expansion program following the Sino-Japanese War was richly supplied with funds by Chinese reparations amounting to ¥360 million. In contrast, in the absence of reparations following the Russo-Japanese War, the new program had to depend on increased tax revenue besides the foreign loans. The tax increase required in this way aroused the strong resistance of the businessmen against the armaments expansion, for they had been planning a high level of investment which would require a huge amount of capital. It was the first time in which businessmen took the leadership of the political movement to attack the government's military policy. Their purpose was to remove the great obstacle to capital accumulation, that is, to cause the government to revise its policy which attached too much importance to unproductive military preparations which were out of balance with our economic strength.

They succeeded in realizing their intention, though only partly. This shows that their political position had improved. The political system under the Meiji Constitutional Law, however, did not allow businessmen as a class to have a powerful voice in budget-determining conferences. Though some established political leaders tried to act for the economic circles, they could not check the tendency of military expansion, they could only weaken it a little. This unsatisfactory result to the businessmen made firmer their resolve to advance into politics.

In the following sections I would like to consider in what economic and political circumstances the armaments expansion budgets following the Russo-Japanese War were determined, and what beneficial or harmful effects they had on the economic development of Japan. At the outset, the economic and financial importance of the foreign loans raised during and after

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the war will be explained, since it is not too much to say that the postwar armaments expansion and economic development could not have been started without them.

## II. *The Importance of Foreign Loans in Financing the Russo-Japanese War*

The closing statement of the *Rinji Gunjihi Tokubetsukaikei* (Extraordinary Military Expenses Special Account) summarized in Table 1 shows that 82.4% of the total revenue was raised by floating long-term and short-term loans and 40.1% by issuing sterling loans. The tax increase, which was put in force under the name of emergency taxation, brought ¥398 million to the *Ippan Kaikei* (General Account) over three fiscal years, 1904-1906. The greater part of it, however, was spent to defray indirect war expenditures called *Kakushō Rinji Jikenhi* (Each Ministry's Extraordinary Incidental Expenses). Accordingly the tax revenue transferred from the general to the special account to pay direct war expenditures, even adding to it the surplus of the general account produced by saving expenses and postponing non-urgent undertakings, amounted only to ¥182 million.

The importance of foreign loans in financing the war was much greater than the percentage distribution in Table 1 shows. Foreign loans must not be compared with other revenue sources simply in quantitative terms. We must also take into account their qualitatively different effects upon the national economy. The choice of either domestic loans or

TABLE 1. SUMMARIZED CLOSING STATEMENT OF THE EXTRAORDINARY MILITARY EXPENSES SPECIAL ACCOUNT (1903-1907)

	Amount	Percentage Distribution
	thousand yen	per cent
(I) Revenue		
1. Long-term loans (Sterling loans)	983,846 (689,595)	57.1 (40.1)
*2. Short-term loans	434,886	25.3
3. Transfers from general account	182,430	10.6
4. Funds diverted from other special accounts	69,312	4.0
5. Sale of government property	18,875	1.1
6. Others	31,864	1.9
total	1,721,212	100.0
(II) Expenditure		
1. Army	1,283,318	85.1
2. Navy	225,154	14.9
total	1,508,473	100.0
(III) Balance (transferred to the fiscal 1907 general account)	212,740	

Source: *Ōkurashō, Kaku Rinji Gunjihi Tokubetsukaikei Sainyū Saishutsu Kessan Shorui Shūroku* (Finance Ministry, Collected Documents Pertaining to the Revenue and Expenditure Settled Accounts of Extraordinary Military Expenses Special Accounts), 1941, p. 513 ff.

Note: \**Kokkosaiken*.

tax increase may be of great significance when we want to regulate the oppressive effects of wartime finance upon investment or consumption but the effect of restricting domestic demand is common to both of them. In contrast, foreign loans are almost free from this restrictive effect, at least in the short term. This wards off the danger of ruining the national economy by carrying too heavy a burden of war expenses. We could say that Japan's victory depended indeed upon her success in floating the foreign loan, because she had to import a large quantity of munitions from abroad and to pay in specie for them.<sup>1</sup>

Table 2 tells us that in the opening months almost all the war expenditures were defrayed by temporary appropriation of the idle money in the Treasury and by borrowing from the Bank of Japan, which caused the increase of issued convertible notes. On the other hand,

TABLE 2. MONTHLY REVENUE AND EXPENDITURE OF THE EXTRAORDINARY MILITARY EXPENSES SPECIAL ACCOUNT

(Unit: million yen)

	Revenue			Expenditure	Cumulated Deficit	Items compensating the Deficiency		
	Long-term Loans	Short-term Loans ( <i>Kok-kosaiken</i> )	Total, other incl.			Treasury's idle money	Borrowing from B. of J.	Military Notes
1903. 12.				16.0	16.0	9.0	7.0	
1904. 1.				4.4	20.4	8.4	12.0	
2.				20.1	40.5	11.8	28.0	0.7
3.		1.4	2.2	25.8	64.1	20.2	41.5	2.5
4.		12.1	27.3	29.7	66.5	18.6	43.5	4.4
5.		18.1	18.3	31.0	79.1	17.0	55.5	6.6
6.	40.0	7.1	47.3	33.0	64.9	20.8	35.5	8.6
7.	24.1	20.9	53.4	42.4	53.9	8.1	27.5	18.2
8.	22.7	20.5	48.3	71.5	77.1	5.9	29.5	41.7
9.		16.3	17.1	53.1	113.1	13.5	50.0	49.6
10.		21.1	21.2	57.0	148.9	30.5	58.5	59.9
11.		18.6	31.2	49.4	167.1	25.1	79.5	62.5
12.	18.0	18.4	60.0	65.8	172.9	31.3	92.0	59.0

Source: *Okurashō, op. cit.*

the outflow of specie due to the importation of military materials, the purchase of warships and the hiring of foreign steamers reduced the specie holdings of the Bank of Japan. As a natural result, the ratio of specie holdings to issued convertible notes dropped so severely that the foundation of the convertible system was shaken (see Table 3).

The Katsura Cabinet having made provisions for the coming war, dispatched Korekiyo

<sup>1</sup> According to an estimate of the Yokohama Specie Bank, it was expected that ¥ 65 million in specie would flow out of Japan in one year after the outbreak of war as a result of foreign banks' taking out ¥ 35 million in specie and of paying ¥ 30 million for imported goods. Moreover the outflow of specie arising from the import of munitions had to be taken into account. Immediately before the war, the heads of Finance Ministry, Bank of Japan and Yokohama Specie Bank had hot discussions to find effective measures to prevent specie from going out. However, they didn't take prohibitive measures against exporting specie, fearing it would have a harmful influence on the floating of foreign loans, which was thought inevitable in future. [*Takahashi Korekiyo Jiden* (Autobiography of Korekiyo Takahashi), 1936, pp. 645-649.]

TABLE 3. ISSUED CONVERTIBLE NOTES AND SPECIE RESERVE OF THE BANK OF JAPAN

		Issued Convertible Notes (1)	Specie Reserve (2)	Ratio of (2) to (1)
		(million yen)	(million yen)	(per cent)
1903.	10.	209.2	116.5	55.7
	11.	201.5	114.5	56.8
	12.	232.9	117.0	50.2
1904.	1.	214.6	105.9	49.3
	2.	221.9	100.9	45.5
	3.	213.1	92.1	43.2
	4.	199.0	80.8	40.7
	5.	200.0	68.1	34.0
	6.	232.1	92.8	40.1
	7.	232.8	109.5	47.2
	8.	240.4	117.3	48.8
	9.	240.0	110.0	45.8
	10.	240.9	99.2	41.1
	11.	248.1	84.9	33.7
	12.	286.6	83.6	29.3

Takahashi, then Vice-President of the Bank of Japan, to London soon after the hostilities began and let him negotiate with the bankers there about the matter of issuing a sterling loan for £10 million. At the first stage of the negotiations, being doubtful of Japan's victory, they hesitated, but finally, seeing the war situation turn favourable to Japan, consented to take half of the loan. Fortunately the other half was taken by financiers in New York. The loan was issued, however, under very strict terms, that is, at the high interest rate of 6%, at the low subscription price of 93½% and by giving the customs revenue as security. Faced with the deep shortage of specie, the Japanese Government submitted to these terms and received £9 million sterling (¥86.8 million in Japanese money) by August 1904. The receipts were transferred to the revenue for the Extraordinary Military Expenses Special Account and used as repayment to the Bank of Japan. Consequently, the temporary loan from the Bank of Japan suddenly declined, as shown in Table 2, from ¥56 million in March 1904 to less than ¥30 million in July. Reversing its decline, the specie reserve of the Bank of Japan had remarkably increased since June. This was attributable to the fact that the Bank included the repaid pounds, which it kept still in London, in its specie reserve. Thus the Japanese economy could somehow tide over the critical situation produced by the specie shortage. But this does not mean it was quite freed from such a shortage. During a short period ending July 1905, when the hostilities ceased, three more sterling loans were to be issued, the total of which in face value amounted to £72 million sterling (¥703 million). The Japanese Government and also the Japanese economy had been so thirsty for foreign money that new subscriptions for the fourth sterling loan were accepted in July 1905, when payment for the third was still under way.<sup>2</sup>

Besides paying direct war expenditures, the revenue from foreign loans was used to refund domestic loans carrying higher interest. An example is the fifth sterling loan at 4%

interest, which was issued in November 1905 for refunding the two domestic loans at 6% interest. The important thing is that the true purpose of the refunding was to make domestic loan bonds more salable in advance of issuing a new loan for the troops-withdrawing expenditure. Approximately ¥200 million from this domestic loan called *Rinji Jiken Kōsai*, and about ¥300 million from the fourth sterling loan, nearly ¥500 million in total, flowed into the revenue side of the Extraordinary Military Expenses Special Account after the end of hostilities in June 1905. This not only enabled Japanese troops to stay in occupied areas for a while and to evacuate them without the fear of a money shortage, but also helped to expand armaments on land and sea under the name of recovery. We must also note that a disguised expenditure for armaments expansion was paid out of the Special Account, and that, as will be seen later, the surplus of the Account, about ¥200 million, was also devoted to unproductive armaments expansion against the will of economic circles which desired to use it for the refunding of domestic loans. It is in this sense, as mentioned above, that foreign loans, the richest revenue source for the Special Account, helped much to expand Japanese armaments.

In the following, we will consider how the government's intention to increase armaments was realized in the budgets for the fiscal years 1906, 1907 and 1908.

### III. *Postwar Armaments Expansion Budgets, and Political and Economic Circles' Attitudes towards Them*

The most controversial point in the peace conference started in August 1905 was whether Russia was under an obligation to pay reparations or not. To the last Russia refused to pay, insisting that her territory had not yet been invaded by Japanese troops and she could still fight.<sup>3</sup> On the other hand, the Japanese political and military leaders, who were not sure of their country's fighting power remained, preferred peace to reparations.<sup>4</sup>

The conclusion of the peace treaty lacking a reparations clause, had a great influence upon Japanese political and economic circles. First of all, in Tokyo a great collision occurred between the police and the people crying for breach of the treaty. This led Premier Katsura to resign and to hand over the reins of government to Kinmochi Saionji, President of the *Seiyūkai*.

Economic circles were also discouraged to hear that there would be no reparations. Stock prices, which had been speedily rising since the naval victory on the Japan Sea, sank to their former level, reflecting the fear among businessmen concerning the low specie reserve. The hasty issuing of the sterling loan for paying back domestic loans, mentioned above, shows that the government too had the same fear. Prior to the sterling loan, Shinzen Matsuo, Governor of the Bank of Japan, inquired of Takahashi, who was staying in Europe as the

<sup>2</sup> The Japanese Government, that was not sure of the Russian desire for making peace, wanted to make financial preparations in advance for the reopening of hostilities by issuing the fourth sterling loan. If fortunately peace came, the receipts from the loan were expected by the government to supply the funds for withdrawing troops and for refunding domestic loans. [*Ōkurashō, Meiji Taishō Zaiseishi* (Finance Ministry, History of Public Finance in Meiji-Taishō Periods), vol. 12, 1937, pp. 141-2.]

<sup>3</sup> Junichirō Ōtsu, *Dai Nippon Kenseishi* (A History of Constitutional Government in Japan), vol. 6, 1927, pp. 92-5.

<sup>4</sup> *Ibid.*, pp. 113-4. *Hara Kei Nikki* (Diary of Kei Hara), vol. 2, 1951, p. 269.

Special Financial Commission of the Japanese Government, about possible remedial measures in view of the lack of reparations. He suggested the following measures to the Governor: limiting imports except for production materials, securing business funds, postponing unproductive undertakings and, most important of all, checking the restoration and expansion of armaments.<sup>6</sup> Takahashi acted as a spokesman of economic circles. Kaoru Inoue, who had led the government in making up wartime budgets by order of the Emperor, also acted for them. Nevertheless, the military expansion program, providing for four more divisions, was incorporated in the budget for the first postwar fiscal year 1906.

### 1. The Budget for the Fiscal Year 1906

The budget for the fiscal year 1906 can be summarized as follows, based on the budget speech<sup>6</sup> of Finance Minister Sakatani at the 22nd session of the Imperial Diet.

#### A. Extraordinary Military Expenses Special Account

(1) ¥450 million is newly required for the expenses of withdrawing troops, granting rewards to the participants in the war, etc.

(2) They must be met by issuing a public loan. It is enough, however, to raise only ¥362 million, since the loan for ¥88 million has been already issued.

#### B. General Account

(1) The total of the expenditures amounts to ¥492 million. ¥235 million of this is for ordinary expenditures having no special connection with the current situation, and ¥257 million for matters closely connected with it.

(2) Of the above-mentioned ordinary expenditures, ¥12 million is met by issuing a public loan, since it is for the expanding of productive equipment such as railways, telephone service, iron works, etc.

(3) On the other hand, ¥172 million of the expenditures connected with the current situation must be met by current revenues, since they are appropriated for expenditures of a permanent nature, that is, for paying interest and repaying principal of public loans, and for organizing another four divisions. This makes it necessary to reform the extraordinary taxes during the war into permanent sources of revenue.

(4) The greater part of the remainder of the aforesaid expenditures, or ¥72 million, is spent for army troops still remaining in occupation areas, and for the restoring of armaments. This requires the issuing of a public loan for ¥68 million.

As shown by this summary, the propensity towards the army and navy on the expenditure side, and towards public loans on the revenue side, characterizes the budget submitted to the 22nd session of the Diet.<sup>7</sup> This characteristic results from the issuing of a large amount of public loans to support the military expenditures necessary for withdrawing or maintaining troops in occupation areas and for restoring the depleted army and navy. Moreover, we must pay attention to the fact that in the new budget the maintenance expenses of the four

<sup>6</sup> Takahashi Korekiyo *Jiden*, *op. cit.*, pp. 766-7.

<sup>6</sup> *Dai Nijū-Ni-Kai Teikokugikai Shūgin Giji Sokkiroku* (Stenographic Records of the Proceedings in the House of Representatives, the 22nd Session of the Imperial Diet), pp. 13-4.

<sup>7</sup> The expenditures in both the Special and General Accounts amount to ¥ 940 million in total. About 40% of it, ¥ 372 million, is paid only for withdrawing or maintaining troops staying in Manchuria, etc., and for restoring armaments. Rewards to the participants in the war, ¥ 150 million, being added to it, the ratio of military expenditures rises up to 55%. On the other hand, the revenue from public loan amounts to ¥ 444 million, about 47% of the total expenditures.

extra divisions formed during the war were considered to be of a permanent nature. It shows that the government attempted to make stronger its peacetime military power. In spite of that, such an armaments expansion budget was quite contrary to the expectation of economic circles. Nevertheless, let us consider the political and economic reasons that it could pass the Diet smoothly.

The first political reason is that the Saionji Cabinet had the greatest political party, *Seiyūkai*, at its back, though, in a strict sense, it was not the *Seiyūkai* Cabinet. The second, which is politically more important, is that the *Daidō Kurabu*, too, whose leaders were Yamagata and Katsura, was a friendly party, and thus the cabinet could command a majority in the House of Representatives. As compensation for the political support from the *Daidō Kurabu*, however, Saionji had to give a promise to Katsura before forming his cabinet that he would not call his cabinet a party cabinet and, moreover, would not form a coalition cabinet.<sup>8</sup> This means that the Saionji Cabinet had been no sooner formed than it lost its independence. The real makers of the budget submitted by the Saionji Cabinet were the small group of bureaucrats and high-ranking officers, at the top of which stood Yamagata and Katsura. We could say that under Katsura's guidance the *Seiyūkai*, having been ambitious for power, helped them in the Diet.

Economic circles did not make effective resistance against such a political trend, because at this time there was little fear of private capital's being taken away by issuing a public loan. As shown in Table 4, the ratio of specie reserve at the Bank of Japan was kept constantly higher than 35% by the successive issuing of foreign loans through 1905 into 1906. After the beginning of 1906, when the new budget was just under discussion, the ratio rose remarkably. It raised the Bank's ability as a money lender. However, as shown by the

TABLE 4. INDEXES SHOWING THE SLACKNESS OF THE MONEY MARKET IN 1905-6

	Receipts from foreign loans	Bank of Japan				
		Issued con- vertible notes	Specie reserve	Ratio of (2) to (1)	Lending to non- government borrowers	Daily interest on lending
		(m. yen)	(m. yen)	per cent	(m. yen)	(sen)
1905. 6.	251	266	108	40.6	86	2.3
7.		277	113	40.8	100	"
8.		263	104	39.5	97	"
9.		263	104	39.5	68	"
10.	251	269	104	38.7	92	"
11.		274	103	37.6	80	"
12.		313	116	37.1	119	"
1906. 1.		279	124	44.4	80	"
2.	212	263	125	47.5	59	"
3.		269	123	45.7	22	2.1
4.		260	124	47.7	56	"
5.		254	145	57.1	60	1.9

Source: *Okurashō, Kinyū Jiko Sankōsho* (Finance Ministry, A Handbook of Monetary Matters).

<sup>8</sup> Hara Kei Nikki, *op. cit.*, pp. 262, 296.

decreasing movement of its lending in Table 4, private investment kept inactive for a while after the conclusion of the peace treaty in anticipation of unstable business. Consequently, in the money market there existed much idle money, which caused a lowering of the interest rate. Thus, from a short-term view-point, economic circles had no reason to fear the armaments expansion budget.

## 2. The Budget for the Fiscal Year 1907

The budget for fiscal year 1907 was formed and discussed in quite different, that is, severely tight monetary conditions. Idle money during 1906 gradually lowered the interest rate and raised stock prices, which in turn encouraged private investment. For example, the prices of the N. Y. K. (*Nihon Yūsen Kaisha*) and *Kanebō* shares had gone up, as shown in Table 5, since January 1906. The capital needed for starting new private enterprises and for expanding established ones amounted to one billion yen (see Table 6). Considering the fact

TABLE 5. RISE AND FALL IN SHARES

(Unit: yen)

		N. Y. K.		Kanebō	
		highest	lowest	highest	lowest
1906.	1.	101.70	98.00	114.50	104.80
	3.	101.80	96.50	134.20	118.50
	6.	104.00	100.35	114.70	107.50
	9.	124.70	115.90	161.35	142.55
	12.	126.50	122.10	239.95	214.50
1907.	1.	154.60	124.95	299.95	250.50
	3.	121.90	96.60	159.90	128.30
	6.	100.35	91.20	118.80	104.00
	9.	95.30	91.00	—	—
	12.	82.80	77.00	94.40	77.70

Source: *Tōyō Keizai Shinpōsha, Meiji Kinyūshi* (History of Financing in the Meiji Period), 1909, pp. 126, 128.

TABLE 6. THE DEMAND FOR CAPITAL OF PRIVATELY PLANNED UNDERTAKINGS  
(Unit: million yen)

	For new enterprises	For expansion	Total
Latter half of 1905	61.5	89.4	150.9
1906	781.1	220.5	1,001.6
First half of 1907	374.0	161.8	535.8
Latter half of 1907	84.1	54.9	139.0

Source: *Tōyō Keizai Shinpōsha, op. cit.*, p. 126.

that in those days the saving ability of the private sector in the Japanese economy was roughly estimated to be not more than ¥300 million in a year, we must say that many undertakings had been planned on a shaky financial basis only for speculation. Therefore, as the payment of the issued stocks went on, the money market tightened. The slump in stocks at the beginning of 1907 (see Table 5) was a clear warning signal to the easy- and



too-far-going undertaking programs. Seeing the signal, the banks, which had been generous in lending, turned to a tight money policy. Under these monetary and economic conditions, it is no wonder that economic circles had a desire to check public loans due to increasing government expenditures.

In the case of making up the budget for fiscal year 1907, too, the real power of it was in the hands of the two elder statesmen, Yamagata and Inoue, and the ex-Premier Katsura. The Saionji Cabinet was indeed a deputy cabinet, as it was called. The diary of Kei Hara tells us that Yamagata laid stress on the necessity of expanding the army and navy, while Inoue insisted on leaving them as they were; at the cabinet meetings many heated discussions took place between the Army Minister Terauchi, demanding three more divisions, and the Finance Minister Sakatani, explaining poor revenues; finally, through the mediation of Katsura, they compromised on two more divisions lest their dispute should lead to the downfall of the cabinet.<sup>9</sup> The final contents of the Budget for fiscal year 1907 can be summarized as follows:

- (1) The total expenditures amount to ¥611 million, ¥120 million more than those in the previous fiscal year. One-half of the increase is allotted to ordinary expenditures and the other half to extraordinary ones.
- (2) The items of increase in extraordinary expenditures are: (a) armaments restoration and expansion, ¥92 million, (b) railway construction and telephone facilities enlargement, ¥41 million. On the other hand, a decrease of ¥80 million is to be expected due to the disappearance of the expenditure item called *Rinji Jiken Yobihi* (Reserve for Expenditures relating to the War).
- (3) The total amount of continuing expenditures rises to ¥652 million, three times the

TABLE 7. ANNUAL PAYMENTS UNDER THE NEWLY ENLARGED CONTINUING EXPENDITURE PROGRAMS, COMPARED WITH ALREADY FIXED PROGRAMS  
(Unit: million yen)

	Already fixed annual payment (1)	Newly enlarged annual payment (2)	Increase (2)-(1)
1906	26	—	-26
1907	35	114	78
1908	34	110	75
1909	31	104	73
1910	26	91	66
1911	23	82	59
1912	21	67	46
1913	10	51	41
1914	4	6	3
1915	1	6	5
1916-1921	0	21	21
Total	211	652	441

Source: *Tōyōkeizaishinbō*, No. 403, p. 183.

<sup>9</sup> *Ibid.*, pp. 402-410.

amount in the previous fiscal year. This sudden increase results from the fact that most undertakings, military or nonmilitary, which increase the extraordinary expenditures, have been planned in anticipation of their continuance over a few years. What is more noteworthy is that two-thirds of the total continuing expenditures fall under the Army and Navy. The annual payment for these rises as shown in Table 7.

(4) Ordinary revenues exceed ordinary expenditures by ¥12 million, too small to defray the extraordinary expenditures of ¥199 million. The deficit of ¥187 million must be covered by the following extraordinary revenues: public loan, ¥31 million; temporary borrowing, ¥2 million; surplus transferred from the previous year's budget, ¥30 million; surplus transferred from the Extraordinary Military Expenses Special Account, ¥100 million; and other miscellaneous revenues, ¥24 million.

The weakest point of the 1907 fiscal year budget is its large-scale continuing expenditure programs being founded on a quite unstable revenue basis. In the next fiscal year when the above-mentioned temporary revenues would disappear, it was feared a large deficit in the revenue would require issuing a public loan or increasing taxes. The economic circles, pointing out this weak point, severely attacked the budget. But their protests were in vain. Being supported by almost all parties, including the *Kenseihontō*<sup>10</sup> which was not in power, the budget passed the Diet without substantial amendment. However, in making up the following year's budget together with tax increase bills, the protest of the economic circles against an armaments expansion budget grew so violent, as will be fully explained in the next section, that political leaders could not treat it lightly as before.

#### IV. *The Budget for the Fiscal Year 1908 and the Problem of Postponing Military Expenditures*

In the fiscal year 1906 by repaying domestic loans with intent to relax the tightness of the money market, and in the fiscal year 1907 by limiting public loans only for productive undertakings, the bureaucratic government succeeded in moderating the businessmen's objections to its armaments expansion policy. But the growth-checking effect on the Japanese economy of the large military expenditures revealed itself more and more clearly as time went on. The economic journal, *Tōyōkeizaishinpō*, showed the excessiveness of the military expenditures giving the following figures. Based on the expenditure structure of the 1907 fiscal year budget, the share of the total military expenditures of ¥194 million was 31.5% of the total expenditures of ¥616 million. Compared with the total expenditures minus national debt expenses and rewards for the war participants, the relics of past wars, the share rose to almost half, 47.7%. In terms of another comparison, the military expenditures were about twice the general administrative costs of ¥110 million. Such an unbalancedly large amount of military expenditures could not help having a bad effect on capital accumulation. The journal estimated that national income could not be over ¥3 billion, assuming per capita annual income as ¥60 and total population as 48 millions; supposing two-thirds of it, about

<sup>10</sup> The *Kenseihontō*, having been far from power for a long time, sought to show a friendly feeling for the Yamagata group and go into power by putting out of the party its President Shigenobu Ōkuma, who had been unpopular with the cabinet-makers or elder statesmen (*Genrō*). Its approval to the 1907 Budget also came from the same political tactics.

¥2 billion, were spent for consumption, ¥600 million for the central government and ¥200 million for the local governments, there would be only ¥200 million left over for capital accumulation.<sup>11</sup>

Though this national income and expenditure accounting may be rough, at least we can say the figures in it are not misleading. As a natural result of the poor supply of capital being confronted with the great demand, as shown in Table 6, the money market grew severely tight. The interest rose remarkably, and in contrast, the prices of stocks and public loan bonds deeply declined through 1907 into 1908 (see Table 8). Enterprising men and

TABLE 8. INDEXES SHOWING THE TIGHTNESS OF THE MONEY MARKET IN 1907-8

		All-Japan average interest rate on lending (per cent)	Price of consolidated public loan bonds (yen)	Price of Kanebō stocks (yen)	Bank of Japan		
					Lending to non-govern- ment borrowers (million yen)	Daily interest on lending (sen)	Issued convertible notes (million yen)
1907.	1.	8.4	90.41	257.96	113.0	1.9	326.8
	3.	„	89.87	173.69	111.5	„	318.7
	5.	8.6	89.34	117.25	72.1	„	294.2
	7.	8.7	87.13	122.70	75.5	„	318.1
	9.	„	87.30	116.47	83.8	„	325.8
	11.	„	86.94	100.91	112.7	2.2	325.4
1908.	1.	9.2	83.33	93.88	144.5	„	353.3
	3.	„	82.10	79.60	113.0	„	309.6
	5.	9.7	80.84	74.89	85.8	„	281.1
	7.	9.8	80.73	85.50	69.3	„	291.3
	9.	9.7	84.55	83.28	72.9	„	290.3
	11.	9.6	88.21	89.19	78.2	„	291.5

Source: The Research Bureau of the Bank of Japan, *Nihon Kinyashi Shiryō* [Meiji, Taishō Hen] (Materials for the History of Financing in Japan [Meiji-Taishō Periods]), Vol. 7 (II), 1960.

bankers, who had been suffering from tight money, were confirmed in their belief that they had no other way to escape the difficulty than reducing the military expenditures of the government. The 1908 fiscal year budget was discussed in the midst of this stringent situation.

At the customary budget conferences among the elder statesmen prior to its being presented to the Diet, each attendant stated his usual opinion. Kaoru Inoue and Seigi Matsukata spoke for the economic circles, insisting upon the necessity of reducing government expenditures. Aritomo Yamagata did not agree to the reduction, fearing army expenditures might fall the first victim to it. They arrived at an agreement, however, as regards presenting tax increase bills to the Diet instead of issuing a public loan. The cabinet members were of the same opinion as Inoue with regard to reducing expenditures and postponing various government undertakings. But they did not want to present tax increase bills because they

<sup>11</sup> *Tōyōkeizaishinpō*, No. 427, pp. 434-5. See also K. Emi, *Government Fiscal Activity and Economic Growth in Japan, 1868-1960*, chap. 3, 1963. It clearly shows the rising trend of Japanese war-related expenditures from the Meiji Restoration to World War II.

feared that with the tax increase as a turning point the cabinet might lose its popularity and finally be driven into collapse. Above all, Home Minister Hara, who had been taking the greatest pains to maintain the Saionji Cabinet, exercised precautions against its fall. In his own political judgement, the government needed neither to considerably cut down expenditures, which would meet the army and navy's opposition, nor present tax increase bills which were sure to raise great troubles in the Diet, since in the fiscal year 1908 the government could make shift with temporary revenues. It may seem incomprehensible that Inoue, the active spokesman of the economic circles, was in favor of the tax increase. But he didn't willingly agree to it. He wanted to make use of it as the effective means of impressing the seriousness of the financial crisis on the military men's minds and then leading them to comply with a sharp cut of military expenditures. On the other hand, the bureaucrats of the Yamagata group proposed a tax increase from a quite different standpoint. Hara says in his diary that their true purpose lay in driving the Saionji Cabinet into political difficulties.<sup>12</sup>

It seems as if the Government party, bureaucrats, the military authorities, and economic circles each had their own dream in the same bed. After heated discussions and by mutual concessions, however, the Cabinet succeeded in producing a settled plan. Summing up the main points in it, first, it was decided only the consumption taxes on liquor, sugar and oil would be increased; secondly, the army was asked to postpone its continuing undertakings by ¥20 million during each fiscal year over three years; thirdly, the navy was required to postpone ¥52 million over a period of six years. Now let us consider how this plan was materialized in the budget submitted to the Diet.

As shown in Table 9, the ordinary revenues in the fiscal year 1908 increase ¥46 million

TABLE 9. REVENUE ITEMS OF THE BUDGET FOR THE FISCAL YEAR 1908

(Unit: thousand yen)

	Amount	Increase (+) or decrease (-) compared with previous year
I) Ordinary Revenue		
(1) taxes	294,570	(+) 24,688
(2) stamp revenue	20,262	(+) 2,339
(3) government enterprises and properties	144,281	(+) 17,517
(4) others	11,475	(+) 1,759
(5) total	470,590	(+) 46,304
II) Extraordinary Revenue		
(6) public loan	41,071	(+) 9,814
(7) transfers from "Warship and Torpedo-Boat Supplementing Fund"	10,939	0
(8) temporary loan	1,766	(-) 234
(9) surplus transferred from previous budget	72,224	(+) 37,012
(10) surplus transferred from "E. M. E. Special Account"	0	(-) 100,000
(11) others	14,452	(+) 1,689
(12) total	140,452	(-) 51,717
III) Grand Total	611,043	(-) 5,412

<sup>12</sup> *Hara Kei Nikki*, vol. 3, 1951, pp. 113-5, 123-136.

as compared with the preceding year. This resulted chiefly from a natural increase in tax revenue and the increase in receipts from government enterprises, such as the tobacco monopoly and the railways. In contrast, extraordinary revenues decreased by ¥51 million which resulted mainly from the disappearance of the large revenue item "Surplus transferred from the Extraordinary Military Expenses Special Account". This does not mean, however, no money came from the Special Account in the fiscal year 1908, since the remainder of its spare money is included in the item "Surplus transferred from the previous Budget" shown in Table 9.<sup>18</sup> The expectation of such temporary revenues made Hara, as aforesaid, oppose increased taxation. The revenue from undermentioned tax increase is not included in the grand total in Table 9.

On the other hand, Table 10 shows a short summary of the estimated expenditures for the fiscal year 1908. The expectation of less expenditures was scarcely realized. The net decrease in the army and navy's expenditures, putting their ordinary and extraordinary accounts together, reached no more than ¥5.7 million. This unsatisfactory decrease is attributable to the fact that the postponement of their continuing undertakings was merely nominal. Really, the total of the postponed continuing expenditures of ¥91.6 million was almost as great as it had been decided before at the Cabinet meeting, but the annual defrayals for the fiscal year 1908 based on their revised programs decreased only ¥8 million, as shown in Table 11.

The Saionji Cabinet, which thus failed to substantially cut down expenditures, was driven into a tax increase in order to cover the deficit in revenue of ¥4.9 million. It prepared the

TABLE 10. A SHORT SUMMARY OF ESTIMATED EXPENDITURES FOR THE FISCAL YEAR 1908

(Unit: thousand yen)		
	Amount	Increase (+) or decrease (-) compared with previous year
(1) Total Ordinary Expenditures	426,915	(+) 14,503
Of (1),		
Army	70,209	(+) 16,545
Navy	34,810	(+) 1,396
(2) Total Extraordinary Expenditures	189,043	(-) 14,986
Of (2),		
Army	37,206	(-) 20,746
Navy	46,138	(-) 2,929
(3) Grand Total	615,958	(-) 482

<sup>18</sup> There existed the following large surplus funds in the Treasury, when the government was making up the Budget for the fiscal year 1908:

	(thousand yen)
(a) remainder of the 1906 Budget's surplus	12,275
(b) surplus of the E. M. E. Special Account	49,185
(c) Russian compensation for the maintenance of prisoners	47,452
(d) total	108,914

¥72 million of the total was transferred to the revenue for the fiscal year 1908.

TABLE 11. POSTPONED MILITARY CONTINUING EXPENDITURES

(Unit: thousand yen)

	Total postponed amount	Annual defrayal for fiscal 1908		
		Already fixed amount	Revised amount	Postponed amount
Army	37,772	36,567	33,494	3,072
Navy	53,824	25,705	20,737	4,967
Total	91,598	62,273	54,233	8,040

Source: *Tōyōkeizaishinpō*, No. 438, p. 129.

Note: Besides the abovementioned, the Army postponed the undertakings transferred from the Extraordinary Military Expenses Special Account, which amount totaled ¥17 million.

supplementary budget which enabled the government to obtain additional revenue equal to the deficit; that is, ¥545 thousand by increasing the liquor tax; ¥2,819 thousand by increasing the excise on sugar; and ¥1,550 thousand by the newly-enacted excise on petroleum. Besides these, the government could expect to have ¥6.4 million by raising tobacco monopoly prices, but this increased revenue had been already calculated in the total revenues of the original budget. All together, the total amount of increased revenue in normal year was estimated at ¥25 million.

Seeing that insufficient reduction of military expenditures led to increased consumption taxes collected from commercial and industrial proprietors, opposition from these quarters to the budget for fiscal year 1908 grew in violence and their activities against it became more and more collective. The National Federation of the Chambers of Commerce made public its declaration and recommendation, accusing the government of failure in reducing military expenditures and of imposing increased tax burden on commerce and industry.<sup>14</sup> Moreover the National Federation tried to prevent the tax increase bills from passing the Diet by definitely stating that the Dietmen voting for them would not be supported at the coming election. Nevertheless the bills passed. Now commercial and industrial proprietors felt all the more keenly the necessity of revising the Law for the Election of Members of the House of Representatives in force, and thus widening the way for their going into the Diet, since they believed the Law, which did not give the parliamentary franchise to many of them, was responsible for having kept the House of Representatives far distant from the centre of public opinion and having given scope for bureaucrats' and military authorities' arbitrariness.

## V. Conclusions

We can say that the Japanese Government after the Russo-Japanese War had given priority to armaments expansion over capital accumulation. The military's control over government finance could not be removed even with the united strength of the economic circles. Nevertheless their success in realizing the postponement of military expenditures, even though to an unsatisfactory extent, contributed to create or increase their interest in politics.

<sup>14</sup> *Tōyōkeizaishinpō*, No. 440, pp. 228-9; No. 441, pp. 277-9; No. 442, pp. 330-1. See also *Ōsaka Shōkōkaigisho Shichijū-Go Nen Shi* (Seventy-Five Years' History of the Ōsaka Chamber of Commerce and Industry), 1955, p. 77.

From the opening of the Imperial Diet in 1890 till the Sino-Japanese War the leadership of the political movement against armaments expansion had been in the hands of the landowners' parties, which had vigorously resisted the bureaucratic clan government and the increase of the land-tax. After that, however, those parties had gradually got to have close contact with the military and bureaucratic leaders as an easy means of satisfying their political ambitions. Hereupon the leadership of resistance to the armaments expansion policy passed into the hands of commercial and industrial capitalists.

What made them actively resist the government? First, they were encouraged by the increased importance of commerce and industry in the Japanese economy as shown in Table 12. The development of joint-stock corporations in commerce and industry was equally remarkable, as shown in Table 13. Moreover we can see flourishing commerce and industry

TABLE 12. PERCENTAGE DISTRIBUTION OF GAINFULLY OCCUPIED POPULATION BY INDUSTRY

(Unit: per cent)

	Primary Industry	Secondary Industry	Tertiary Industry
1892	75.0	9.5	15.5
1897	71.9	11.0	17.2
1902	68.6	12.5	18.9
1907	65.1	13.8	21.1

Source: Kazushi Ohkawa, ed., *Nihon Keizai no Seichōritsu* (The Growth Rate of Japanese Economy), 1956, p. 130.

TABLE 13. DEVELOPMENT OF JOINT-STOCK CORPORATIONS IN COMMERCE AND INDUSTRY

	Commerce		Industry	
	No. of corporations	Paid-up capital	No. of corporations	Paid-up capital
		thousand yen		thousand yen
1903	3,089	387,266	919	141,538
1908	3,161	501,106	1,117	367,316

Source: *Nōshōmu Shō, Dai 27ji Nōshōmu Tōkeihyō* (Ministry of Agriculture & Commerce, The 27th Returns on Agriculture & Commerce), 1912.

in the rising ratio of the indirect to the total tax revenue, for example, from 31.8% in 1887 to 54.4% in 1907; while that of the land-tax revenue sharply declined from 63.6% to 22.6% in the same period.

The second reason is that the checking effect of the military expenditures upon commercial and industrial capital accumulation was clearly recognized in the face of a great demand for capital by private enterprises while the door to the importation of foreign capital was closed. In this sense, the anti-armaments movement after the Russo-Japanese War was of a vivid, economic color. In striking contrast to this, the similar movement of the landowners before the Sino-Japanese War was politically colored in the sense that they initiated the movement as a means of overthrowing the clan government. It is true that the shipbuilding, machine manufacturing and woolen manufacturing industries, being particularly favored by military

demand, made great progress during the war. However, we cannot say that the manufacturing industry of the time in general was closely connected with military demand, because still in the time of the Russo-Japanese War the greater part of important munitions, such as ordnance, warships and blankets, had been supplied directly by the government-managed factories or imported from abroad. Under these circumstances it is quite natural that businessmen should have opposed the armaments expansion budgets and regarded military expenditures as destructive to capital accumulation.

In order to impartially estimate the economic effects of military expenditures during and after the Russo-Japanese War, we must pay attention to their indirect effects too, besides the said destructive effect.

First, so far as military expenditures were met by foreign loans, they stimulated private consumption and then private investment, the increase of which, in turn, gave rise to new establishments or expansion of various enterprises.

Secondly, they prompted the military and naval arsenals and the government-managed iron works to introduce technical improvements so as to improve the ability of the domestic economy to supply arms. This advanced technique gradually flowed into the private factories and helped to develop our heavy industry.

However, we must remember that these demand-creating and technique-improving effects do not fully offset the evil effect of checking capital accumulation.