

Money in the Land of the Rising Sun III: The Yen

By Aila de la Rive, © MoneyMuseum

Just as absolutely as Japan had previously isolated itself, so completely did its entry into the international community follow in the 19th century. Both at home and abroad there was growing support for the demand that the country should open up for economic reasons. American warships and Japanese revolts finally swept the shogunate's government from power.

The year 1868 marked the turning point: the Land of the Rising Sun entered into modernity in the so-called Meiji period (1868-1912). A rapid reform of the state along Western lines took place. The old feudal patterns were abolished, the ban on travelling abroad was lifted and the Gregorian calendar was introduced. The army was remodelled on the Prussian pattern, and education was made compulsory. Also, the various Japanese currencies were replaced by the new yen.

The invention of the yen



Yen, minted under Mutsuhito (1867-1912) in year 3 (1870) of the Meiji period, silver, 26.95 g, 38.5 mm

The tenno (emperor) in Japan had been a purely ceremonial figure for centuries – he was respected as a divinity on earth, but had no economic or political power. Governmental power lay solely in the hands of the shoguns. That changed in 1868, when the old rights to rule passed over to 16-year-old Tenno Mutsuhito (*1852, †1912). As the motto of his period of rule was "meiji" (enlightened government), this power change has gone down in history as the Meiji Restoration.

The Meiji Restoration changed Japan from a semi-medieval feudal state into a nation state that was western in character and was perceived as modern. Although the young tenno was regarded as the head of state, de facto he had hardly any more political power than the shoguns.

The readiness, which can by no means be taken for granted, to learn from others (earlier China and Korea) is very old in Japan. In the Meiji period, Japan consciously changed according to the examples set by the modern nation states of the first generation (USA, Britain, France) and the second (Germany). To develop the country a new tax system was introduced. This first national tax was from now on to be paid exclusively in money, and that in its turn called for the introduction of a unified currency.

In 1870 a central bank, organised along European lines, began issuing silver coins. The Bank of Japan, founded in 1877, also helped to regulate the private banks that were being set up. Around 1900 a functioning private and state banking and financial system was established.

The first yen was modelled on the Mexican dollar (peso) – at that time the world's trade coin number one. The opening of the Land of the Rising Sun took place first and foremost with an eye to foreign trade. Accordingly one yen was worth one dollar.

Gold or silver?



Yen, minted under Musuhito (1867-1912) in year 4 (1871) of the Meiji period, gold, 1.7 g, 13 mm

In the year 4 of the Meiji period – according to the western calendar in 1871 – the Meiji government put a new currency law into force. This stipulated that from now on the yen was the sole means of payment. "yen" means "round," in contrast to the oval coins of the Edo period. The yen was divided up according to the decimal system into 100 sen = 1000 rin. However, it was to take quite some time before the numerous currencies of the shogunate era could be taken out of circulation.

At first both the silver and the gold standard applied to the new yen currency, whereas in most of the Asian countries – Japan's major trading partners – used silver based currencies; and the main trade coin of the time was also made of silver: the Mexican dollar. On the other hand, the USA (1873) and those European countries who could afford it adopted the gold standard in the course of the 19th century (Great Britain in 1816, Germany in 1871, France in 1876).

So for the first time a gold yen was minted in 1871. It was intended for domestic use, whereas the silver yen was to be used for foreign trade.

The Japanese greenback



Japanese paper money following Western examples

When the Meiji government came to power in 1868, a large number of different currencies were in circulation in the Land of the Rising Sun: the gold, silver and copper coins of the shoguns were mixed together with Chinese copper coins; in addition to these, western silver coins and money from local feudal lords were also in use.

So that these different kinds of money could be withdrawn as soon as possible and be replaced by a national currency, the new Japanese government had large quantities of paper money printed. The notes were to be designed along western lines, which is why they were printed in Germany and the USA: the early Japanese paper money closely resembled the American greenback.

The foundations for financing the new capitalist industrial companies – and also the industrial combines (zaibatsu) – were now laid. The zaibatsu played a decisive part in the industrialisation of Japan. They mobilised intellectual and material resources – capital, labour, raw materials and technology – to an extent that would have been impossible for smaller companies. On the other hand, the zaibatsu created and encouraged an extremely unequal distribution of wealth and income. But at that time this was no different in the USA or Britain.

Japan's path to the gold standard



10 yen, minted in 1897, gold, 7.5 g, 21 mm

In the second half of the 1890s large quantities of silver entered Japan. They were reparation payments that China had been sentenced to make after the First Sino-Japanese War (1894-1895). In the years that followed the Japanese finance minister used this Chinese silver to purchase gold – a lot of gold.

In the year 30 of the Meiji government (1897) the Land of the Rising Sun had already acquired so much gold that it was able to switch to the gold standard. One new yen was fixed at 0.75 grams of gold, which made it half as valuable as the first gold yen. The value of the silver yen, however, remained unchanged. By this measure the Japanese finance minister adapted the relationship between gold and silver to the usual international rate.

Around the turn of the century Japan had changed from a technologically backward country into a modern industrial state. Roads, railways and factories had been built at an incredible speed. The population had increased from 33 to 50 million. The caste system had been abolished – and thus completely new opportunities opened up to society. The status of the samurai, for example, had not allowed them until 1868 to become involved in business. Now many of these former warriors set up their own companies, which quickly expanded. This allowed the first large industrial conglomerates to emerge, the zaibatsu. In that way Japan carried out its industrialisation in a few decades, a process for which the Europeans had required more than 100 years.

Japanese mind and Western genius



1 sen, minted in 1913, bronze

"Japanese mind and western genius" was the catchword; the new Japan modelled itself on the west. The Prussian example seemed to be especially attractive to the Japanese mentality. From Germany came the Japanese state structure, the educational system, the army drill and the model for a civil legal code; the German language enjoyed a status in the Land of the Rising Sun until after the Second World War (1939-1945) similar to that of English today.

The economy and banking were first and foremost based on the system in the USA and Britain: more or less free competition prevailed in the market, supply and demand determined production, bureaucracy was kept within certain limits. There were hundreds of banks, which were organised like private businesses or cooperatives.

Japan also adopted the capitalist system from the west – a system that requires permanent expansion. And so the Japanese expansion soon crossed the narrow national borders: during the First World War (1914-1918) Japan expanded its navy and merchant navy and became one of the world's major maritime powers. From an economic point of view, too, this war was extremely advantageous for Japan – Japan jumped into the gap that had opened up through the warring countries. Production and exports increased. Japan became a creditor nation and accumulated considerable currency reserves in gold and US dollars.

In spite of the economic growth resulting from the war, coins were in short supply in Japan during the war – silver and gold coins were being hidden away by the population. In order to provide small change for day-to-day transactions the Japanese government printed banknotes of 10, 20 and 50 sen (1 yen = 100 sen).

Militarism and expansion



10 sen, minted in 1938, aluminum bronze

In the First World War Japan had sided with the Allies against the German Empire. During the war several attempts were made by the Germans to achieve the conclusion of a special peace arrangement; but these inquiries to the pro-English Japanese state leaders fell on deaf ears. The traditionally pro-German military did not yet have sufficient influence at this point in time to intervene successfully.

In the 1930s, however, Japan underwent a far-reaching militarisation of government and society. During this time exports doubled – the whole economy grew by 50 per cent between 1930 and 1936. The now emerging economic dirigisme allowed most of the economic growth to benefit the military: in 1937 the military budget accounted for three-quarters of all state expenditure. The production of non-essential consumer goods had largely discontinued.

In these years the Japanese military established almost complete control over the government. Now Germany was again the role model: in 1936 the Japanese government concluded the so-called Anti-Comintern Pact with Hitler-Germany – the agreement was meant to demonstrate the solidarity between the two countries, which were isolating themselves internationally through their aggressive policies.

In the years that followed Japanese troops occupied large parts of China. The Japanese spent money on these territories which remained in circulation until the end of the war in 1945.

Japan Incorporated: economic statism



50 sen, minted in 1955, nickel

Together with its ally Germany, Japan was among the losers of the Second World War. After the war the economy was ruined, many towns had been destroyed by bombing, the merchant navy was sunk. Colonies and spheres of influence were lost, and almost all Japanese assets abroad were expropriated. In addition, the population was traumatised by the two atomic bombs dropped by the Americans.

At the same time, the Land of the Rising Sun was occupied by American troops – Japan thus was under the regime of an occupying power for the first time in its history. The former government and civil service as well as the police were "purged" of more than 200,000 members and then employed by the occupation. The top Japanese leadership, however, unlike the German one, remained in office with their dignity intact. In the years that followed, the former warmongers further expanded the Japanese model of a "total economy" – a strongly regulated system controlled by cartels. The consequence was an unusual connection between the state and private business – the so-called Japan Incorporated.

Growth



500 yen Showa, minted under Hirohito (1926-1989) in year 57 (1982) of the Showa period, copper nickel, 7.2 g, 27 mm

The beginning of the Korean War in 1950 resulted in Japan's economy booming again. Japanese companies supplied jeeps, equipment and spare parts for the UNO troops. Millions of dollars flowed into the Land of the Rising Sun – and were deliberately used to promote industry. In the state controlled Japanese economy the government played a decisive role in the allotment of resources, prescribed aims for industrialisation and for regulating the markets.

By the early 50s Japan had already caught up with its decline in production resulting from the war. In the decades that followed the gross national product grew on average by 10 per cent a year.

Japan as an economic power



The purchasing power of the Japanese yen

Until late in the 1960s Japan was a debtor nation: the import of modern machines, plant and technologies had led to a chronic deficit in the balance of trade. At the same time a tremendous industrial potential was created with these purchases – and at the beginning of the 70s the investments at last paid off. Japan started to achieve a surplus, and Japanese companies invested abroad. The country was on its way to developing into the second largest economy in the world.

To this day, however, the Japanese yen does not play the part in the international currency system that it actually ought to by reason of Japan's economic and financial power; nowhere does the yen serve as a currency reserve and it is insignificant in international trade. Apparently the international investment community has hardly any confidence in Japan's financial policies – which is not surprising, as Japan's economic policy has always sought its models abroad: in early times in China and Korea, and since opening up in 1867 in Germany, Britain and America. Japan appears to be the mirror of the world – but who trusts his mirror image?

Appearances are deceptive, however, for in the last few decades Japan's power of innovation has become more and more apparent. It is especially in the booming IT branch that this kind of creativity is called for that the Japanese have a masterly command of: to adopt what already exists, to understand it and then to develop it in an original way. Today Japan is again increasingly turning its attention to China – no longer, however, to learn from its great neighbour, but for economic cooperation. Japan is China's largest export market and China is Japan's largest source of imports. Soon China will be the country's most important trading partner; in Shanghai there is already a "Little Tokyo." Together the two countries – Japan and China – will head the world's largest economic bloc. Provided that they understand how to keep a tight rein on the conflicts, that have repeatedly flared up between them for historical reasons.