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JAPAN FINANCIALLY AND INDUSTRIALLY

Whatever May Happen, Japan's Foreign Credit Will be Maintained—Present Industrial Boom
and Speculation Presage a Reaction, Which Seems Imminent

By Henry George, Jr.

IN answering the question, "What is the economic condition of Japan?" many things must be taken into consideration.

But lest there be some misunderstanding, let it be said at the outset—said emphatically and without reservation—that these considerations do not affect the Imperial bonds. Conditions may make for an extended or a brief period of prosperity. An industrial depression may or may not soon supervene. But the Imperial bonds will remain stable. The policy which compels great army and navy expenditures to keep Japan on a war footing against a further rupture with Russia or other hostilities, also requires that the nation's credit abroad shall be kept unimpaired. For what are soldiers, guns and ships without the money needed to move them? Whence is this money to come but from abroad—mainly from America and England, where the greater part of Japan's loans are held? Unless the present loans are fully sustained the national credit must suffer and future loans be made difficult.

Expediency, therefore, joins with justice in requiring the Japanese government to prevent the Imperial bonds from suffering any considerable depreciation; and everything I saw and heard, during my recent visit to that country, made strong the conviction that government and people will go to any lengths to hold the foreign loans firm.

Marvelous Industrial Progress.

This explanation is necessary in face of industrial and financial conditions in Japan which, at least to the foreigner, must be disquieting. The country at this time is experiencing a tremendous industrial and speculative "boom." This is due to a variety of causes. First of all the Japanese are a high-strung, sensitive, ambitious, energetic and most intelligent people awakening from a long sleep. They are seizing upon the productive processes of "western civilization" with amazing eagerness, and adapting and developing them with a quickness and skill that harbingers widespread originality and invention. The thousands of picked youth who for decades have been quietly absorbing the learning of the foreign nations have been returning to Japan to put that information to practical, industrial uses. In ten thousand directions it has seemed suddenly to burst into flower.

For years the impending conflict with Russia held this flowering in check. Russia, by her superb, or rather her superior, diplomacy had got the plum of the Japanese-Chinese war — Port Arthur and the domination of Manchuria, with a strong position from which to make a sudden leap upon Korea, and thus overawe Japan itself. To wrest Port Arthur from Russia, the greatest military power of Europe—to drive that power out of Manchuria and put Korea under a Japanese protectorate,—was the self-imposed task of the island empire. The heavy taxes required for the preparation, the large withdrawal of men from industrial pursuits to be drilled in the business of war, and the uncertainty of the issue of that war discouraged the great development of production that would certainly have occurred, during all the period of arming and pursuit of the war, only to give it the spur of pent-up vigor, when brilliant victory not only relieved uncertainty and returned multitudes of soldiers to fields of productive activity, but when, giving assurance that in a crisis Japan's exchequer could be filled from a European or an American source, the peace opened up new avenues of abundant production and speculation in Korea and Manchuria.

Knowledge, backed by energy and enterprise, shot forth into a myriad productive channels, and Japan experienced a prosperity such as she had never before known. Out of her cornucopia Plenty lavished her bounty. Confidence prevailed thruout Japan. Trade and Commerce were buoyant. The nation which had conquered so gloriously in arms must now achieve like conquests in the arts of peace—in the production of wealth. Old enterprises were infused with new blood and new ones were bom into the world, many of them full-grown, like Minerva from the brow of Mars.

A Legitimate But Dangerous Speculative Boom.

That is to say, the legitimate “boom” following in the wake of the successful war, had given rise to a speculation great in proportion to the general confidence and industrial activity. New industrial companies and franchise-using corporations having an aggregate capitalization of approximately one thousand million yen (\$500,000,000) have been started in the sixteen or more months since the ceasing of hostilities—a fact exceeding the wildest dreams of the most fanciful Japanese optimist.

Rut this carries with it bad as well as good elements. Much of this capitalization is the merest bubble of speculation, utterly to disappear when pricked and to leave disaster in its train.

Japanese financiers and government officials realize this sharply and are raising the warning cry. “Take heed of what followed the China war,” they say. ‘The over-confidence and inflation that then followed were succeeded by a reaction, many failures and a commercial and industrial depression. The wise should beware of repeating this page of history.’”

Many Japanese financiers have assured me that in consequence of these warnings the number of “wild-cat” enterprises has been inconsiderable. Opinions may differ as to this, but it is certain that the government has been most vigilant respecting incorporation, and bankers respecting backing.

Baron Shibusatua's Optimistic Warning.

Baron Yei-ichi Shibusawa, president of the First Bank, is undoubtedly at the head of the banking

world, the leader as well as the man of highest standing among the industrial promoters and father-in-law of Dr. Yoshiro Sakatani, the Minister of Finance. He may, therefore, be considered to be the foremost Japanese financial authority. In an article in a recent issue of "The Sun Trade Journal" of Tokio, the baron explains what he conceives to be the expanding legitimate needs and possibilities. Among other things he says:

"I can prove that during the last ten years our commerce and industry has developed so much that, comparing with ten years ago, the wealth of an individual or the capital of a business company is now tenfold that of the previous time.

"Besides, when we take into consideration the unlimited increase of our foreign trade and the increase of the population, we have nothing to fear for the future. Take, for instance, my own bank—the First Rank of Japan, of which I am President. Ten years ago the yearly deposits were 20,000,000 yen (approximately \$10,000,000); now they are 50,000,000 yen. The capital ten years ago was 2,250,000 yen; now it is four times as great, viz.: 10,000,000 yen, and all this in spite of this terrible war, so that if the past is a mirror of the future, our future is most hopeful." Reciting the reasons why business has grown very active, the baron acknowledges its accompaniment—an undesirable mania for speculation:

"Already many companies have been formed for new work and the shares of these companies have become objects of speculation.

"Although this ought to be guarded against, this very speculation, proves that there is new commercial and industrial activity among our people and that there is a chance for foreign capital to be incorporated with ours.

"This new activity will bring an increase to the national wealth. Now that our industrial and commercial spheres have become enlarged, naturally our own knowledge will not be sufficient. We must avail ourselves of the best educated people possessing foreign ideas, ability and energy and, above all, those of strong character. With these men of striking personality at work, ten years' time will certainly bring an increase in the wealth of the nation, and our present national burdens will be lightened. When once such a fortunate moment of commercial and industrial activity has come in, the nation should not hesitate to go ahead with courage and diligence.

"Our commercial and industrial sphere has expanded. First of all, when the railway in Manchuria is completed, all sorts of new industrial and commercial enterprises will arise there. Already the water works and electric light company at Yinkow are formed. A flour manufacturing company and a fire insurance company has been established at Hankow by the combined capital of China and Japan.

"Turning to Korea, my personal ventures in the spheres of railway and banking business have already proved somewhat successful. We are contemplating agricultural improvements. Besides, water works and mining and lumber-cutting businesses are being opened up.

"Looking to our business here in Japan, all large industries, such as spinning, weaving, wax, wool, iron and coal, have become pretty well organized. In the smaller industries there is space enough for innumerable enterprises to be started in future. But first of all we must improve our motive powers in order to lessen the cost of production. For this object, in Osaka and Nagoya

water power is used, and even at the present rate of use, Tokio alone will consume a hundred thousand horse power, which is to be supplied by fifteen adjoining rivers.

“The progressive tendency is shown in every aspect of commercial and industrial life. Therefore, I may say that if the Japanese are not idle the present national burden need not be feared. On the contrary, our economic future is sure and bright.”

In conversation with me Baron Shibusawa expressed himself in this same strain. He appeared to think the development of production was sufficient to exceed the burdens of taxation and speculation. and he looked with a confidence to the future, near and far.

Employment of Foreigners.

The baron voices the Japanese business world’s optimism. The financiers believe they have learned the lesson of former experiences. One of the elements in this confidence is probably to be found in the passing of commercial and industrial enterprises from foreign to Japanese hands. The baron, in the words just quoted, speaks of employing foreign capital and “persons possessing” foreign knowledge and skill. The employers are to be Japanese. Official reports show that whereas, in 1901, foreign firms handled nearly 77% of the silk exports, in 1906. only 58.5% was so handled. Then, too. it appears to be clear that the Japanese have, thru the control of the government in Korea and of the railroad in Manchuria, great advantages over foreign competitors, which must inevitably result in the building up of Japanese commerce and industry.

Over-Capitalisation of Corporations.

But while this presents a bright picture, there is another side—not so bright. One feature of it is the custom of starting business corporations with only one-fourth of the share capital paid in. The Tokio “Jiji,” one of the foremost of Japan’s newspapers, holds this responsible for much insecurity in business and for inviting speculative investments. The uJiji” thinks that two-thirds or three-fourths of the capital should actually be paid up before a corporation should be permitted to do business and that the banks should otherwise refuse loans.

High Prices and Taxes.

Another element of weakness is the great rise in general prices in Japan. This is best shown by the following table, offered recently by the Agricultural and Commerce Department, relative to the cost of living for the six years from 1900 to 1905, inclusive. The table is as follows:

Year.	Food	Cloth- Stuffs.	Raw ing.	Aver- Materials, age.
1900....	.. 100	100	100	100
1901....	98	99	95	97
1902....	.. 102	98	92	98
1903....	.. III	100	92	100
1904... .	.. 124	109	95	108
1905....	.. 127	120	100	116

It may be said, without fear of contradiction, that prices for the past year have been still higher than those of 1905. The chief reason assignable for all this is the heavy taxes that preceded,

accompanied and followed the war. These taxes have fallen with greatest weight upon the smaller industries, thus tending to concentrate business in fewer hands, while the increased tariff taxes show a decided discrimination against particular lines of foreign competition and in favor of those natives already negatively benefited by the internal tax burdens.

The small business man and the laborer are bearing the great part of the burden of high taxes and high prices, and against them the element of advancing rent is telling tremendously.

The cities of Japan are growing naturally, by the multiplication of the species. They are also growing unnaturally, by the flowing of population from the rural districts. All the cities have grown extraordinarily during the past two decades. The value of land has advanced by leaps and bounds in consequence. But the assessment has not kept pace. In truth, no new assessment has been made in 25 years; so that while ground rents have mounted extraordinarily high, taxes on such rents are ridiculously low. This state of things offers a great premium on land speculation.

Lands Lightly Taxed.

I called on Dr. Yoshiro Sakatani, Minister of Finance, and asked him if he did not think it would be a great benefit to industry to reduce the taxation bearing on it and to increase the assessment of land. Without the slightest hesitation he answered in the affirmative. And he explained that recently, while he was Vice-Minister of Finance, he personally drew up a bill for a new Imperial assessment of all the lands of Japan; that this bill was passed by the House of Representatives of the Diet, but was beaten in the House of Peers. Dr. Sakatani explained that the peers are large landlords.

Thus, with high and advancing general prices, high and advancing rents, a widespread confidence and many unusual opportunities inviting speculation, Japan seems, to the onlooker, to be riding for a business fall. An industrial reaction and depression appears to be inevitable and imminent, unless the mountain of taxes bearing upon production shall be at least partly shifted to land values, thereby cheapening production and cheapening land at the same time.

But to look for such a result at present would be futile. The land and commercial monopoly class has a strong grip on government, and the enlightened action of the masses of Japan toward industrial freedom is likely to come only thru the school of suffering.