INTRODUCTION

The War of the Words

[Ishii Kikujirō] made . . . a suggestion that there should be a Monroe doctrine for the Far East. And I told him that there seemed to be a misconception as to the underlying principle of the Monroe doctrine; that it was not an expression of primacy or paramount interest by the United States in its relation to other American republics; that its purpose was to prevent foreign powers from interfering with the separate rights of any nation in this hemisphere, and that the whole aim was to preserve to each republic the power of self-development.

—Robert Lansing

Viscount Ishii seems to have been essentially correct when in 1917, in his efforts to secure American recognition for Japan’s special position in Manchuria, he pointed out the analogy of the situation in the Far East to the relationship between America and Mexico, and made the first more or less official mention of an “Asiatic Monroe Doctrine.”

—Takagi Yasaka

In our own time, foreign financial consultants negotiating debt services for countries that rely on wealth from abroad continue to define those countries’ economic outlooks and trajectories of development. In an East Asian example, South Korea’s spectacular strategy of economic growth since World War II cannot be seen apart from Federal Reserve advisory missions,¹ guidance by the International Monetary Fund (IMF),


¹ For a rare case study, see Alacevich and Asso, “Money Doctoring after World War II.”
and almost continual IMF standby program support after 1965. Unfortunately, monetary advice can be much less successful. In an attempt to lessen the effects of the Asian crisis of 1997—itself often explained as the result of U.S. resistance to the establishment of an Asian Monetary Fund, or AMF—the IMF again provided guidance, this time for measures aimed at South Korea’s financial liberalization. This effort largely failed, partly because of the rapidity with which the IMF sought to push its agenda. Supervisory agencies, established at the IMF’s request, were institutionally constrained from carrying out proper supervision, and the country became embroiled in a costly bout of financial instability.

In such times of crisis, the high risks and high stakes associated with lending and corollary financial reform bring a second and even more important observation to the fore.

Today as in the past, the role and activities of foreign financial consultants remain contentious, as such consultants rarely manage to provide advice free from political interests. Why should financial advisors, administrators, or “money doctors” invest resources and expertise in crisis-ridden foreign nations? The answer is that crisis lending and “money doctoring” may be profitable. The unequal distribution of money, ideas, and economic problems among nations translates into an unequal distribution of possible gains and losses. In the examples mentioned, both the (Japanese) initiative in favor of an AMF and the American rebuttal were fundamentally political events. Foreign financial advice is not by any means a disinterested business—after all, “one cannot stay rich when one’s debtor gets poor.”

International financial advising is fundamentally interested, even though its claims and aspirations

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2. For assessments of this case, see Stiglitz, Globalization and Its Discontents, 89ff.; Chung and Eichengreen, Korean Economy Beyond the Crisis; Cho, “The Role of Poorly Phased Financial Liberalization in Korea’s Financial Crisis.”


5. Flandreau, Money Doctors, 5.
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may suggest otherwise. One is thus hardly surprised to find that the countries chosen in IMF programs are highly affected by geopolitics.6

Marc Flandreau makes this tension between the claim of neutrality and the political surroundings of foreign financial advice the locus of his history of money doctoring: “We [. . .] reach a conclusion which might appear obvious to some: namely that at the very heart of money doctoring is an inseparable combination of economics and politics. The economic dimension defines the structural constraints faced by the various players involved in financial turmoil (range of opportunities, set of eligible policies). The political dimension, on the other hand, shapes the incentives of ailing countries, markets and international lenders.”7

Informed by Flandreau’s and others’ insights, this book concentrates on a temporally and geographically well-defined case of foreign financial advising: the activities of Japanese government officials, mostly from the Ministry of Finance, in different countries and regions in Northeast Asia between 1895 and 1937. More specifically, it investigates the role of the following financial advisors or money doctors: Gotō Shinpei (in Taiwan), Megata Tanetarō (in Korea), Nishihara Kamezō (in China), and Nangō Tatsune (in Manchuria).

I feel it important to stress that these cases are in some ways sui generis, as they concern monetary advice to countries under Japanese dominion, or at least in Japan’s direct sphere of influence. Tokyo was deeply politically invested and made no secret of its political interests. Prewar attempts to establish a “yen bloc” and a more or less self-sufficient Asian economic zone contrast sharply with the internationalist agenda of previous and later money doctors; in many ways, yen diplomacy was a reaction against internationalism. The differences between the Japanese case and more traditional money doctoring efforts may aid us in understanding the complex relationships between political aims and economic profitability, because, in the Japanese case, the two were so bound up with one another. Historical research has yet to uncover another instance of money doctoring that was so patently politically or so strategically designed and articulated.

7. Flandreau, Money Doctors, 5.
The War of the Words

The History of Money Doctoring

Who or what are money doctors? Nowadays the term refers, more often than not, to institutions rather than to individual persons; and these bodies do not perform exclusively technocratic roles and missions, even if they prefer to portray themselves as such actors. Throughout the history of international financial advising, money doctors hung and still hang their respective hats in many agencies, public and private.8

The proverbial forefather of money doctoring is the French economist Jean-Gustave Courcelle-Seneuil, who fled France after the coup of Napoleon III for South America, where he held the professorship of political economy at the National Institute of Santiago, Chile, from 1853 to 1863. His career ran counter to a central pattern of later money doctors: whereas they all came from (relatively) stable countries to the aid of countries in turmoil, he went from a disrupted France to a country in relative tranquility—and returned to France in 1863, when the political situation there seemed to have calmed down. Later he was made a councilor of state, and in 1882 he was elected a member of the Académie des Sciences Morales et Politiques. Courcelle-Seneuil had, however, blazed trails for Western European advisors (central bankers, government officials, and academics) who in the decades to come would operate in the crisis-ridden countries on the periphery of late nineteenth- and twentieth-century industrialization and the gold-exchange standard. Among them would be Charles Rist, the famous interwar French money doctor; Jean Monnet; Montagu Norman of the Bank of England; and the highly controversial Hjalmar Schacht, governor of the Reichsbank in Hitler’s Germany, and later economic and financial advisor to several developing countries.9

The heyday of money doctoring coincided with the early twentieth-century shift of geopolitical paramountcy from Great Britain to the United States and the ascendancy of New York as the world’s international financial hub. In the United States, this shift was regarded as not just another transformation of the international power structure but as a watershed, a paradigmatic event. Sources at the time—scholars, journalists, economists, and policy makers—were inclined to character-

8. With a tip of the hat to Schuker, “Money Doctors between the Wars,” 52.
9. For an overview of their relationships, see ibid.
ize this period as a break with the power-dominated discourses of a European-led world order and the inauguration of an era defined by the possibilities of free trade and international cooperation.

It is illuminating to consider these claims in the wider context of the history of technology and communications. For the United States, the beginning of the twentieth century was marked by a bureaucratic revolution in the organization of the state and corporations; the rise of the vocabulary of professionalism; and the snowballing effects of new means of transportation and communication. Amid these changes, the growth of global commerce begun in the 1870s and the rising importance of international financial transactions defined the rhetorical parameters within which U.S. officials would develop the country’s foreign policy.

As Emily Rosenberg has demonstrated, the development of this foreign policy raised two hotly contested and related questions that also dominated domestic politics at the time: which monetary standard to adopt (gold versus bimetallism), and how assertive the United States should be in the international arena. During the elections of 1896, these controversies reached their boiling point. On one side were the proponents of bimetallism. Finding their support mainly in the ethical-religious discourses of Christianity or socialist radicalism, they were deeply distrustful of money and of the newly developing semantics of capitalism and professionalism. For them, money was a destructive force of greed, especially when it developed into professions such as lending at interest (usury). They regarded with abhorrence liberalism’s view that the search for private gain was a building block of the social order, charging instead that it threatened social cohesion. They (correctly) feared that the gold standard would mainly benefit the moneylenders and international financiers and therefore advocated the coinage of silver under a bimetallist standard in order to create an adequate circulating medium for the common people. Internationally, they argued, it would be a

11. For a contemporary overview of the debate, see White, *Silver and Gold*.
12. This echoes a concern plaguing all metallic currency systems—namely the problem of supplying enough coins of small denomination, something inherently difficult due to the costs of metal and of striking coins—coupled with the problems of regular
grave mistake to abandon silver, as the nation’s main trading partners were eventually to be found in the developing silver-standard countries of Latin America and Asia. It was therefore in the United States’ interest to remain content with its current nondominant mercantile role in international matters.

On the other side, the advocates of the gold standard defined policy realities very differently. In their discourse, which Rosenberg identifies as “professional-managerial,” the international dimension of a monetary standard was of primary importance. Economists and financiers looked at the industrialized powers of Western Europe and felt that the United States should emulate them, joining their ranks and playing a leading role in administering international finance. By their reasoning, domestic concerns for the common people were exaggerated by the Silverites with their “Free Silver” ideology; instead, a centralized yet flexible international order, run by experts, was fundamental to an efficient and scientific modern society. They too perceived a fundamentally moral dimension to money and commerce. Silver, they stressed, was typically the metal of countries that were backward and uncivilized, characterized by social and economic disorder. Gold was the metal of the strong and advanced nations, and the gold standard would instill discipline and responsibility. Symbolizing self-restraint, it guaranteed the accumulation of wealth through thrift and delayed gratification, and thus combated the “feminine” traits of profligacy and weakness.

The proponents of gold saw in this effect a missionary importance and gold’s true international appeal. If the developing countries of Latin America and Asia were to be America’s main trading partners, the United States had to reform them and teach them the virtues of regularity and sound debt servicing, if only because the latter, coupled with the stability of the gold price at the time, would guarantee a return on investments by American creditors (inflationary silver, on the other hand, would scare investors away). The developing world could earn its

shortages and depreciation. Eventually, economists solved the problem by introducing fiat money. See, in this context, Sargent and Velde, *The Big Problem of Small Change.*


14. This echoes the often difficult relationship of the money doctors to democracy. Rist’s famous saying that “democracy killed the gold standard” is emblematic. See also Pauly, *Who Elected the Bankers?*
share in prosperity and progress, provided it was converted to the principles of market capitalism and a corollary ethics of responsibility and self-determination. The contemporary observer will be struck by a definitional tension between democracy and entrepreneurialism on the one hand, and capitalism and imperialism on the other. Yet this vision of a global world governed by market discipline and free exchange united late nineteenth-century American economists, technocrats, government officials, and business managers alike.

The Birth of a Financial Elite and the Gold-Exchange Standard

Emerging victorious from the 1896 elections, the technocrats at once seized the opportunity to turn their vision into reality. Under the McKinley and Theodore Roosevelt administrations, American policymakers embarked on a political and ideological journey that would not only be of formidable importance for the countries that were to be reformed but would also be meticulously reflected in the policies of its later rival, Japan, who would turn the struggle for monetary and financial gain into a military conflict, with disastrous consequences. Rosenberg sums up the objectives of the American professional elite: “The policies devised and implemented by this first generation of experts in foreign currency reform sought to bring small nations in which the United States had an interest onto a gold-standard, run by a central bank, with gold funds deposited in New York and coinage denominated in U.S. money. The goal behind spreading this Americanized gold-exchange standard was not only to simplify international transactions, thereby facilitating trade and investment, but to create a gold-backed dollar bloc, centered in New York, to rival the gold-backed pound sterling that dominated international trade.”15 This practice formally consolidated the practice of international financial advising and turned it into a profession of its own. From roughly 1896 until well into the first half of the twentieth century, the United States sought to establish an army of bankers, officials, and academics who were to be invited abroad in order to assist in currency reform, oversee the establishment of institutions (not least a central bank) crucial to their vision

of gold and free exchange, and provide legitimacy for policies that would otherwise be hard to enforce. These advisors were in the very forefront of “dollar diplomacy”—a doctrine of international relations that echoed the ideals of the Open Door policy of President Monroe and that sought to avoid costly military intervention and even the outward appearance of direct political pressure, yet nonetheless intended to bind the fate of other countries to that of the United States by monetary and financial means, particularly through the extension of loans and the granting of economic agreements. (This did not preclude the dispatching of marines in “times of emergency.”)

The tool used to achieve the aim described was the establishment of so-called gold-exchange standards. Gold-exchange standards differed essentially from classic gold standards in that the currency of a country was not expressed in (quantities of) gold, but in foreign exchange, for instance in pounds sterling, French francs, U.S. dollars or another stable currency that was based directly on a gold reserve. Backing currency with a foreign-exchange reserve has implications that far exceed that of a multi-level international gold-standard system. The gold-exchange standard re-imports the concept of national boundaries and territoriality through its concern with the demand and supply of national currencies (instead of bullion, which is obviously devoid of territorial conno-

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16. Characteristically, Charles Conant, one of the crucial figures in formulating policy in the early days of dollar diplomacy, wrote the influential History of Banks of Issue.

17. For an excellent overview of money doctoring activities in Latin America, see Drake, Money Doctors, Foreign Debts, and Economic Reforms; on dollar diplomacy, see Rosenberg, Financial Missionaries to the World.

18. For a good discussion, see Conant, “The Gold Exchange Standard in the Light of Experience.” Interestingly, this was also the topic of J. M. Keynes’s first study, Indian Currency and Finance.

19. Metzler, Lever of Empire, 36. Compare also: “What we could call first-order money in this system—gold—was leveraged into a larger supply of gold-based national monies, such as the British pound—‘second-order’ money. This second-order money in turn constituted the monetary base for banks who leveraged it into a much greater volume of money by making loans and creating bank deposits—‘third-order’ money. In a like way, gold-exchange standards in peripheral countries pyramided gold-based foreign exchange money such as the British pound into third-order or fourth-order money. While such a description is too simple and schematic to capture the complexity of many actual monetary arrangements, it suggests the leveraged, multi-layered structure of the international gold-standard system” (37).
tations). As Feliks Mlynarski noted in the context of the gold-exchange standard of the 1920s, the accumulation of foreign-exchange reserves instead of gold turned liquidity into an immediate concern of the financial authorities of the center countries. Ultimately, the volume of claims on the reserve-currency country (Great-Britain, the United States, and the like) was proportional to doubts about that country’s central bank’s ability to convert its currency into the “hard metal” gold: “The banks which have adopted the gold exchange standard will become more and more dependent on foreign reserves, and the banks which play the part of gold centers will grow more and more dependent on deposits belonging to foreign banks. Should this system last for a considerable time the gold centers may fall into the danger of an excessive dependence on the banks which accumulate foreign exchange reserves and vice versa the banks which apply the gold exchange standard may fall into an excessive dependence on the gold centers. The latter may be threatened with difficulties in exercising their rights to receive gold, whilst the former may incur the risk of great disturbances in their credit structure in the case of a sudden outflow of reserve deposits.”

Although the “Mlynarski dilemma” did never pose itself as such in the pre–World War I era (not least because the peripheral countries did not have the political sway to demand the conversion of their foreign-exchange reserves), it is nevertheless a remarkable characteristic of the gold-exchange standard. It upsets the idea of an indiscriminate (apolitical) mechanism restoring international trade imbalances by means of “anonymous gold,” as in the idealized view of the traditional gold standard. It is unfortunate that quite a few authors have regarded the gold-exchange standard as an anomaly, or at best a transitory situation not qualifying as a standard in its own right.

20. Mlynarski, Gold and Central Banks, 89.
21. Vissering, The Netherlands East Indies and the Gold-Exchange Standard; this view is also adopted by Laughlin, “The Gold-Exchange Standard,” esp. 663. In line with the geopolitical situation at the time, a host of French authors viewed the gold-exchange standard as a specifically British institution, and tended to think of it as a device for maintaining and extending London’s international financial power. Japanese views of their experience with the gold-exchange standard have been influenced by these French authors. See in particular Matsuoka, Kinkawase hon’isei no kenkyū.
So, how were gold-exchange standards set up? The prerequisite to the system is the creation of an exchange fund held abroad. In essence, colonies or semi-sovereign countries were provided with a gold fund (basically a loan), that was kept in one of the world’s financial centers, partly in the currency of that nation, and partly in money denominated in the currency of the country given the fund. This device produces a more complicated version of the “hydraulic gold-standard machine” we know as Hume’s price-specie-flow mechanism. In order to keep the currency at a certain rate against, say, the pound or dollar, the host country first agreed to use this fund to sell \textit{without limit} demand drafts on London (or New York, as the case might be) on the domestic market at a price slightly under the exchange rate, and coinciding with what was perceived to be the supposed gold export point in the host country. As a result, a possible further lowering of the exchange rate beyond the supposed gold export point would be offset through a contraction of the currency supply: these demand drafts would be paid in the borrower’s currency, thereby contracting its supply and raising its value. At the same time, fears of a fall in the exchange rate were offset by the very provision to sell without limit. Second, the lending government would sell, again \textit{without limit}, demand drafts on the borrowing country at a price slightly higher than the exchange rate. Thus, the tendency for a possible further increase in the price of the borrower’s currency would be reversed by expanding its supply, thereby making it cheaper vis-à-vis domestic commodities.\footnote{Following Laughlin, “The Gold-Exchange Standard,” 648–49. Again, this is the working of the gold-exchange standard in theory; in practice, countries deviated from provisions such as that requiring them to sell demand drafts without limit, as legislation regarding the Indian case makes clear. In general, the gold-exchange standard is thought to have existed in its purest form in the Philippines (650ff.).}

This is only one example of the possible technical organization of monetary leverage. There was also an unmistakably political-economical dimension, which goes much further than simply acknowledging the centrality of the lending country’s position in the world’s monetary geography. It did that too, but, as such, transformed and enhanced the political and economic role of the lending country. As we will see, such policies did so directly, for instance by virtually wiping out exchange costs between the borrowing and lending country.
But these policies also operated indirectly (in ways more difficult to measure and to assess), through the principle of money creation. By endorsing the center-periphery distinction offered by (Japanese) authorities, borrowing countries also enabled the (Japanese) state to leverage its own money and credit creating power, and to buffer its home (naichi) system from shocks originating in the surrounding world market. Equally important but often overlooked were the seigniorage benefits accruing to Japanese private and semi-official banks by means of accounts held in colonial currency and foreign exchange in the many overseas (colonial) branches. What was at work here was thus, in Ben Bernanke’s words, a “financial accelerator”: money held in the accounts administered by Japanese banks could be put to use for further colonial investment and saving, or eventually employed for the continuing appropriation of foreign land, workforces, and other resources. The endorsement of the Japanese yen as the dominant currency in a sphere of wider East Asian economic interdependencies basically amounted to a zero-interest loan extended by the peripheral countries to the central country within the yen’s sphere of influence. The “peripheral” countries were, in that case, paying for their own subordination and colonization—a remarkable outcome of monetary and financial internationalization.

*Early House Calls of American Money Doctors*

Puerto Rico was the U.S. money doctors’ first patient. It was firmly on the silver standard, so policy makers were immediately confronted with the problems of implementing the “cure” of establishing a gold-exchange standard in a silver-standard area. That the gold-exchange standard was to be the cure appeared obvious to the U.S. administration. According to the prophets of gold, such a currency system would attract foreign capital and stimulate material progress; and it would inevitably bring with it an ethos of thrift and sound debt servicing, needed to sustain development. Yet policy makers wondered: Would currency reform invite instability? And would economic dislocation lead to popular resistance to American policies? As it happened, the policy met with little resistance, and in a matter of months the former Spanish coinage had disappeared from circulation.

Money doctors were now convinced that their diagnoses and remedies would also work in other, sometimes very different, parts of the world. The Philippines, the second Spanish colony to be taken over by
the United States, would also become the blueprint for later U.S. monetary and financial interventionism. Its case posed the problem, similar to Puerto Rico’s, of moving a country from a silver standard onto a gold-exchange standard, and thus U.S. reformers did not question the validity of their diagnosis. But the Philippines’ economic connections, unlike those of Puerto Rico, were mainly with the silver-standard countries of Asia. Would abandoning silver result in a deteriorating commercial position because the country would no longer be able to use falling silver prices to its advantage? Charles Conant, an ardent defender of gold, was called upon to provide his expertise. Drawing heavily on the British-led initiative to bring India onto the gold standard, Conant went ahead with his reforms (which Keynes would later refer to as an “almost slavish” imitation, “unworthy of study”), and thus became the founder of the profession of international financial advising in the United States. Later, he would also oversee reform in Panama, where America’s commercial interest in the Panama Canal suggested an obvious parallel to British interest in the Suez Canal and Britain’s subsequent economic annexation of Egypt.

This episode led to the reorganization of financial advising through the establishment of several formal and informal institutions. Among them, the most important was the three-person Commission on International Exchange convened at the instigation of President Theodore Roosevelt, consisting of Charles Conant, Jeremiah Jenks, and Hugh Hanna. They were entrusted with the task of overseeing the installment of a gold-exchange standard in Mexico. The Mexican dollar was one of the world’s main currencies, used for instance in the West’s dealings with Asia, so its reform gave rise to even more substantial policy choices. Yet China, where all the Western nations were competing for concessions and access to the markets of East Asia, became the Com-


25. Andrew, “The End of the Mexican Dollar.” For the Japanese case, see the authoritative Ono, *Kindai Nihon heisei to higashi Ajia ginkaken*. 
mission’s first test case—and the first time that American and Japanese interests came into conflict.

After the Boxer Rebellion of 1900, an armed popular uprising in reaction to foreign encroachments on Chinese territory, the United States laid down the law. China was forced into signing a treaty with all the major international powers in which it agreed to pay an indemnity for damages incurred during the rebellion. Yet, as had been the case in the negotiations following the first Sino-Japanese War (1894–95), the treaty did not stipulate in which currency the indemnity was to be paid, nor did it indicate whether it was to be paid in gold or in silver. The Chinese had begun to pay the indemnity in silver, but were rebuked for this by the European powers. The United States then attempted to befriend the Chinese government by not joining with the European powers in this matter, but later feared that the Europeans would use the issue as a precedent for declaring China in default and starting military action. Thus Secretary of State John Hay proposed that China, by accepting U.S. financial advisors, had obliged itself to move to gold. Jeremiah Jenks of the Commission on International Exchange was to lead the Americans’ visit to China in 1903. Typical of the American approach, Jenks solicited the advice and opinion of his international colleagues; those he met with included the Japanese Minister of Finance, Sakatani Yoshirō (Yoshio), who would later pursue his own agenda for the financial penetration of China. Yet despite careful preparation, the mission was a complete failure. Silver prices were finally rising again after decades of dramatic depreciation, relieving the Qing government of the former pressure of gold payments. Consequently, it lost interest in Jenks’s visit, which was seen as simply another foreign plot to extend influence over what was essentially a Chinese policy matter. In the aftermath of the mission, it appeared that Jenks had met only low-level Chinese officials with no substantial authority. In 1905, China would indeed enact a currency reform, but one that was, in effect, a nationalistic reaction to the U.S. proposal.

Although the Commission’s adventure in China all but marked the end of government-funded advisors spreading the gold-exchange stan-

26. The report of this meeting can be found in Hanna, Conant, and Jenks, *Gold Standard in International Trade*, 30–32.

standard abroad, U.S. interest in financial and economic diplomacy was undiminished. It reached its zenith a decade later, when Edwin Kemmerer, a student of Conant’s, would give the profession of foreign financial advice the name by which it is still known. 28 Professor of Economics at Princeton University from 1917 to 1930, Kemmerer is known as the money doctor par excellence, the man who directed many financial reform missions in a large number of developing countries. After receiving his Ph.D. in 1903, he served as financial advisor to the U.S. Philippines commission and as chief of the division of currency of the treasury of the Philippine Islands; he also headed financial commissions to South Africa (1924–25), Poland (1926), and China (1929); served as consultant to the Dawes commission (1925); and co-chaired an economic survey of Turkey (1934). But he was most active in South America, serving as economic advisor or heading financial missions to seven Latin American countries. 29 Famous for staunch commitment to his assignments, he must also be credited for the profession’s rather unfortunate inclination to assert its detachment from politics. 30 During an informal address to the American Economic Association (over which he presided) in St. Louis, Missouri, on December 29, 1926, he emphasized “the well founded belief, in many countries, that the United States is not looking for political aggrandizement and is less likely than most great powers to exploit the services of her nationals, who advise other governments, as a means of extending her political power. This consideration is particularly applicable in cases of European countries and the Orient.” 31

Had the United States indeed acted in good faith? And was Kemmerer really unaware of the political dynamics of financial advising? Perhaps the anti-imperialist spirit of his times obliged him to depict American economic diplomacy in these noble terms. Approximately three decades earlier, in 1898, Charles Conant had described what was

28. Think, for instance, of the nickname “Dr. Debt” under which Jeffrey Sachs would supervise monetary reform at the end of the twentieth century.
29. Eichengreen, “House Calls of the Money Doctor.”
30. For a contemporary example, compare Jeffrey Sachs’s remarks about his work in Bolivia: “Much of my work is just sitting quietly in a backroom analyzing data with members of the government.” “The Harvard Debt Doctor’s Controversial Cure.”
at stake in a more accurate, albeit cynical manner. His essay “The Economic Basis of Imperialism” actually celebrated what would later become known as Lenin and Hobson’s critique of imperialism.\(^3\) The advanced nations, so Conant’s argument ran, had a “superabundance of loanable capital” that, in an age of growing internationalization, would seek to invest in those nations that had not yet sufficiently industrialized, in its quest for profitable rates of interest.\(^3\) This “is not a matter of sentiment. It is the result of a natural law of economic and race development. The great civilized nations have to-day at their command the means of developing the decadent nations of the world.”\(^3\) The United States should not regard this mission as a burden, because it would also be in its own interest. It should embark on “a broad national policy” of conquest for economic profit, which was anyway inevitable. At the heart of this policy was the law of diminishing returns, as expressed by Conant: “capital becomes less productive in earning power [...] because less productive use can be found for the excess above a certain limit.”\(^3\)

This danger was real: the United States had already started to experience overproduction and consequent declining profits, although not to the degree of the European nations. Abandoning saving, in Conant’s view a “socialist” measure, was not something that the “civilized nations” would easily be brought to consider; nor would it be sufficient to create new demands at home for the absorption of capital. So what solution was left? “Aside from the waste of capital in war, which is only one form of consumption, there remains, therefore, as the final resource, the equipment of new countries with the means of production and exchange.”\(^3\)

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34. Ibid., 326. Compare: “The writer is not an advocate of ‘imperialism’ from sentiment, but does not fear the name if it means only that the United States shall assert their right to free markets in all the old countries which are being opened to the surplus resources of the capitalist countries and thereby given the benefits of modern civilization” (339).
35. Ibid., 334.
36. Ibid., 337.
The Rise of Japan as a Regional Power

At the time Conant wrote this chillingly accurate description of the basis for American economic assertiveness, a country on the far side of the Pacific was reassessing its own role in the dynamics of “economic and race development.” After the first Sino-Japanese War, Japan managed to acquire the financial means to move onto the gold standard and stand alongside the great Western powers of the time. In Conant’s words, “Japan has already made her entry, almost like Athene full-armed from the brain of Zeus, into the modern industrial world.”

The surprise expressed by his words reflects just how steep Japan’s rise had been.

This well-rehearsed story begins around 1850, with the brusque “opening up” of the country after two-and-a-half centuries of political, economic, and cultural isolation. Internationalization, and more specifically confrontation with the realities of the world economy, turned out to be profoundly destabilizing. This confrontation particularly eroded Japan’s monetary system, which despite some remarkably modern traits was built on the premise of the country’s closure. Political friction with the Great Powers, revolving around questions of free trade, was followed by creeping inflation and an even more destructive speculation. The most visible result was a large-scale export of Japan’s gold reserves. Ill-conceived attempts at financial and monetary reform further deepened the crisis, which would end in the demise of Japan’s feudal order and one of the most impressive efforts by a non-Western nation to join the ranks of the modern, militarized, and imperialist West.

For our discussion, the ideological or semantic context of the crisis and consequent reform carries particular relevance. Nowhere else were forced globalization and the traumas consequent on foreign depen-

37. Ibid., 338.

38. Metzler, Lever of Empire, 15ff.; for an analysis of Japan’s gold standard avant la lettre, see Nishikawa, “Edo-ki sanka seido no hôga” and “Edo-ki sanka seido.”

39. As an intermediate measure, the Meiji government sought to differentiate domestic from international trade by introducing a “trade dollar” or boeki-gin in February 1875. The government failed to have it widely adopted in Asian trade, and the system was discontinued within three years of its inception. Matsukata refers to the Imperial Ordinances instigating the minting of the trade dollar and its suspension in his Report, 10–12.
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The opening up to the West and the frustrating negotiations about foreign trade had led to the financial and political impasse in the first place. The bakufu or shogunate had enjoyed a strictly enforced monopoly on silver and gold mines. Both the bakufu and the Meiji government that superseded it were abhorred by the foreign banks opening for business in the port of Yokohama (which the bakufu had chosen as the location for dealings with foreign merchants and the business of foreign exchange), rightly regarding foreign banks as a threat to the government’s grip on financial matters.

The intrusion of foreign banking institutions had begun in 1863, when the Central Bank of Western India set up in Yokohama, with Charles Rickerby as acting manager. The Chartered Mercantile Bank of India, London and China followed it a month later. Five other banks soon joined their ranks: the Commercial Bank of India (1863); the Bank of Hindustan, China, and Japan (1864); the powerful Oriental Bank Corporation (1864); the Hongkong and Shanghai Banking Corporation (1866); and the French Comptoir d’Escompte de Paris (1867). In terms of assets, these banks represented the epitome of grand modern banking. The Comptoir d’Escompte de Paris alone accounted for approximately 90 million ryō (the standard of the Edo trimetallic system). This eclipsed even the mighty merchant houses of Mitsui and Konoike, and the sheer size of the foreign banks contributed to later debates about domestic financial and monetary reform.

The Meiji government also discovered other reasons for fearing foreign encroachment. Experiences with treacherous Western intermediaries had instilled a deep distrust of internationalism; to put it anachronistically, liberalism and openness were perceived as an imperialist threat. The infamous Lay Affair (1870), in which Horatio Nelson Lay, a former member of the British consulate, had deceived the Meiji government about the interest rate on a government loan on the London capi-

40. Kobata, Kabei to kōzan.
41. Tamaki, Japanese Banking, 17–18; Tatewaki, Zainichi gaikoku ginkōshi.
tional market, reminded policy makers of the ultimate danger of foreign loans and foreign dependence: economic colonisation.43

Currency Imperialism

In a cynical twist, Japan’s policy makers concluded that the best way to deal with the situation just outlined was by seizing the lash whose strokes they feared. They too would embark on the road of expansionism, seeking to be the equal of the Western powers that had threatened their nation’s independence. Military intervention was to be only one pillar of the Japanese colonial empire. Indeed, it was often only the prelude to more pervasive forms of influence and dominion affecting politics, culture, and the economy.

As both the political and cultural dimensions of Japanese imperialism have received considerable attention, and as some issues of economic imperialism have been tackled in other studies,44 this book turns to a selective set of tactics that have rarely, if ever, been given attention in the West. It concerns a particular case of experimentation with money doctoring that made no attempt to disguise the profoundly political nature of its ambitions. This set of tactics will be referred to as “currency imperialism,” as defined by Shibata Yoshimasa:

Currency imperialism is a [set of] policies by means of which a nation uses its own currency for circulation outside its borders or links it [to another currency] in some form; through which it employs such linkage in the settlement of its balance of payments, and through which it economizes with regard to

43. Suzuki, _Japanese Government Loan Issues on the London Capital Market_. Lay had signed a loan contract of 1 million pounds sterling for the Japanese government at an annual interest rate of 12 percent and a 10-year term of payment. However, he began selling railway bonds in London at an annual rate of 9 percent with an issue price of 98 percent of the face value. In other words, Lay intended to earn a 3 percent margin from every bond he sold. The Japanese government, becoming mistrustful, consulted the head of the Yokohama branch of the Oriental Bank (a British bank), with the result that the government terminated the contract with Lay and appointed the bank as its representative in London. For a more extensive treatment of the Lay scandal, see Kaida, _Meiji zenki ni okeru Nihon no kokusai hakkō to kokusaishishō_, 91–139. On Lay’s activities in China, see Gerson, _Horatio Nelson Lay and Sino-British Relations_.

44. In particular the Japanese version of “railway imperialism” through the South-Manchurian Railway Company. For a very thorough account in English, see Matsusaka, _The Making of Japanese Manchuria_.
the holdings of its own foreign exchange; and by means of which it furthers the investments of its enterprises [in another country], while at all times avoiding risks associated with foreign exchange. Currency imperialism is a powerful means of introducing informal empire and, especially in the case of occupied territories, a tool for enhancing linkages with the mainland. [. . .] It is a means of grasping empire from the perspective of monetary and financial policy.45

Like all definitions, this one leaves some ambiguity. It does not, for instance, list all the possible tools that may be applied to achieve currency-imperialist objectives. It does not describe the role of currency imperialism among other means of projecting influence and power abroad. It does not define degrees of currency imperialism, if such exist. Yet definitional shortcomings should not constitute a reason for dismissing every attempt at analysis. Whether the agenda behind U.S. dollar diplomacy, for instance, should be treated as an instance of currency imperialism is left unanswered (and while there are strong arguments in favor of doing so, there are also many differences in the Japanese example, primarily regarding public presentation). However, these issues are not strictly relevant.

Methodologically, it suffices to look at the historical-systemic nature of international politics and the making of foreign policy. Imperialist tactics do not exist in a social and temporal vacuum. They originate in and operate through the specific dynamics of geopolitical perceptions, partaking in these dynamics and transforming them. In other words, they are both causes and outcomes of these very specific perceptions, and need not be confined to an immutable set of actions. Moving the discussion to focusing on observations spares us many thorny questions about the “essence” of currency imperialism. Japanese currency imperialism can be discussed as an empirically observable set of perceptions, strategic objectives, and tactical tools; and it should also and always be examined in its historically contingent context—in reference to and interaction with its identified object, namely American policies in East Asia and American descriptions of East Asian events at the time.

This methodological shift entails some important consequences. First, it underlines the necessary ambiguity of all claims of disinterested political activity: American money doctoring in Asia cannot be dis-

45. Shibata, Senryūchi tsūka kinyū seisaku no tenkai, 4.
cussed apart from the context of Pacific rivalry (in Flandreau’s words, interests invite themselves). Even more important, it demonstrates the centrality of primary materials, including documents regarding policy formation and political and economic theories of the time. Such an approach makes it possible to avoid the risks and fallacies of ex post facto reconstruction and, in turn, to highlight the relative importance Japan’s imperialists themselves ascribed to money and finance, something that has not gone unnoticed by Japanese observers.46

 Indeed, definitional differences in this very respect between the American and the Japanese side were construed, if not always intentionally, so as to become a mainstay of the ensuing U.S.-Japan conflict. American and Japanese efforts to acquire monetary and/or financial influence in Asia (through loans, assistance in currency reform, and so on) simply endorsed and amplified their meaning as measures of international competition, indeed as “aggressions” toward the countries to which these efforts were extended. The “war of the words” thus necessarily translated into a “war of the worlds,” or a relentless race—and, at least for the Japanese side, an unavoidable and all-consuming battle—for superiority in the Pacific.

This evolution is quite clear from contemporary descriptions of the Japanese project in Asia or, as it became known, “Japan’s Monroe Doctrine.” Even the liberal-minded Takagi Yasaka, the professor of American history quoted in the epigraph, explains Japan’s position in China “by an analogy with the history of ‘Manifest Destiny’ in America.” This doctrine, he argues, represented no more than “the inevitable process of the so-called biological necessity of American expansion,” hence its acquisition of “Florida, Texas, and California, and perhaps Cuba.” Similarities with the Japanese case, he insists, are clear: Japanese demands with regard to the peace and security of Manchuria “may be said also to be an expression of the irrepressible need for the biological development of the Japanese nation, and be called the pent-up cry of ‘Manifest Destiny’ on the part of the late comer in the circle of the society of nations.” Consequently, “Americans would probably be the first to understand Japan’s position,”47 especially because that position was by

46. Shibata Yoshimasa himself draws attention to Japan’s strong investment in the monetary and financial elements of empire (Senryūshi tsūka kin’yū seisaku no tenkai, 4).
no means an example of nineteenth-century European-style aggression, but instead a manifestation of progress through peaceful means. In the case of Manchuria, for instance, this progress required “the economic penetration of Manchuria by Japanese capitalism as the unavoidable requisite of the industrialization of her own country.”

Another recurrent, and related, theme of this book, is the contentious nature of all policy making related to prewar Japanese (financial) expansionism. It appears that Benjamin Schwartz and his colleagues, when working as army officers in signal intelligence monitoring Japanese radio traffic during World War II, were constantly struck by the discord between the many representatives of Japanese interests in China, both military and civilian. If anything, this book endorses their firsthand experience. Both prewar and wartime Japanese imperialism were anything but a monolithic entity, contrary to popular versions of pre-1945 history. At the same time, I add to Schwartz’s observation that, in all their contentiousness, conflicting perceptions and beliefs about the Japanese cause were nevertheless structured into bipolar opposition. Such bipolarization is to a certain extent self-explanatory. As we know from the sociology of Niklas Luhmann and others, it is in the nature of social order that artifacts, social systems, and so on are constructed along the lines of a primal difference, an originating distinction. Mark Metzler gives an example from budgetary policy: “‘austerity,’ as a policy, is a relative term—it means less—and one cannot logically have an ‘austerity policy’ unless it is in reaction to more (whether conceptualized as ‘luxury’ or ‘excessive spending,’ etc.)” Yet why perceptions and beliefs about Japanese economic policy polarized in the way they did is fundamentally revealing about the “problem” they constructed and addressed.

The polarity of beliefs is directly related to the perceived Hobbesian nature of the international geopolitical order, and especially to the role

48. For a similar and ingenious argument, see Tsurumi Yūsuke, “The Difficulties and Hopes of Japan.”
50. This is briefly discussed in Coble, Chinese Capitalists in Japan’s New Order, xii.
51. See, for the introduction of some core concepts, Niklas Luhmann, Social Systems, George Spencer-Brown, Laws of Form. For an exploration of similar notions in the field of financial history, see Metzler, “Policy Space, Polarities, and Regimes.”
of the United States within it. Indeed, there was minimal discussion of whether Japan was a vulnerable player; everybody in Tokyo was convinced that it was. Cleavages in the policy-making constituency did not, therefore, develop along the lines of imperialist versus anti-imperialist. For instance, even the liberalist politician Inoue Junnosuke did not resent the Nishihara loans to China because they were imperialistic; he condemned them because they were never repaid. This is an important difference. As an ultimate policy goal, expansion was not contested. Instead, the discussion concentrated on the means of securing real political and economic influence in East Asia, and on the political styles and tactics that would best secure a degree of autonomy and independence in an environment that was, in fact, defined as fundamentally adverse to both prospects. Nowhere does this become as clear as in Japan’s convoluted dealing with the ambiguous (from the Japanese perspective) agenda of the Open Door Policy. Was Tokyo to follow the lead of the formidable, because potentially self-sufficient, United States, constrain its own advance into Asia, and thus jeopardize what it construed as a step toward hard-won autonomy? Or was it to condemn the U.S.-led order and, after the German example, replace it with a new order of a world divided into several economic blocs—at the risk of antagonizing the most powerful country in the world?

Perceptions of this core dilemma united certain policy makers against others; created alliances between policy makers and bankers against other, similar alliances; and gave rise to improbable marriages between army factions and (semi-)governmental organizations, always defined in opposition to other factions and cliques. Remarkably, this dilemma also mobilized support for monetary standards, with gold the metal of the pro-autarky group and silver the metal of the more pragmatic-minded imperialists. In the end, these complex policy stances and their consequences contributed to the disaster of the Japanese Empire.

In this book I tell the story of how Manifest Destiny of the kind described by Takagi came into being, developed over time, and ended in the “manifest destitution” of the Great Japanese Empire and its yen bloc. I limit the discussion to the financial and monetary aspects of Japanese expansionism, but refer to the related phenomena of military interventionism, railway imperialism, and so forth.
The journey of the Japanese money doctors starts in 1895, with a house call on Taiwan. This first experiment with colonial finance is at the same time the most ambivalent one, at least in strategic terms. It had none of the “urgency” that characterized later examples of Japanese money doctoring. As explored in Chapter 1, a host of reasons, geographical remoteness not least among them, made Taiwan more of a liability than an asset to policy makers in Tokyo, hampering a swift and thorough reform effort. Instead, Taiwan (or Formosa, as it was then known) became a test kitchen for policy recipes: control versus limited local initiative, assimilation versus independence, and so forth. Taiwan’s lack of strategic appeal also produced an unfortunate second-order effect for the twenty-first-century historian: minutely detailed reports and statistics are lacking, and one has to rely on the reformers’ own relatively sparse and possibly self-congratulatory assessments of their ventures. Journalistic reports are even harder to trace and in any case do not provide a sufficient window onto topics such as the monetary effects of reforms on the Taiwanese economy or the redistributory effects on the island’s agricultural organization and development. Nevertheless, the case of Taiwan is important for understanding Japanese colonial finance, as it became an important tactical exemplar for later imperialist schemes. It was in Taiwan that the versatile and visionary Goto Shinpei pioneered the centralist, hands-on, and comprehensive reforms (including far-reaching institutional and cultural initiatives) that cast their shadow on all later colonialist policy.

The reports and assessments that we lack for a fuller reconstruction of monetary events in Taiwan abound for the reform efforts in Korea, taken up in Chapter 2. Again the explanation is strategic value: extensive reporting was required to guarantee a smooth follow-up of Tokyo’s many plans for Korea, on its immediate periphery—a “dagger pointing at the heart of Japan.” What is more, the so-called Megata reform was quite successful. It was not a loosely knit fabric of ad hoc measures, but a single consistently premeditated reform plan, including preset benchmarks and alternative measures geared to the well-defined objective of monetary subjugation. As I will make clear with data gathered from the extant (often superbly published) primary sources, authorities at the time made no secret of the planned thoroughgoing impact of monetary and financial reforms. This was an era still captivated by the missionary rhetoric of uplifting premodern societies toward thrift and prosperity,
rather than by talk of notions such as sovereignty, which was later considered a more fundamental national right. It is thus no surprise that the Japanese authorities deemed Megata’s authoritarianism legitimate and even desirable. However hard the reform may have been on Korean commoners, the wealth of documentary material it produced makes it possible to write an extensive case study, detailing several aspects and phases of the reform program, and describing their effect on the Korean populace.

From there, we travel further into the Asian interior, and discuss in Chapter 3 the very different but highly illuminating Nishihara loans to China. They were negotiated only a decade after the Megata reform, but by then the geopolitical climate and Japan’s domestic constituency had been profoundly transformed. The shift of the international balance of power, the United States’ adoption of a multilateralist agenda, and its push for the universalist vocabulary of the Open Door gave momentum to a counter-ideology that had been accorded marginal status only a few years earlier. Until around 1915, Pan-Asianism, or the view that Asia’s destiny was not to be decided by the Western imperialist powers, was not substantially represented in the ranks of the political classes occupying Japan’s early democracy. In 1916, however, this ideology energized the bureaucratic activity and foreign policy of the Terauchi cabinet. It was clear from this administration’s penchant for secrecy—several of the most substantial loans in the portfolio were pushed through on the administration’s last day in office and without further clarification—that its plans were audacious indeed. The financially risky Nishihara loans were sure to offend the United States, and had the predictable consequence of leading to Japan’s international humiliation. In this chapter, I trace the origins of Pan-Asianism as a specific brand of Japanese expansionism, highlight its relationship with events in China, and identify the very unlikely alliances it engendered. The chapter discusses the involvement of naive idealists, cynical imperialists, and bankers and businessmen riding on the coattails of imperialism; and it explains how this explosive mix illustrates the dilemmas that were to confront policy makers in later phases of the Greater Japanese Empire.

Even if its lofty visions were superseded in the 1910s, Pan-Asianism was not necessarily rejected by later administrations. It remained latent, often because of a realist element in foreign policy making (as in the immediate aftermath of the Nishihara loans) or because of economic
factors (the postwar bust, the Great Kantō Earthquake, and financial problems in the late 1920s). But at the beginning of the 1930s, in the wake of the worldwide Great Depression, Takahashi Korekiyo’s successful countercyclical economic policies restored Japan’s national self-confidence. Although far from Takahashi’s own aspirations, his success translated into further assertiveness in Northern China and, indirectly, into Japan’s disregard of internationalist values as embodied in the League of Nations and related institutions. Unexpectedly, money-doctoring in Manchuria, recounted in Chapter 4, also took on a chimerical twist. The monetary reformers behaved in a thoroughly technocratic and professional manner; but contrary to—or should one say, because of?—their self-referential professionalism, their efforts became one building block of an impossible Utopia, a country with multinational and multicultural claims yet with an imperialist core.

In the epilogue, I briefly review money-doctoring activities after the outbreak of the second Sino-Japanese War in 1937. Although primary sources are rather scarce and statistics often unreliable, these episodes are still exemplary of the later nature of Japanese militarism. Taking into account price evolutions in different regions, it becomes possible to reconstruct the Greater East-Asia Co-Prosperity Sphere as a set of concentric circles. As reflected in the semantic distinction between naichi and gaichi, or “inner sphere” and “outer sphere,” outer rings were set up as buffers for the core (the Japanese mainland). This very structure must be understood not as an enhancement of Japan’s security, but as its exact opposite. Like the Nazi Großraumwirtschaft, it was the endorsement of Japan’s vulnerability, evidence of the country’s incapacity to take on the role of a stabilizing factor or “hegemon” in its own economic bloc. The book concludes by reviewing the difficult discussion of continuities and discontinuities with the postwar period.