Introduction

In the early morning of February 26, 1936, two young officers of Japan’s Third Imperial Guards Regiment led 100 of their men, armed with rifles and machine guns, through the still-dark, snowy streets of Tokyo. When they arrived at the home of the 81-year-old finance minister, Takahashi Korekiyo, they smashed open his front gate, pushed into the house, and with their boots on hurried to the bedroom where the minister lay sleeping. One of the officers shouted “traitor” as he fired bullet after bullet into Takahashi’s prostrate body; the other screamed “heavenly punishment” as he brutally hacked the octogenarian with his sword. Takahashi died in the attack, and his death gave new life and power to Japan’s military and accelerated the country’s movement toward World War II. Several Japanese scholars and journalists have written that Takahashi was Japan’s last barrier to militarism. After his death, the road to war began in earnest.

Why was Takahashi a target of military rage? Was he in fact the last barrier to militarism, and if so, how and why? How did this remarkable man, an illegitimate child born in 1854, who was adopted as an infant into an ashigaru (foot soldier) family, that is, into the lowest stratum of the samurai class, become one of Japan’s most cosmopolitan government leaders, a man who combined a nationalistic love of his country with a realistic understanding of its insecure place as a second-level nation in a world of far more powerful European and North American states? How did he rise from penurious origins as a hereditary private in the feudal infantry to become a fluent speaker of English and a friend
of many British and American financiers and politicians? How did he become “Japan’s Keynes” and an advocate of economic development that did not just make Japan richer, but that also improved standards of living, a democratizing politician, a critic of militarism and of the view that soldiers with proper “spirit” could defeat enemies with superior weaponry? The primary goals of this book, a biography of Takahashi from birth to assassination, are to trace his education as an autodidactic financial and political statesman; to elucidate his efforts as an official to make Japan and its people richer and to encourage the latter to play a larger role in governing themselves; to assess the efficacy of his counter-cyclical monetary and fiscal policy during the Great Depression between 1931 and 1936; and to evaluate the role, if any, that his policies played in the rise of militarism in the quinquennium before his death. Although there are many biographies in Japanese of Takahashi, one of the two most important financial statesmen in Japan between the Meiji Restoration and World War II, no one has published a comprehensive study of him in English. No one has written about the connections between his unusual education and his pathbreaking economic and political ideas, even in Japanese.

Takahashi became finance minister for the first time in February 1913, and from then until his murder 23 years later served in that post seven times, as well as serving once as prime minister and once as minister of agriculture and commerce. Between 1913 and 1927, as finance minister in the Yamamoto, Hara, Takahashi, and Tanaka cabinets, and as agriculture and commerce minister in the Katō government, Takahashi advocated stringent limitations on military spending, civilian control of foreign policy and the military, support for Chinese efforts to build a unified nation that could resist Western imperialism, and opposition to those Japanese policymakers who used loans and military intervention or their threat to gain footholds in various regions of China. In other areas of foreign policy, he promoted cooperation with the Anglo-Americans, including the expansion of Japan’s colonial empire only within the British and the American imperialist framework. Domestically, he favored universal suffrage and greater control by elected political officials over the government’s elitist bureaucracy. To promote economic development, he supported growing the economy while raising workers’ wages to stimulate further growth, improving productivity, and sharing the benefits of the
ensuing profits with the workers. Finally, he advocated using tax policy to encourage greater equalization of income between rich and poor; devolution of the land tax and of control over the content of primary school education to local communities; and limiting, to the extent politically possible, governmental authority to crack down on the supporters of so-called “dangerous” political ideologies.

But Takahashi is most famous for the policies he adopted after he became finance minister for the fifth time in December 1931, during the depths of the depression, policies that allowed Japan to return to full utilization of capacity and full employment by 1935–36, five years before the American recovery. Prices were falling sharply, unemployment was high and rising, farmers suffered from the collapse of agricultural commodity prices, the growth of industrial productivity stagnated, many factories were under- or unutilized, and industrial investment had virtually disappeared. To counter these problems, within a year of coming to office Takahashi engineered Japan’s recovery by introducing a series of reflationary, countercyclical fiscal and monetary measures that dramatically reversed his predecessor’s conservative, deflationary policies. In the monetary realm, Takahashi took Japan off the gold standard, ended the convertibility of paper money for gold, devalued the yen, lowered interest rates, and raised the limit on the Bank of Japan’s issuance of bank notes. This led to a boom in Japanese exports even while the rest of the world’s trade contracted.

In the summer of 1932, Takahashi also introduced a countercyclical fiscal policy. He increased government spending and made up the difference not by raising taxes, but by deficit financing—and deficit financing through selling low-interest government bonds directly to the Bank of Japan rather than on the open market. The government’s spending increased the volume of money in circulation and stimulated demand. Growing domestic demand together with expanding exports encouraged production and re-employment—more people had more money to spend and Japan began to recover from the depression.

Takahashi recognized by 1935 that the economy had nearly recovered. He introduced a plan to bring the government’s spending back into balance with revenues. This required him to reduce military spending, which he had been forced to increase during the public euphoria over the conquest of Manchuria in 1931–32 (a conquest that he himself de-
cried). The army and navy, happy with more money, vigorously resisted his efforts to limit their growing budgets. Their ultimate resistance was Takahashi's assassination. And the army’s and navy’s efforts worked. Takahashi’s successors as finance minister dramatically increased the military’s budget and moved to a planned, command economy, not only speeding the road to war, but also to economic inefficiency and runaway inflation.

It is widely accepted by leading Japanese and Western historians of the depression that Takahashi was unusual in the world at the time. Japanese economic historians such as Gotō Shin’ichi have called him “Japan’s Keynes,” even going so far as to point out that Takahashi introduced his policies four years before the publication of Keynes’s *General Theory*, at a time when most Western and Japanese financial statesmen advocated balanced budgets and higher taxes. Western scholars such as Charles Kindleberger, the author of the standard economic history of the depression, and Robert Skidelsky, Keynes’s biographer, have also commented on Takahashi’s uniqueness.

This book elucidates four broad areas of Takahashi’s life. The first has to do with his education. How did Takahashi, with his inauspicious beginnings and straitened childhood, come in maturity to hold a sophisticated set of political and economic ideas? Takahashi, because of the year of his birth and low rank, was essentially an autodidact; he had neither a classical samurai nor an elite modern education. His only usable skill was a fluent command of English, which he began to develop at the age of ten with foreign missionaries in Yokohama. In fact, Takahashi was one of a small group of low-ranking samurai born in the 1850s who learned to speak English well because they were either too young to study by rote memorization in late feudal schools, or too old to learn in the formally-structured classrooms of elite Meiji period schools such as Tokyo Imperial University. These men had the advantage of learning by speaking from childhood with native English speakers, not from textbooks. After studying with Clarissa Hepburn in Yokohama and working as a houseboy in Oakland, California, Takahashi, while still in his teens and early 20s, associated with some of the most important foreign employees of the Meiji government: the Scots banker A. A. Shand, the Dutch-American missionary Guido Verbeck, and the American educator David Murray. Takahashi even helped William
Elliot Griffis translate scatological Japanese into vernacular English. Many of the top Meiji leaders—for example, Itō Hirobumi, Yamagata Aritomo, Matsukata Masayoshi, Saigō Tsugumichi, and Inoue Kaoru—even though he often differed with them on policy issues, called on Takahashi, because of his language skills, to carry out crucial assignments. The two most important of these, writing Japan’s first patent and copyright laws in the 1880s, and selling Japanese war bonds in London and New York in 1904–5, introduced Takahashi to the two men who had the greatest influence on his education, the French-educated industrial planner, Maeda Masana, and the German-Jewish-American financier, Jacob Schiff. What I have found is that Takahashi educated himself not by going to school (there is no evidence that he attended school at all as a child), but by reading and talking voraciously, and doing that reading and talking in both Japanese and English. Takahashi, although badly schooled as a youth, was, by the time he rose to the top levels of government in the last 25 years of his life, a well-educated man, and one who was not limited by the strictures of a formal education. While it is hard to “footnote” all of the influences on him, it is clear that he received his education through a lifetime of reading, talking, and serving in government.

The second area of study is Takahashi’s service at the highest levels of government between 1904 and 1927. How many Japanese political leaders of his time shared in toto his forward-looking set of economic and political ideas: the primacy of economic growth and of sharing the benefits of that growth with the working class, the use of tax policy to ameliorate income differentials, civilian control of foreign policy and the military, opposition to excessive military spending and to the piecemeal exploitation of China, decentralization of government power, and democratization? The other “liberal” politicians, if we can use that term, in Japan in the 1920s, men such as Hamaguchi Osachi and Shidehara Kijūrō of the other major political party, for example, shared his views on foreign policy, militarism, China, and democratization, but not on the use of fiscal and monetary policy to stimulate economic growth.

My third subject is Takahashi’s countercyclical policies during the world depression, and their efficacy. How was Takahashi able to introduce policies that most financial statesmen in Japan and the West in 1931–32 opposed as outrageously unorthodox? Even Marxist economists
such as Ōuchi Hyōe joined leaders of the preceding Minseitō cabinet, and bureaucrats in the Bank of Japan and Finance Ministry, in attacking Takahashi as recklessly inflationary. When we look back from our contemporary vantage point, we may find it surprising that responsible economists and financial leaders advocated more deflation as the cure for deflation, but in the early 1930s this was orthodoxy—even Franklin Roosevelt campaigned in 1932 by accusing Herbert Hoover of inflationary fiscal policies. Moreover, Takahashi’s monetary and fiscal stimuli worked. In his four years as finance minister, consumer prices did rise, by 20 percent, but nominal national wealth rose by much more, 60 percent—no other country in the world recovered from the depression so quickly. The economist Hugh Patrick was correct when he wrote that Takahashi carried out “one of the most brilliant and highly successful combinations of fiscal, monetary, and foreign exchange rate policies the world has ever seen.” But the largest share of Takahashi’s increased government spending went to the nation’s armed forces.

The fourth and final subject is the relationship between Takahashi’s deficit financing and the rise of militarism. It is widely acknowledged that Takahashi was not a militarist. From the time of his association with Maeda in the 1880s and Schiff 20 years later, Takahashi developed a powerful critique of excessive military spending. But even if Takahashi opposed militarism, could one not argue that he helped the army and navy expand their power in the 1930s by increasing their budgets as he undertook his fiscal stimulus? The answer, I think, is for the most part, no. Takahashi, in an atmosphere of public clamor for more funds to support Japan’s war in Manchuria, continually opposed the army and navy ministers’ demands for more money. He even went so far at one cabinet meeting as to accuse the army minister, General Araki, of talking like an idiot. Although while Takahashi served as finance minister in the 1930s, the army’s and navy’s budgets grew sharply, he continually gave them far less money than they demanded, and he did this in a political context that encouraged compromise and mandated unanimous cabinet support (including that of the army and navy ministers) to approve the budget. In other words, the finance minister was not a free agent in budget-making during the depression years. In fact, Takahashi was one of the few leaders in the 1930s to stand up publicly, in the face of mortal danger, to the military.
Most of the research into primary documents for this book has been conducted in archives and libraries in Tokyo. Takahashi’s papers are located in the Constitutional History Room of the National Diet Library and at Tokyo Metropolitan University. The papers of Matsuo Shige-yoshi, governor of the Bank of Japan when Takahashi was in London during and after the Russo-Japanese War in 1904–6, are found in the Archive of the Bank of Japan. I examined newspapers on microfilm at the Keio University Library and explored other primary sources at the Finance Ministry Archive. Outside of Japan I found useful materials at the ING Baring, HSBC, RBSG, and Rothschild archives in London, and at the American Jewish Archives in Cincinnati. I have also relied on various published primary sources: Takahashi’s memoirs of the first 52 years of his life, published serially in the Tōkyō asahi shinbun and then issued as a book in 1936 after his death; three volumes of his writings; and materials published in multi-volume sets by the Bank of Japan and the Finance Ministry.4 The most valuable documents (largely unused even by Japanese scholars) are the letters and cables Takahashi sent from London to Prime Minister Katsura Tarō, Finance Minister Sone Arasuke, Bank of Japan Governor Matsuo, and Elder Statesman Inoue Kaoru in 1904–5 (found in the Matsuo papers); the materials on the negotiations between Takahashi and Schiff, the Rothschilds, Sir Ernest Cassel, Baring Brothers, Parr’s Bank, Kuhn, Loeb, and the Hongkong and Shanghai Bank during the Russo-Japanese War (found in the four London bank archives); and the Takahashi-Schiff correspondence between 1906 and 1920 (52 letters available in the Diet Library and the American Jewish Archives.) These two men, neither one a native speaker of English, exchanged letters in beautiful Edwardian English in which they not only provided each other with information on the events of the day, but also revealed a warm friendship. One of the subjects of their letters was Takahashi’s daughter Wakiko, who lived with the Schiffs in New York in 1906–9, and who spent World War I trapped in London with her husband and children because of German submarine warfare.

Takahashi was not merely an important political leader: his life was also fascinating. While the primary goal of this book is to analyze Takahashi’s education and involvement in government, there are many good tales to tell along the way. Among them are Takahashi’s taunting of the
prostitutes sent to service the foreign merchants in Yokohama in 1866; his run-in with a Chinese cook in Oakland, California in 1868; his recitation of English-language poetry to Lord Date of Sendai domain in 1869; his affair with a geisha in the early 1870s, while not yet 20; his year as an unscrupulous stockbroker in the mid-1870s; his study of social dancing in Washington, DC in 1886; his narrow escape from death when his horse fell into a crevasse in the Peruvian Andes in 1889; his shipboard meeting with the actress Lillie Langtry in 1904; his audience with her former lover, Edward VII, the next year; his efforts to find a Japanese spaniel (chin) for Queen Consort Alexandra in 1905; and many other adventures. One can trace Takahashi’s success to his unorthodox early life—because of it he had a detachment and pragmatism, a gregarious and even insouciant conviviality that made it easy for him to chat up strangers, and a total lack of self-consciousness with foreigners, unusual for a Japanese of his lifetime.