The War, Military Expenditures, and Postbellum Fiscal and Monetary Policy in Japan

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Economic historians of modern Japan have argued that the Russo-Japanese War marks the beginning of a second phase of early industrialization, that of a “big spurt” period. Ohkawa Kazushi and Henry Rosovsky, for example, pinpointed 1905 as the end of the first phase of Japanese modern development. After the war, they and others noted, Japan witnessed the emergence of large-scale manufacturing enterprises producing Western industrial commodities, while the government reduced its need to compete domestically for investments, thereby allowing the saving rates in the private sector to rise. While it is evident that the Russo-Japanese War laid a heavy financial burden on the Japanese economy, it is less clear what the effects of the war on Japan’s fiscal and monetary policies were, and how Japan managed to overcome this burden during the war and especially in the postwar era.

One of the foremost studies regarding the effect of wars on fiscal policy is that of Peacock and Wiseman, who focused on the British case from the Napoleonic Wars to World War II. Emi Koichi and Shionoya Yuichi adopted their methodology and examined the Japanese fiscal policy from Meiji to mid-Showa era. The latter study traced mainly long-term economic variation but overlooked the effect of each wartime fiscal policy on the postwar public finance, since its objective was to analyze the public finance as a whole and military finance is regarded as a part of it. The present chapter, however, discusses Japanese fiscal policy from the end of the Sino-Japanese War to the outbreak of World War I in terms of relation of financial policy between wartime and peacetime using the analysis method of Peacock and Wiseman as well as Emi and Shionoya.
In addition, it analyzes the effect of the fiscal policy during the Russo-Japanese War on that of the postbellum period.

Both the army and navy planned arms expansion of substantial size after the war, but their plans were dependent on the fiscal condition and vice versa. The character of arms expansion was different not only between the post Russo-Japanese War and the post Sino-Japanese War, but also the army and navy. Setting the military expenditure as the main research objective, the characteristic of Japanese fiscal policy in relation to war expenditures may become intelligible, especially postbellum policy. More specifically, this chapter focuses on the army and navy expansion programs and changes in military expenditure during the postbellum period. Finally, the chapter examines the effect of the fiscal expansion after the Russo-Japanese War on trade deficit, which, in turn, led to specie (money in the form of coins) drain marring the maintenance of the gold standard.

**ECONOMIC AND MILITARY POWER OF MAJOR COUNTRIES IN THE EARLY TWENTIETH CENTURY**

In the case of a major war, war-related expenses become so high that certain national economies cannot afford them. Therefore, wartime fiscal policy that is aimed to finance wars affects postbellum government finance. This section overviews the study of Peacock and Wiseman (1961), the leading work in this field, and that of Emi and Shionoya (1966), who applied the Peacock-Wiseman method to analyze the Japanese case. In addition, this section surveys economic and military power of eight major powers, including Japan, between 1900 and 1913.

**Economic and Military Power of Major Countries**

Table 10.1 shows economic and military strength of Japan, European powers and the United States in 1900, 1910, and 1913. In the former part of this period, the following three countries out of the eight experienced major wars: Great Britain (Boer War), Japan and Russia (Russo-Japanese War). During the latter half, European countries faced diplomatic and military tension in the Balkan Peninsula. At the beginning of this section, the trend of economic power and military expenditure of Japan is reviewed briefly, with reference to other powers.

The size of the gross national product (GNP) of Japan was the smallest among the eight throughout the period, nevertheless the growth rate was the highest. GNP of Japan in 1913 was 2.1 times as large as in 1900, and the only country which recorded the same GNP growth other than Japan was the United States (2.1 times). They are followed by Russia (1.7 times), Germany and Italy (1.5 times), Austria-Hungary (1.4 times), Great Britain (1.3 times), and France (1.2 times), all of which had much lower growth of GNP than Japan and the United States. Therefore, the relative size of the Japanese economy improved dramatically during the period. Japanese GNP in 1900 was 42 percent of Italy, 24 percent of Austria-Hungary, 20