

Economic Policy Under Matsukata Masayoshi

- Major Policy Goals
 - Stabilize the economy
 - Eliminate Government Deficit
 - Expenditure Policy
 - Tax Policy
 - Achieve convertible currency
 - Establish Central Bank
 - Create Specialized Financial Institutions
- Industrial Policy After Matsukata

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Matsukata Masayoshi (Brief Bio)

- Matsukata born in 1835 in Satsuma
- In 1878 went to Europe as Japanese representative to Paris International Exhibition
 - Interested in how France could pay off reparations from Franco-Prussian war
 - Met Leon Say
 - Received private tutorials and was very influenced
 - Economic hard-liner. Believed in tight money and balanced budget.
- In 1881 Matsukata Masayoshi became Finance Minister
- Eventually became prime minister

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What were the problems Matsukata faced?

- In 1881 the Economy was in a mess
 - Government was printing money to pay bills
 - To pay cost of suppressing satsuma rebellion (1877) gov't printed up ¥27 mil and borrowed additional ¥15 mil.
 - Number of gov't and bank notes had risen by 55% between 76 and 78
 - Price of rice had doubled between 77 and 80
 - Gov't revenues were falling
 - Land tax generated 70% of all revenues
 - Land wasn't reassessed and inflation cut value of tax
 - Land tax rate had been cut from 3.0% to 2.5% in 1877
 - Landlords benefited enormously

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What did Matsukata do?

- Terminated virtually all direct government aid to non-military industries
 - Sold off (Privatized) virtually all of the government firms
 - Generated a surplus of ¥40 million
 - Used this money to remove ¥ from circulation
- Cut aid to industries from ¥11 million in 72-76 to ¥5.5 million in current prices!
 - Collapse of industrial policy
 - Only allowed military production to continue: Ships rifles uniforms etc.
 - Used surplus to reduce the amount of paper money by 23% between 81 and 85
- Cut money supply from ¥193 mil in 1881 to ¥151 in 1886
 - Impact on prices ($PY = MV$): Price of rice fell by $\frac{1}{2}$

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Money Supply in Japan, 1875-1914

Year	Ratio of Money Supply to National Income
1875-80	35
1880-85	26
1885-90	23
1890-95	24
1895-1900	24
1900-1905	24
1905-10	26
1910-14	23

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Tax Policy

- Raised sin taxes on sake (250%) and tobacco (750%)
- Also raised taxes on non-land sources
- Deflation greatly increased revenues from the land tax
 - This benefited the government
 - In Meiji land was main source of income
 - Now main drain on government revenue

	80	82	83	85
Land tax/Ag Income	11.2	15.5	20	25.5

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The Result

- The good news:
 - Achieved main targets and stabilized the economy
 - Monetary Policy was key
 - Managed to pay off debt in ten years
- The bad news:
 - Massive dislocations
 - No. of Joint stock co's fell from 3336 in 82 to 1279 in 85
 - 10% of all peasant proprietors were dispossessed

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Aside: How Do Firms Raise Money?

- Borrow money from banks
 - Must pay interest on loans
- Sell bonds
 - Must pay a fixed yield (interest payment) on bonds
- Issue equity (i.e. Stocks)
 - Equity value is based on two factors
 - Stream of future dividend payments
 - Value of assets of firm after banks and bond holders are paid off
- Retained earnings (i.e. use profits to finance investment)

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Financial Policy Under Matsukata

- In 1882 eliminated ability of National Banks to issue currency and created the Bank of Japan
- Matsukata was a believer in bank finance not financial markets
 - Stock Market formed in 1878 without government initiative
 - No corporate bond market until 1905
 - Corporate bonds were unimportant until 1920
 - Believed strongly in Specialized Financial institutions
 - Central Bank would be government banker and control money supply
 - Commercial Banks financed industry
 - Savings banks took in deposits and lent to commercial banks
 - Special Banks for Agriculture, Foreign Trade, Industries, and Regions
- Rational behind system
 - Commercial Capital had high turnover, investment capital low turnover. So should have different types of banks dealing with SR projects and LR development
 - Difficult to distinguish in practice

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Specialized Institutions

- Postal Savings System
 - Established in 1875 for small savers
 - Served as depository institutions before these existed
 - Were an alternative to the government bond market
 - By 1890's half of all deposits were in PSS
- Special Banks
 - Idea was these were public service institutions
 - Industrial Bank of Japan, Hypothec Bank, Hokkaido Takushoku Bank
 - Stock held by private sector
 - Did not take deposits but raised capital through debentures (unsecured bonds) that they sold to the government
 - Gov't obtained the money from the Postal savings system
 - By 1914, 26% of all loans were from these institutions

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Important Rules That Promoted Banks

- No regulations on bank size in 19th century
 - Allowed easy entry
- 1895 eliminated restrictions on share of lending to any one firm
 - Allowed banks to lend heavily to particular firms
 - Fostered development of corporate groups
- No competition from corporate bond market until 1905

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Meiji Finance

- National banks
 - Could issue currency until 1882
 - Charters expired b/n 1896 and 1899 and converted into private banks
- Private banks (including specialized institutions except PSS)
 - Focused on lending
- Quasi-banks
 - Engaged in lending, trade, and production
 - Similar to trading companies
 - SR lending
 - In 1893 bank act forced to convert into private banks

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**Number, Total Paid-In Capital, and Average Capital of National Banks,
Private Banks, and Quasi-Banks in Japan, 1873-1899
(capital in thousand yen)**

Year	National Banks		Private Banks		Quasi-Banks	
	No.	Total Cap.	No.	Total Cap.	No.	Total Cap.
1873	1	2,441	0	0		
1874	4	3,432	0	0		
1875	4	3,450	0	0		
1876	5	2,350	1	2,000		
1877	26	22,986	1	2,000		
1878	95	33,596	1	2,000		
1879	151	40,616	10	3,290		
1880	151	43,041	39	6,280	120	1,211
1881	148	43,886	90	10,447	369	5,894
1882	143	44,206	176	17,152	438	7,958
1883	141	44,386	207	20,487	573	12,071
1884	140	44,536	214	19,421	741	15,142
1885	139	44,456	218	18,750	744	15,397
1886	136	44,416	220	17,959	748	15,391
1887	136	45,839	221	18,896	741	15,112
1888	135	46,878	195	15,790	711	14,408
1889	134	47,681	218	17,432	695	14,421
1890	134	48,645	217	18,976	702	14,512
1891	134	48,701	252	19,796	678	13,827
1892	133	48,326	270	22,856	680	13,944
1893	133	48,416	604	31,030	0	0
1894	133	48,816	700	37,411	0	0
1895	133	48,951	792	49,967	0	0
1896	121	44,762	1,005	88,970	0	0
1897	58	13,630	1,217	149,286	0	0
1898	4	390	1,444	189,440	0	0
1899	0	0	1,561	209,973	0	0

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Kogyo Iken

- Despite the demise of direct subsidies, in 1885 gov't issued a report called Kogyo Iken
 - Developed by Noshomusho, a forerunner of MITI and MAFF
 - First gov't economic plan in the history of the world
 - Gov't collected data from 35-40 sectors and wrote a report on status
 - Made projections on where those sectors should be 10 years from now
 - Picked out strategic sectors worthy of encouragement:
 - Silk, tea, rice, tobacco, rice seed oil, wax, lacquer, paper, metal, cotton spinning, sake, beer marine products
 - New sectors to move into
 - cotton weaving, flax spinning, Indigo, leather, ceramics, glass, Sulfuric acid, soda ash

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Kogyo Iken

- Strongly emphasized infrastructural investment:
 - Transportation: (railroads, roads, ports, harbors)
 - Advocated subsidies for ship building
- Report contained a keen sense that the government should not be directly involved
 - No Western government was doing anything like this
 - Indicative Planning
 - Forecast based on market forces and see how the government can facilitate trends
 - This formed basis of Japanese planning
 - Very different from Central Planning that arose in Soviet Union that picked outcomes.

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Summary: What Worked

- Public infrastructural investment
 - Road building, ports, railroads, telecommunication, etc.
- Land tax structure might have had some impact but probably not that much.
- Policies to subsidize information acquisition
 - Education, importation of technology, etc.
- Stability of government
 - Political Stability
 - Macroeconomic policy

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Summary: What didn't

- Not a strong case connecting government development and success of these firms
- Government did run some training programs, but often trained workers on the wrong machines.
- Nationalized industries: After privatization
 - 50% took 5 years to become viable
 - 30% took 15 years to become viable
 - 20% of these firms weren't viable until 20 years after privatization
- Government picking of sectors
 - about 70% of taxes came from agriculture
 - Gov't policy may have helped factors out of unproductive sectors decline
 - generally failed to create new sectors