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The Road to the Dollar Standard
Monetary Hegemony and Japan's Place in the International Order

This essay describes the evolution of Japan's modern currency standard, from its premodern origins, to the age of the classical gold standard, to the establishment of the classical dollar standard after World War II. Relatively little has been written in English describing this long-run evolution, and much of the existing work is relatively fragmentary; what follows is intended to provide a chronological framework and to provide some pointers to the literature on the subject.¹

Japan's monetary history can be schematized as a series of monetary regimes tied to particular currency standards. The story of these successive currency standards is a story about international hegemony and the monetary structures of the international system. Different currency standards also have radically different implications for domestic fiscal, monetary, and macro-economic management and for public and private capital formation. In international relations as domestically, the ability to create money is one of the fountainheads of political-economic power. As such, the transitions from a Chinese bronze-coin standard to a national tri-metallic standard, to a sterling-based gold standard, to a dollar-linked fiduciary standard not only reflect shifts

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in the international order; they also define and constitute those shifts. Through the greater part of this history, Japan has been a peripheral zone in a monetary system centered on an external hegemonic power, but such "peripheral" phases have alternated with phases of national monetary independence and, more recently, with national efforts at constituting Japanese currency as a hegemonic East Asian standard.

Much of what follows discusses the course of the yen-dollar exchange, and because of their convenience and ubiquity, I will frequently employ the Japanese terms endaka (appreciation of the yen) and enyasu (depreciation of the yen). Before getting to the yen itself, I begin with some prehistory.

**From the Chinese Bronze-Coin Standard to a Closed National Standard**

For the purposes of the present article, Japan's pre-modern monetary standards can be summed up briefly. The Japanese monetary system originated in medieval times as part of an East Asian monetary system centered on China, and Japan's first real currency standard was an imported one, a zeni or bronze "cash" standard of the classic Chinese type (Sino-Japanese sen, Chinese qian). Such coins had been cast in great quantity in China since the Han dynasty and had been exported in great quantity to countries that traded with China. Into the sixteenth century, the reach of the money economy remained limited in Japan, and imported Chinese coins were widely used for trade. Increasingly large amounts of Chinese-style zeni were minted in Japan, but Japanese coinage was generally considered to be of an inferior quality to the Chinese. Thus, Japan's early monetary system is best understood as forming a regional zone within an international bronze cash sphere centered on China and including Korea and much of Southeast Asia. Such a view is consistent with the broader view of Japan as part of a larger East Asian tributary-trade system centered on China. In Japan's case, this peripheral position did not imply political subordination, although membership in the Ming tributary trade system did involve a brief, nominal (and highly contro-
versial) acknowledgement of Chinese suzerainty in the early fifteenth century.

These monetary circumstances changed over the course of the sixteenth century with the opening of copper, silver, and gold mines in Japan, which coincided with rapid commercial development, the development of local military governments, and national re-unification. By the end of the century, there were diverse locally produced coinages in gold, silver, and copper. A great monetary change had also taken place in Ming China, whose monetary system came to be based on a new silver-by-weight standard. This silver standard also spread to Japan in the late sixteenth century.

Under the Tokugawa shogunate (1600–1867), the Japanese coinage was unified under a trimetallic standard. With minor exceptions, coinage became a shogunal monopoly, and by the 1630s, the Tokugawa “three-coinage system” (sanka seido) had been fully established. It consisted of the following three more or less independently functioning subsystems:

1. *zeni* (or *sen*) system: Chinese-style bronze coins (or “cash”);
2. silver-by-weight (*monme*) system: stamped silver bars and lumps; and
3. gold-by-tale (*ryō*) system: gold *koban* and fractional gold coins.

Each of these three coinages had its own system of denomination, and despite efforts by the shogunal government to fix exchange rates between the three currencies, they floated against each other in the markets.

Each of these three systems also presented a different picture in relationship to the larger East Asian monetary sphere. As the most common coins in daily use, Chinese-style *zeni* cash continued to form the mainstay of the currency. An often-copied Ming coin, the Eiraku (Yongle) *sen*, continued to serve as a unit of account into the Tokugawa era, but Chinese coins were replaced in circulation by large Tokugawa mintings after the 1630s. *Zeni* coins were so abundant that even after their minting was discontinued, they continued to circulate well into the Meiji period.

If one focuses on the silver-by-weight standard, whose circulation was centered in western Japan on the merchants’ capital of
Osaka, Tokugawa Japan appears more as a subzone of the East Asian silver-by-weight sphere. Historians have explained this usage by the location of silver mines in western Japan. It is also significant that western Japan is geographically closer to the continent and historically has been more oriented toward Asian trade.

The currency system most closely associated with the Tokugawa state itself was the new gold system, whose circulation centered in Eastern Japan on the shōgun’s capital in Edo. The Tokugawa gold currency was nationally distinctive and became more distinctive over time, taking on some of the key features of modern gold-standard systems.

In the conventional story of Tokugawa monetary history, a solid “hard money” standard was thus established in the early seventeenth century. It was maintained without significant alteration into the 1690s, when there began a series of debasements, interrupted by temporary efforts at monetary restoration; this process of currency debasement has been seen as an aspect of the slow decline of the Tokugawa order in general. Thus, for example, Finance Minister Matsukata Masayoshi, who experienced the collapse of the Tokugawa monetary system and who directed the construction of a Western-style monetary system, wrote in 1899:

The coinage system in vogue at the time of the Restoration (1868) was based on the system that was first established in the sixth year of Keichō (A.D. 1600), and since that time, for more than two hundred and sixty years, no change had ever been introduced into the system. Yet owing to growing financial distress, the Shogunate government frequently resorted to re-coining as its invariable relief measure, which in every case excepting the solitary case of [the Kyōhō era, 1716–36] brought out coins of lighter weight and poorer quality. The coinage system was thus, though nominally kept intact, practically destroyed in the end through successive debasement.

In fact, the evolution of the Japanese currency system in late Tokugawa times had some remarkably modern features that show significant parallels to the simultaneous evolution of the British currency system. As Japanese mines began to give out in the seventeenth century, scholars and government officials became concerned about the export of specie and adopted various measures to
restrict it; these culminated in the specie export ban of 1715. Over the course of the subsequent Kyōhō era (1716–36), Japan’s monetary system became largely sealed off from that of other countries.

National closure enabled some substantial new departures in monetary policy, the most significant of which was the creation in the 1770s of an overvalued (token) coinage in silver, which was denominated not in terms of the silver-by-weight (monme) system but in terms of the gold koban system. The creation of such a subsidiary coinage is the essence of a modern gold-standard system (and of modern coinage systems of all kinds). This innovation also meant substantial seignorage (deme) profits for the Tokugawa shogunate. By the end of the Tokugawa period, less and less silver was being minted as silver-by-weight coinage, and the greater part of silver was being minted in the form of these gold-denominated subsidiary coins.

National isolation can also be conceptualized as national “re-centering,” and this independent monetary departure paralleled Japan’s national policy of distancing itself from China’s hegemonic claims and constituting itself as Chūgoku (Zhongguo in Chinese), the “central country” of its own regional sphere. Thus, Japan came to have a highly distinctive, nationally independent, and partially fiduciary coinage system. The profits of operating this system provided a significant part of central government revenues. Japanese price movements and Japanese gold/silver ratios also became radically different from those in the outside world, and by the end of the period, as against the Western ratio of 1 : 15 or 1 : 16, the Japanese ratio was around 1 : 10, if reckoned by the exchange rate between gold koban and silver-by-weight. If the actual silver content of the subsidiary silver coinage were to be compared to its denominated gold value, the ratio would have been as low as 1 : 5.

This system was destroyed by Japan’s incorporation into the European-centered world economy after 1859. In 1858, the United States negotiated the first of a series of unequal treaties with Japan, imposing free trade and forcing the Tokugawa shogunate to allow the exchange of foreign silver coin on a weight-for-weight basis for the Japanese silver coinage, including the subsidiary gold-
denominated coinage. In 1859, Westerners rushed to buy the overvalued Japanese silver coinage, exchanged the token silver coins for gold coins, and exported the gold. This sudden gold rush caused the loss of a great part of national gold stocks and ultimately wrecked Japan’s national gold standard. The shogunal government responded by shrinking and debasing the gold coinage to make it conform to international gold/silver ratios. Thereby, they ended the fiduciary element of the national coinage system and returned it to a straight bullion-based system. The government’s responses to the crisis also greatly expanded the national money supply and opened a phase of rapid price inflation and monetary instability that continued through the 1860s and 1870s. Thus, the reopening to large-scale foreign trade meant a sudden transformation of the Japanese monetary system.

The International Silver-Dollar Standard

In 1871, when the new Meiji government created the yen, the international use of silver dollars provided the closest thing that had yet existed to an international currency standard. The German word taler, the Spanish peso or real, Arabic riyal, French piastre, and English dollar (or “pieces of eight,” “eight bits,” etc.), all referred to versions of this basic coin, whose zone of circulation included the Americas, much of continental Europe and the Middle East, and maritime Asia. It also seems that the Sino-Japanese word en (yen), meaning “circle,” referred originally to the Western silver dollar, the first circular silver coin to circulate widely in East Asia. Into the mid-nineteenth century, Britain was the only large country with a monometallic gold standard; otherwise, bimetallic standards or de facto silver standards were the rule.

Unlike the classical gold standard (which can also be considered a British sterling standard), and even more unlike the U.S. dollar standard after World War II, the international silver-dollar standard was not founded on the political-economic power of the main issuers of the currency, and no country could be said to have exercised international monetary hegemony. The international use of the Spanish dollar could be said to have originated in an age of
Spanish hegemony, but more than that, the Spanish dollar and the coins modeled on it owed their global circulation to the production of Central European and especially Spanish American silver mines and to the quality of Spanish and Austrian minting. That this was a relatively stateless trading standard can be seen from the fact that neither of the two most famous issuers of silver dollars for international use, Mexico and Austria, were great trading nations. Rather, their currencies were prominent because they were mining nations known for the reliability of their mints. The silver-dollar standard was essentially a bullion standard with no significant fiduciary element. In the trading world of maritime East Asia, silver dollars were assimilated to the silver-by-weight system, although they often traded at a premium over silver ingots and lumps because of their convenience. As with silver ingots, Chinese merchants certified silver dollars by stamping ("chop-marking") them with their seals. In Tokugawa-era Japan, foreign silver dollars did not circulate as such, and silver money was certified by the monopoly silver mint (Ginza), operating under central government authority.

When Japan entered the Western-centered world economy in the 1860s and early 1870s, a number of Western countries were experiencing episodes of war, inconvertibility, and paper-money inflation. The most severe crisis was experienced by the United States, but it was France's brief but intense war with Prussia that had the most decisive effect on the structure of the international monetary order after 1871. The temporary inconvertibility of the franc that resulted from the war, together with the events of the Paris Commune, caused capital and financial business to flee from Paris to London. The effect was to make London the undisputed center of international finance for the next twenty years. At the same time, Germany took an immense FF5 billion indemnity from France and used the funds to move to a British-style gold standard. The sale of German silver stocks came at a time when world silver production was greatly increasing, and the subsequent rapid decline in the price of silver helped force France, the United States, and other countries partially to demonetize silver and move to a monometallic gold standard.
Japan reformed its currency system along European lines precisely at this moment of international monetary regime shift. At the beginning, the yen took two forms. Beginning in December 1870, using modern machines purchased from the Hong Kong mint, the new Meiji government minted full-weight silver one-yen coins for trade purposes. This “trade yen” (bōeki ichien ginka) was Japan’s first Western-style coin. The new government had originally thought to establish the yen on a silver standard, but, at the urging of Itō Hirobumi, who was visiting the United States in December 1870, the yen was instead established officially on a gold-standard basis, in the New Currency Act of May 1871. The gold yen was given the value of 1.5 grams of pure gold, which is to say that it was virtually identical to the U.S. dollar. More accurately, one could say that both the Japanese yen and the U.S. dollar were based upon the Mexican silver dollar, the standard trade dollar of the day.

Had Itō’s plan succeeded, Japan would have been one of the first countries to join the gold-standard system. It had been hoped that the use of the silver yen would stem the outflow of the gold yen. The opposite happened, however, as the new gold coins flowed out and the silver yen coins began to circulate domestically. Japan’s first gold standard thus proved to be abortive. By 1878, the silver yen was recognized as legal tender in Japan, which had in effect become a silver-standard country. After a phase of paper-money inflation intensified by the Southwest War (or Satsuma Rebellion) of 1877, the Japanese currency was fully stabilized on a silver basis under the authority of Matsukata Masayoshi, who became minister of finance in late 1881. Matsukata initiated a deflationary stabilization program, established the Bank of Japan, and withdrew the existing paper money from circulation. In 1885, the Bank of Japan began to issue notes backed by silver.

As the Meiji government was stabilizing its new Western-style currency system on a silver basis, Germany’s adoption of the gold standard initiated a general Western movement from a mainly silver-based to a gold-based system. In its origins, the mono-metallic gold standard was essentially an English institution. A de facto gold standard had developed in England over the course of the
eighteenth century, as silver fled from circulation and gold flowed in. The convertibility of Bank of England notes into gold was sus-
pended during the wars of the French Revolution and was restored
by Parliament at the old prewar par in 1816, marking the de jure
establishment of the first full gold standard. In the 1870s, Ger-
many, France, the United States, and other Western countries joined
the gold standard, and by the 1890s, gold monometallism had be-
come general in the core industrial countries. The silver standard
came to be viewed as the monetary standard appropriate to pe-
ripheral, less-developed countries.

In the gold bloc, the years of silver depreciation (or gold appre-
ciation) from 1873 to 1896 were a long phase of price deflation
and recurring depression that was once known as "the Great De-
pression." By the same token, silver-standard Japan experienced
currency depreciation and mild inflation, a combination that pro-
vided de facto subsidies to Japanese exporters and protection for
Japan's import-competitive industries. Thus, Japan's silver-stand-
dard era was a long-run phase of kindaka, ginyasu, of gold appre-
ciation and silver depreciation (see Table 1 and Figure 1). The age
of the silver standard was also one of modest trade surpluses. But
as Japanese trade became oriented increasingly to the gold bloc,
unstable exchange rates between the silver yen and the Western
gold currencies became more and more inconvenient. For the gov-
ernment especially, the sharp fall of silver prices in the 1890s pre-
sented a serious fiscal problem, because it greatly boosted the price
of big-ticket items such as warships and machinery needed for
military-industrialization projects.

Silver prices were driven down further in the mid-1890s, when
India and Austria-Hungary adopted the gold standard. In practice,
these were gold-exchange standards, and in practice Japan too
adopted this form of the gold standard after 1897. The Indian cur-
cency reform was also the first of a series of monetary reforms
undertaken by the imperial powers wherein colonial silver stan-
dards were converted into gold-exchange standards, with the met-
ropolitan currency (sterling or dollars) counted as substitute gold
and used as backing for a token silver currency denominated in
terms of gold. With the enactment of such reforms in the Straits
Table 1

**Yen-Dollar Rates on New York, 1874–97 (Highest and Lowest Rates Per Year, Given in Yen Per $100), Compared with London Gold/Silver Ratios**

<table>
<thead>
<tr>
<th>Year</th>
<th>Highest</th>
<th>Lowest</th>
<th>Gold/Silver Ratio</th>
</tr>
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<tbody>
<tr>
<td>1874</td>
<td>103</td>
<td>100</td>
<td>16.16</td>
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<td>18.39</td>
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<tr>
<td>1883</td>
<td>91.5</td>
<td>87.75</td>
<td>18.64</td>
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<tr>
<td>1884</td>
<td>90.75</td>
<td>86.25</td>
<td>18.61</td>
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<tr>
<td>1885</td>
<td>87</td>
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<td>1887</td>
<td>80.25</td>
<td>73</td>
<td>21.10</td>
</tr>
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<td>76.25</td>
<td>72.5</td>
<td>22.00</td>
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<td>1889</td>
<td>78.75</td>
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</tr>
<tr>
<td>1897</td>
<td>51.5</td>
<td>48.125</td>
<td>34.20</td>
</tr>
</tbody>
</table>

*Source: Nihon ginkō tōkeikyoku, Honpō shūyō tōkei, 318–20; Ministry of Finance figures, given in Hamashita, “Japanese Silver Yen.”*

Settlements and in American colonies or semicolonies such as the Philippines and Panama, such arrangements became the new standard in the Asian-Pacific silver-dollar zone, and by the 1910s, China was almost alone in retaining a straight silver standard.

In 1893, spurred by India’s action, Finance Minister Matsukata Masayoshi convened a commission of experts to consider the question of a proper currency standard for Japan. After three years of
deliberation they remained divided. In the meantime, Japan had extracted a great indemnity from China as a result of the Sino-Japanese War, and Matsukata seized the opportunity to push through a gold standard, using the indemnity funds as the Bank of Japan’s (BOJs) reserve for convertibility. 18

Figure 1 shows a graph of the long-run yen-dollar rate. Two different scales are used for the pre–World War II and post–World War II yen, which was worth only one one-hundredth of the prewar yen. The phases delineated here can be summarized as follows. The yen began life in 1871 equal to one U.S. dollar. By 1896, the Japanese yen (that is, the Japanese silver dollar), like the Mexican silver dollar, had lost half of its value against gold (that is, against the British pound, the U.S. dollar, the French franc, and so on), and thus it was fixed in 1897 at very nearly US$0.50. The first striking feature of this history is therefore the great depreciation of the yen from 1873 to 1896. The yen more or less held this new level against the dollar through the 1920s. In the 1930s, it depreciated to about $0.25. After the Pacific War, the yen was fixed, under American orders, at about one-third of a U.S. cent. Thus, the first phase of the yen’s history was a long-run enyasu phase that extended from 1871 to 1949 and was interrupted by the plateau of 1897–1931. The post–World War II era began with another fixed-rate plateau, which gave way after 1971 to a long-run endaku phase, during which the yen has risen to nearly one U.S. cent.

Another striking macro-level feature of the history of the yen-dollar rate to date is the alternation of floating and fixed exchange-rate regimes (also summarized in Table 4). 19 The first of these fixed-rate regimes was the “classical” gold standard.

The Gold-Sterling Standard

In 1897, Japan adopted the gold standard, a few months after its imperial competitor Russia did the same thing. From this point to 1914, virtually the entire industrialized world and much of the periphery was on the gold standard, opening the final and most universal phase of the classical gold standard.

In forcing through the adoption of the gold standard, Finance
Figure 1
The Rise and Fall of the Yen: Dollar/Yen Exchange Rates, 1874–1995 (Two Scales)

Source: Nihon ginkō tōkeikyoku, Honpō shūyō tōkei, 318–20; Keizai Kikakuchō, Keizai hakusho: Appendix. Average exchange rates per year are shown.

Note: Eras of fixed and floating exchange-rate regimes are delineated.
Minister Matsukata had traded the advantages of a depreciating currency for those of a fixed one (i.e., relative to the gold bloc). Even more to the point, he had given Japan a "first-class" monetary system. This offered the intangible but potent advantage of providing the Japanese Empire with one of the prime symbols of first-class nationhood. More tangibly, it helped open the London money markets to Japanese government bond issues. Adoption of the gold standard can thus be thought of as the financial counterpart of the Anglo-Japanese alliance (1902–1922), and it initiated a phase of very active Japanese government borrowing in London. Overseas bond issues by municipal governments and corporations followed, as did issues in Paris, New York, and Berlin. Foreign borrowing provided the financial resources used to win the hugely expensive war with Russia in 1904–5 and to build a continental empire thereafter.20

The Coinage Law of 1897 fixed the yen to 0.75 grams of gold—exactly one-half of the 1871 level. By extension, it fixed the yen to the British pound, the U.S. dollar, the French franc, the German mark, and so on. In this view, the gold standard appears as a "horizontal alliance" of national currencies (in Benjamin Cohen's terms) or as an exchange-rate union.21 But in fact, there were strong elements of vertical hierarchy, and it might better be thought that the yen (like the U.S. dollar) was linked to the central pivot of the system, the British pound. The classical gold standard of the pre-World War I era has also been called a sterling standard, and most international trade of the era was settled not by gold shipments or transfers but by banking transactions in sterling bills, conducted in the world's central marketplace, London.

In Japan's case, the vertical aspect of the relationship was stronger, and the sense in which the gold standard was a sterling standard was even closer than this, because Japan, like India, actually operated not an orthodox gold standard but a sterling-based gold-exchange standard.22 That is, although it had not been provided for in the 1897 Coinage Law, foreign-exchange reserves, largely of sterling-denominated assets, began to be counted as part of the Bank of Japan's reserve for currency convertibility. A large part of these reserves was held abroad, mostly in London, and much of
this in the Bank of England itself. These sterling funds themselves were mostly the proceeds of Japanese loans taken out in London; the deposit of a large part of these funds in London financial institutions was often an informal condition of the loans. In fact, in much the same way that Japan’s large U.S. dollar balances of recent years have supported the position of the U.S. dollar, so in the years before World War I, Japan’s large sterling balances provided an important support for the global centrality of sterling and the London money markets. British financial, diplomatic, and indirect military backing helped Japan to establish itself as a major regional power, and Japan in turn provided important support for British imperial and financial hegemony, even as Japanese export industry began to challenge British industry in overseas markets.

In short, the gold standard enabled Japan’s overseas borrowing, and foreign borrowing provided the gold funds needed to back the Bank of Japan’s note issue. It thus came to seem that Japan was borrowing in order to maintain its gold standard, or alternatively, borrowing to maintain an increasingly overvalued yen. From the time of the Sino-Japanese War in 1894–95, Japan began to run large trade deficits, for which expensive wars and military industrialization were largely responsible. Foreign borrowing covered the trade gap, but as Japan’s external debt swelled, overseas borrowing became difficult.

Thus, while the gold standard served as a foundation for Japanese expansion, the demands of maintaining the yen’s gold convertibility put increasing constrictive pressure on Japan’s domestic monetary supply. The tight linkage of “external” and “internal” money was of the essence under the gold standard: If gold (or gold-linked foreign exchange) flowed out in order to settle a balance of payments deficit, the domestic money supply had to contract. It therefore appeared that the 1897 par could be sustained only at the price of severe domestic deflation and depression.

World War I and the attendant export boom rescued Japan from this dilemma. It also brought the classical gold standard to an end and marked the beginning of a shift in the center of the world monetary order—from Britain to the United States. Under the pressures of war finance, Britain informally embargoed the export of
gold, and Japan's London reserves were effectively rendered inconvertible. New York remained open as an international gold market, and for the first time, Japanese trade accounts, previously settled mainly in London, began to be settled in New York. Led by the new Federal Reserve Bank of New York directed by Benjamin Strong, New York bankers also moved to occupy the central international place formerly held by London. This was the most significant shift in the center of international financial power since the 1870s, when London had become the first truly global financial center. It was also an incomplete shift, as New York was not yet able fully to assume London's place.

World War I was also a very active time for Japan's "yen diplomacy," as financial leaders in Tokyo worked to constitute Japan as the center of an East Asian yen sphere. The effort had begun with the establishment of yen-based currency systems in Korea, Taiwan, and in the Japanese-dominated areas of South Manchuria. During World War I, Japanese officials attempted to extend this sphere into China by lending to the Chinese government; this was connected to an unsuccessful effort to arrange a Japanese-directed reform of the Chinese monetary system. The project to increase the international usage of the Japanese yen and to turn Japan into a central financial market in East Asia met with small success, in part because of U.S. resistance. These initiatives were largely forgotten in the 1920s, as Japan's new financial margin vanished.

The basis of these American and Japanese financial initiatives was the fact that both countries had run up great trade surpluses during the war, which were settled by great inflows of gold (see Table 3) and by the piling up of great debts on the part of the European allies. After the United States entered the war in April 1917, the U.S. government became concerned about the outflow of gold, and in September 1917, by presidential order, the United States embargoed gold exports. Japan, which had been receiving gold from the United States and sending gold to India and China, followed suit almost immediately, by means of a Ministry of Finance order that prevented the export of gold without ministry permission. Effectively, this wartime measure suspended the gold standard, ending the brief "classical" phase of Japan's gold-ster-
ling standard. Conceived of as a purely temporary measure, this suspension lasted twelve years, and the effort to return to the gold standard turned into a national ordeal.

The Interwar Gold Standard as a U.S. Dollar Standard

The issue of restoring the prewar gold standard dominated the monetary politics of the 1920s. The first decade after World War I was characterized by Anglo-American monetary cooperation, most fully exemplified in the seemingly successful international campaign to revive the gold standard. This campaign came increasingly to impinge upon Japan. This reconstituted international monetary order broke down between 1929 and 1931, and there followed a decade of go-it-alone nationalist policies and international monetary anarchy.

As a result of the war, the United States became the world's great creditor power. The previous creditor power, Britain, remained a creditor relative to other countries but was in debt to the United States, and immediately after the war was able to lend in a limited way only, to the countries most directly in its imperial orbit. American bankers stepped in to fill the void. The United States was the first country to restore gold convertibility after the war, in June 1919. No other large country followed suit immediately. With its large wartime credit balances, Japan was one of the few that could have done so, but the Seiyūkai cabinet of the time, with Takahashi Korekiyo as finance minister, preferred to maintain Japan's new gold hoard intact, especially in light of the unsettled global situation. None of the European combatant countries were financially able to return immediately to gold convertibility. The interwar gold standard thus originated as a U.S. dollar-based system.

These circumstances were connected to a postwar "dollar gap" (or gold gap), to borrow the post–World War II term. That is, the United States exported a great amount of both agricultural and industrial goods, but imported much less, making it difficult for foreigners to pay for American goods. These large U.S. trade surpluses unbalanced the world economy, but the gap was closed for a time by U.S. dollar outflows in the form of loans. American
loans began to flow to other countries in great volume after 1924, and Japan was one of the larger recipients. Thus, as a central capital market, New York also began to assume the place held by London before the war. Japan’s foreign debt, now mostly owed to the United States, rose to a pre–World War II high in 1931.

In his explanation of the great depression of the 1930s, Charles Kindleberger has emphasized the incompleteness of the shift from British to American financial hegemony as a primary cause of the severity of the world economic crisis. If this was an American failure, it may best be described as the “failure” of U.S. politics to follow the lead of U.S. finance, for Wall Street was extremely active internationally during the 1920s. both in arranging the export of American capital abroad and in efforts to get other countries back onto the gold standard. That is, as America became the greatest creditor power, it also became the greatest advocate and defender of the liberal, creditor-oriented—and deflationary—financial orthodoxies of sound money and the gold standard, formerly associated most closely with Britain.

America’s new financial and political power also helped bring an end to the Anglo-Japanese alliance, as, under pressure from the United States, the British government chose to replace the alliance with the looser “Washington system” of multilateral treaties negotiated in 1921–22. Thus, in its relationship to the international order more broadly, the restored international gold standard of the 1920s presented a very different picture from that of the pre–World War I era.

It was also in 1922 that the British government presented at the Genoa conference a plan for the creation of an international gold-exchange standard. Partially modeled on the system Britain had introduced in India in the 1890s, this plan envisioned that national currencies would be pegged to gold but that only a few countries (minimally including Britain, the United States, and France) would hold the actual gold reserves and function as “gold-center countries.” Other countries would hold reserves of the convertible national currencies of those gold-center countries as substitute gold.

In practice, the British government relied on American financial help to restore its own gold standard in 1925. As in other coun-
tries, these efforts were supported by New York finance, preeminently by J.P. Morgan and Co. and by the Federal Reserve Bank of New York. For their part, London bankers rushed to return their country to the gold standard, because they feared the prospect of their own position being assumed permanently by Wall Street. The lifting of the British gold embargo at the old pre-war par value also meant a substantial appreciation of the pound, which priced British goods out of many export markets. Thus the competitiveness of British industry was sacrificed to the effort to restore the financial preeminence of the city of London, and a strong currency was purchased at the price of fiscal austerity, deflation, and industrial recession and unemployment. Despite the costs, the British action was widely hailed as a restoration of antebellum "normalcy," and other countries hastened to restore their own currencies to the gold standard. Japan too became subject to pressure from its creditors to restore the yen to gold convertibility.32

These internationalized gold-based currency stabilization policies helped make the 1920s a decade of chronic recession in Japan and around the world. Agriculture in the United States was also depressed for most of the decade, but other sectors of the U.S. economy, especially automobiles and new electrical goods, experienced an extraordinary boom. Outside the United States, it was largely the case that economic sectors and regions boomed to the extent that they were able to benefit from American technologies and American capital. In retrospect, this American boom was also an American bubble. Globally, there developed a contradiction between the great expansion of the means of production and the gold-standard restraints on the "means of consumption," or money.33

For Japan, these contradictions became manifest from the beginning of the decade. The American lifting of the gold embargo in 1919 led to the renewed inflow of gold from the United States and helped fuel a sudden postwar boom in Japan. In the spring of 1920, this boom ended in a sudden collapse of the speculative commodities and equities markets, followed by twelve years of deflation. The issue of restoring the gold standard became enmeshed in domestic politics, which also presented the picture of an unsettled balance. On the one hand, an internationalist, pro-retrenchment
policy line was espoused by the Kenseikai and Minseitō parties; these policies became tied to the goal of restoring the gold standard at the old prewar par. On the other was the more nationalist and economically expansionist "positive policy" espoused by the Seiyūkai, who tended to favor holding off on restoring the gold standard. After December 1931, this "positive policy" became associated with the creation of an outright fiduciary standard.

The interval between British and American hegemony thus appears as an interim phase in Japan's monetary arrangements as well. The era of suspension of the gold standard was also an era of floating exchange rates (see Table 2). It could even be seen as an era of managed currency, but management of the yen in the 1920s was largely an effort to approximate the workings of the gold standard in preparation for the return to gold. Until 1923, the continued inflow of gold to settle the wartime surplus kept the yen close to par, even though Japan's trade had reverted to deficit in late 1919. Thus, Japan's large accumulated surplus delayed adjustment. After the 1923 earthquake, this high yen rate was no longer sustainable, and there was a sharp fall of the exchange in 1924. As the yen depreciated, Japanese trade improved, but in 1925–27 successive efforts to raise the yen rate in preparation for a return to the gold standard led to renewed recession in the export trades. Thus, as in England during the same years, an overvalued currency damaged export competitiveness. In late 1929, based on expectations of an imminent return to the gold standard at the old par, speculation finally bid the yen back up to its old par value of $0.4985.

This phase of suspension ended with the "lifting of the gold embargo" (kin kaikin) by Prime Minister Hamaguchi Osachi and Finance Minister Inoue Junnosuke in January 1930. In effect, the Japanese yen was now placed on a gold dollar standard. Japan's restoration of the gold standard at the old par was supported directly by Wall Street's Morgan and Company and their London allies and supported indirectly by the Federal Reserve Bank of New York and the Bank of England. The gold restoration policy was linked to the pro-Western diplomacy of Shidehara Kijūro, and in retrospect, it represented the failed culmination of Japan's Western-style liberalism of the 1920s.
### Table 2

**Yen-Dollar Rates on New York, 1917–1940 (Highest and Lowest Rates Per Year, Given in Yen Per $100)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Highest</th>
<th>Lowest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1917</td>
<td>50.875</td>
<td>50.375</td>
</tr>
<tr>
<td>1918</td>
<td>52.125</td>
<td>50.875</td>
</tr>
<tr>
<td>1919</td>
<td>51.875</td>
<td>49.875</td>
</tr>
<tr>
<td>1920</td>
<td>50.625</td>
<td>47.75</td>
</tr>
<tr>
<td>1921</td>
<td>48.25</td>
<td>47.875</td>
</tr>
<tr>
<td>1922</td>
<td>48.5</td>
<td>47.5</td>
</tr>
<tr>
<td>1923</td>
<td>49</td>
<td>48.5</td>
</tr>
<tr>
<td>1924</td>
<td>48.25</td>
<td>38.5</td>
</tr>
<tr>
<td>1925</td>
<td>43.5</td>
<td>38.5</td>
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<tr>
<td>1926</td>
<td>48.75</td>
<td>43.5</td>
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<tr>
<td>1927</td>
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<td>45.625</td>
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<td>48</td>
<td>44.75</td>
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<td>1929</td>
<td>49</td>
<td>43.75</td>
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<tr>
<td>1930</td>
<td>49.375</td>
<td>49</td>
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<tr>
<td>1931</td>
<td>49.375</td>
<td>34.5</td>
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<tr>
<td>1932</td>
<td>37.25</td>
<td>19.75</td>
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<tr>
<td>1933</td>
<td>31.25</td>
<td>20.25</td>
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<td>1937</td>
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<td>29.25</td>
<td>27.00</td>
</tr>
<tr>
<td>1939</td>
<td>27.375</td>
<td>23.3125</td>
</tr>
<tr>
<td>1940</td>
<td>23.437</td>
<td>23.437</td>
</tr>
</tbody>
</table>


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**From the Gold Standard to the Yen Bloc**

As with the other so-called stabilization programs of the 1920s, the restoration of the gold standard in Japan was something like a modern International Monetary Fund (IMF) currency stabilization program, featuring sharp budget cuts and monetary restriction. (Privatization of state-owned enterprises was a feature of some of the European stabilization programs, but not of the Japanese.) Most of these programs amounted to consciously induced
economic depressions (and were criticized as such in Keynes's famous polemic against the British government's return to the gold standard). In Japan's case, this character was especially clear. The program began with emergency spending cuts and a vigorous propaganda campaign to curtail national consumption; proponents understood that their policy would bring on a "stabilization" depression.

The timing of Japan's stabilization depression was also especially bad. European currency stabilization operations had proceeded through the 1920s; by 1928, Japan was the last major country that had not returned to the gold standard. With the decision of the Minseitō party cabinet to return to the gold standard in January 1930, Japan thus simultaneously experienced the last of the national "stabilization" crises of the 1920s and the onset of the world depression. As can be seen in Table 3, the lifting of the gold embargo was followed by a massive outflow of gold, as the speculators who had helped bid up the yen in late 1929 now took their profits. In effect, the gold outflows of 1930 and 1931 reversed the inflows that accompanied the World War I boom. Deflation and depression followed, accompanied by a surge of the ultranationalist and militarist movements.

After two years of severe worldwide deflation and depression, the international gold standard began to collapse in the summer of 1931, as a run on the German mark led to a run on the British pound, forcing the British government to re-embargo gold exports on September 21, 1931. Inoue Junnosuke, the finance minister responsible for Japan's return to the gold standard, initially attempted to discount the significance of Britain's abandonment of the originally British gold standard, saying that the dollar was now the more important currency. To others, it was clear that the yen could not be maintained at its present gold par (= dollar peg), and "dollar buying" speculation against the yen began.

Of the massive gold outflows of 1931, more than 80 percent came in the three months after Britain abandoned the gold standard. Thus, gold rushed out of Japan. and as was widely foreseen, the Japanese government was forced to re-embargo gold exports in December 1931 and let the yen float. The yen promptly dropped
Table 3

Yearly Inflows and Outflows of Gold, 1915–1933, in Millions of Yen

<table>
<thead>
<tr>
<th>Year</th>
<th>Gold imports</th>
<th>Gold exports</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1915</td>
<td>37.9</td>
<td>40.7</td>
<td>−2.8</td>
</tr>
<tr>
<td>1916</td>
<td>117.1</td>
<td>22.7</td>
<td>94.4</td>
</tr>
<tr>
<td>1917</td>
<td>398.3</td>
<td>151.1</td>
<td>247.2</td>
</tr>
<tr>
<td>1918</td>
<td>7.6</td>
<td>1.4</td>
<td>6.2</td>
</tr>
<tr>
<td>1919</td>
<td>330.5</td>
<td>2.7</td>
<td>327.7</td>
</tr>
<tr>
<td>1920</td>
<td>416.6</td>
<td>1.1</td>
<td>415.5</td>
</tr>
<tr>
<td>1921</td>
<td>138.2</td>
<td>0.1</td>
<td>138.1</td>
</tr>
<tr>
<td>1922</td>
<td>5.6</td>
<td>0.0*</td>
<td>5.5</td>
</tr>
<tr>
<td>1923</td>
<td>6.1</td>
<td>0.3</td>
<td>5.8</td>
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<td>1924</td>
<td>4.3</td>
<td>0.9</td>
<td>3.4</td>
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<td>1925</td>
<td>3.6</td>
<td>22.3</td>
<td>−18.6</td>
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<td>1926</td>
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<td>32.2</td>
<td>−26.2</td>
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<td>1927</td>
<td>4.6</td>
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<td>−31.7</td>
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<td>1928</td>
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<td>3.4</td>
</tr>
<tr>
<td>1929</td>
<td>6.3</td>
<td>0.1</td>
<td>6.2</td>
</tr>
<tr>
<td>1930</td>
<td>35.8</td>
<td>308.7</td>
<td>−272.9</td>
</tr>
<tr>
<td>1931</td>
<td>48.4</td>
<td>419.9</td>
<td>−371.4</td>
</tr>
<tr>
<td>1932</td>
<td>28.1</td>
<td>122.5</td>
<td>−94.4</td>
</tr>
<tr>
<td>1933</td>
<td>24.0</td>
<td>24.5</td>
<td>−0.5</td>
</tr>
</tbody>
</table>


*Notes:* Negative numbers indicate a net outflow; * = ¥47,000

against the dollar. By January, it had fallen some 27 percent, and by the end of 1932 it was down nearly 60 percent, to a level of US$0.20. The United States itself stayed on the gold standard until April 1933, when as one of its first acts the new Roosevelt administration embargoed gold exports. The dollar then depreciated also, and the yen rose to the level of $0.28–$0.29, where it remained to the end of the decade. When France finally abandoned the gold standard in 1936, the era was over.

Japan's re-embargo of gold exports, done under the authority of Finance Minister Takahashi Korekiyo, opened a new era of managed currency for Japan.\(^{37}\) The new policy was antithetical to the old high-yen policy of the 1920s and opened an age of currency depreciation and monetary expansion. In 1932, the BOJ began to
take up the government's deficit bonds, and the government also adopted foreign exchange and capital controls, which were progressively tightened and made more comprehensive over the course of the next decade. Thus Japan, like other countries, adopted its own national, purely fiduciary monetary standard. However, the unpredictability of floating exchange rates was also unwelcome, and from 1933 to the beginning of 1940, the yen was repegged to sterling, now also on a paper-money standard. This did not imply a return to Japan's previous satellite relationship to British finance, and may better be seen as one of a broad array of governmental financial and economic controls. Foreign capital no longer flowed to Japan after 1931, and the era has been seen as one in which the shift from "financially subordinate" to "independent" imperialism was completed.  

In the areas formally colonized by Japan, and to a degree in South Manchuria, a kind of yen standard already existed. In the 1930s, this yen standard was progressively extended into the territories conquered and dominated by Japan. But the paper yen was good only within the new yen bloc, and foreign exchange (gold) was still needed to settle Japan's trade externally. After 1937, the economic costs of the invasion of China created new pressures on the national balance of payments, and there were even renewed efforts at borrowing from the United States. With the beginning of the Pacific War and the rapid extension of yen-linked currencies into newly conquered areas, the projected yen bloc began to dissolve into a series of hyperinflations.

Until 1942, the gold standard was technically only in suspension, as it had been in the 1920s, and BOJ notes still bore a legend declaring that they were convertible into gold. The new BOJ law of 1942 ended the distinction between the specie reserve and the fiduciary reserve, and represented the completion of a purely statist monetary standard. Under the pressures of war finance, the yen itself depreciated greatly in value, coming to be physically embodied in lightweight aluminum coins of the type now familiar. At the time of the surrender, plans were even underfoot for the minting of ceramic yen tokens. Essentially, this was a paper standard, wholly divorced from the bullionist ideas of the past.
The Yen on the Postwar Dollar Standard

In several ways, the relinking of the yen to the U.S. dollar in 1949–53 can be viewed as a kind of return: Japan had first become a "semi-core" member of the Western state system under British sponsorship in the early twentieth century, subsequently rebelled against that system in the 1930s and 1940s, and was now reintegrated into it under American sponsorship. U.S. political-economic hegemony in the capitalist world was now definitely established, to a degree that British hegemony never had been. As in the age of the classical gold standard, Japan's new fixed-rate monetary arrangements under the U.S. dollar standard were associated with a new political alliance, formalized in the U.S.-Japan Security Treaty of 1952. This new fixed-rate era likewise coincides with a new period of international institutional stability and of global economic upswing.

During the postwar occupation, inflation verged into hyperinflation in Japan. On the supply side, price increases were driven by severe shortages and on the demand side by a great increase in the Bank of Japan's note issue, primarily to support government deficits and large industrial subsidies. Japan's overseas trade was radically constricted and tightly managed by the U.S. Occupation authorities, and a complex system of multiple exchange rates—of various, administratively determined rates for different kinds of imports and exports—evolved in a haphazard and often arbitrary way. Externally, the U.S. dollar functioned as the sole foreign-exchange currency, even for trade with the sterling bloc, British complaints notwithstanding.

In the meantime, a new international monetary system was taking shape. Wartime U.S.-British negotiations culminated in the Bretton Woods Agreement of 1944 and the inauguration of the IMF. On paper, the projected international monetary system owed much to Keynes's idea of creating a kind of international reserve money, a "credit-gold" conception which he dubbed "bancor" and which was later instituted in the IMF as "special drawing rights" (SDRs). In practice, the new Bretton Woods system was based on the U.S. dollar, with gold playing the role of "meta-reserves."
There was no free market in gold, and the U.S. dollar alone was convertible into gold, and only at the request of foreign monetary authorities.

Because of this latter provision, the new system was referred to, like the pre-war system, as a gold-exchange standard. It is better described as a U.S. dollar standard. Although the classical gold standard had historically been linked to the pound sterling, and the restored gold standard of the 1920s to the U.S. dollar, gold itself had no nationality, and in the cases of core countries such as France or Germany, adherence to the classical gold standard had implied no monetary subordination to Britain. (Indeed, Paris frequently served as “lender of last resort” to London.) Under the classical dollar standard that lasted until August 1971, the U.S. dollar was formally linked to gold. Foreign governments could theoretically redeem their dollars for gold, but if they actually attempted to do so on too great a scale, the system would break down, and in practice it was something virtually unprecedented: an international paper-money standard supported by a single hegemonic power. The United States was uniquely responsible for this system, and uniquely able to take advantage of it and force the burden of adjustment onto others.

For Japan, a return to something like monetary orthodoxy can conveniently be dated from a U.S. Federal Reserve mission to Japan in the spring of 1948, which recommended the abolition of the multiple exchange-rate system and the establishment of a single exchange rate in the neighborhood of ¥300 per U.S. dollar. By the end of 1948, U.S. plans for an anti-inflationary stabilization program were shaping up, and in early 1949, these plans were implemented. The task was undertaken by Joseph M. Dodge, president of the Detroit Bank and chairman of the American Bankers Association, who was appointed by presidential order as financial advisor to General MacArthur and given sole authority to implement a classic currency stabilization program. The cost of currency stabilization was what Dodge called a “stabilization panic,” with substantial similarities to the crisis induced by Inoue Junnosuke’s return to the gold standard in 1929. One great difference was that in 1929, Japan already had an internally stable currency, and prices were
already falling. In 1949, inflation needed to be stopped. It may be questioned whether this generalized shock treatment was the best method, but beyond a doubt it was effective in stopping inflation.

The return of national independence in 1952 brought a formal military alliance with the United States, establishing what has often been described as a kind of U.S. military protectorate over Japan. Independence also brought a fixing of the yen to gold, at the rate of \( ¥1 = 2.46853 \) milligrams of pure gold, formally announced to the IMF in 1953. In fact, this was a linkage to the U.S. dollar, as this was the amount of gold that made 360 Japanese yen exactly equal to one U.S. dollar, the rate determined by the U.S. Occupation authorities in April 1949. Only the U.S. dollar was convertible into gold and only on a highly restricted basis; the Japanese yen was convertible into U.S. dollars, but only with Japanese government permission. Thus, although diplomatically and militarily subordinate, the Japanese government retained a high degree of monetary and financial autonomy. A great difference between Japan under the classical gold standard and Japan under the classical dollar standard is the fact that internal money and credit had been substantially delinked from external money (i.e., foreign-exchange or dollar reserves), despite Joseph Dodge’s efforts to link them more closely.

The context of Japan’s ongoing exchange controls was the post-war dollar gap, and into the 1960s, Japan experienced a tight balance-of-payments constraint not unlike that under the pre–World War I gold standard. Accordingly, Japan in the 1950s and early 1960s experienced a foreign-exchange delimited “stop-and-go” business cycle similar to that experienced by Britain during the same years, although Japan’s booms were much greater and its recessions more shallow. After 1966, Japanese export surpluses began to grow.

When the classical dollar standard broke down in 1971–73, the proximate cause was a large U.S. trade deficit, the other side of which was a fast-growing Japanese trade surplus. In fact, unintended pressure from Japan helped bring down this system. The other major surplus country, Germany, did revalue its currency in 1969, but the Japanese Ministry of Finance refused to follow suit. The result was to provoke the “Nixon shock” of August 15, 1971,
when, in a move that echoed Britain's abandonment of the gold standard forty years earlier, the U.S. government unilaterally ended the dollar's gold convertibility. There followed a substantial devaluation of the dollar, a revaluation of the yen, and finally the shift to a new floating-rate regime in 1973. This opened a new era of international economic uncertainty and destabilizing "hot money" flows. It also began a long run phase of endaka, doruyasu, yen appreciation and dollar depreciation.

Table 4 summarizes the stages in the development of Japan's modern monetary standard.

The alternation of fixed-rate and floating-rate regimes thus appears as a structuring feature of Japan's modern monetary experience.

The present era of floating rates was the era in which "Japan money" rose to global prominence. This era has been the subject of several excellent analytical accounts, and to attempt a historical synthesis of this work must form the subject of another article.\(^{43}\) Here I will mention only a few obvious but analytically significant points. First, the shift from fixed to floating rates signaled a monetary regime shift of a type not seen since 1917. In many ways, it could be said that the Japanese currency now returned to a solipsistic "yen standard." Second, as American trade surpluses had done in the 1920s, increasingly large Japanese trade surpluses began to put great pressure on other countries; and as was the case with the United States in the 1920s, Japanese trade surpluses began to be balanced by increasingly large outflows of Japanese capital. Third, the U.S. dollar has remained the central pivot of the world monetary system, despite the advent of floating rates and the dollar's radical depreciation, which appears as a long-run, structural process. Despite various initiatives to internationalize the yen, most global trade and most of Japan's trade, even its intra-Asian trade, continues to be settled in dollars. That is, the U.S. dollar remains what gold was in the prewar world, the standard foreign-exchange currency. Fourth, in the same way that Japanese holdings of sterling helped to maintain the centrality of sterling before World War I, so Japan's immense dollar holdings now provide a great support for the continued centrality of the dollar. This position is fraught with contradictions.\(^{44}\)
Table 4

Japan's Modern Monetary Regimes

<table>
<thead>
<tr>
<th>Period</th>
<th>Exchange-rate regime and description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1871–97</td>
<td>Floating.* Silver standard. Long-run yen depreciation and moderate inflation, against the background of long-run deflation in the gold bloc.</td>
</tr>
<tr>
<td>1917–30</td>
<td>Floating. Gold standard in suspension. Tendency toward yen depreciation checked by government intervention to keep the yen near par. High inflation (1917–20), followed by sharp deflation (1920–21), then stable or declining prices.</td>
</tr>
<tr>
<td>1931–45</td>
<td>Floating.§ &quot;Yen standard.&quot; Sharp yen depreciation followed by stabilization. Moderate, then high inflation. (Monetary relations with the Western countries suspended 1941–45.)</td>
</tr>
<tr>
<td>1945–49</td>
<td>Variable, administratively determined rates (under Occupation control). Yen depreciation; high inflation.</td>
</tr>
</tbody>
</table>

* Relative to the Western gold bloc; fixed relative to the East Asian silver bloc.
† Floating relative to China.
§ Informal peg to sterling, 1933–40.

In many ways, the U.S. dollar now presents the classic profile of a currency in decline. Monetary history since 1971 has been punctuated by a series of more or less acute dollar crises, and the strong-dollar regime of the "Reagan restoration," underwritten by Japanese credits and finally breaking with the Plaza Accord in 1985, resembles nothing so much as Britain's abortive restoration of sterling to its old gold par in 1925–31. That being said, the globalized U.S. dollar regime retains a powerful international institutional foundation unmatched even by sterling in its heyday—something that the yen lacks. The possibility of at least a regional
yen standard was much heralded in the late 1980s, at a time when Japan’s financial reach grew enormously—and when the parallels seemed strong between the post-Vietnam War era and the post-World War II era, with America now playing the role of Britain-in-decline and Japan taking America’s place. But however compelling the historical symmetries, an international yen standard has remained a phantom. Expectations that Tokyo was at the point of succeeding New York City as the world’s financial center helped drive the inflation of Japan’s stock market and real-estate bubbles at the end of the 1980s. In the 1990s, these expectations were dashed, talk of hegemonic transition receded, and far from shrinking back, dollarization seemed to extend ever further around the world. The recent breaking of dollar pegs in countries such as Thailand and Argentina also greatly resembled the breaking of gold “pegs” around the world in the crisis of 1931.

The consensus of economic opinion in the United States has been that, for better or worse, fixed-rate international monetary regimes are a thing of the past, and that the present floating-rate regime is here to stay. That may be. But one can also observe increasing efforts in recent years to fix exchange rates, predominantly efforts to peg various national currencies to the U.S. dollar or to create various forms of exchange-rate union. Internally, Europe has already moved to the hardest possible form of fixed-rate regime—indeed, it has moved beyond it, to a true continent-wide currency union. Especially since the international monetary crises of 1997–98, Japanese and European financial policymakers have repeatedly expressed their desire to modify the present anarchic floating-rate system. Manifestly, the floating-rate regime has failed to solve trade imbalances in the way that proponents suggested it must. It has provided opportunities for immense profits to currency speculators, apparently to the common detriment. The defense of the present floating-rate system has come from the U.S. government, in this case representing, it can be thought, the interests of U.S.-based currency traders, and the political and economic weight of the United States has so far carried the day. On the other hand, calls for a new “Bretton Woods” continue, and one can speculate that the next decisive dollar crisis may prompt a move back
toward a more stable and fixed exchange-rate regime between the major currencies.

Notes

1. I develop many of the themes in this essay, particularly for the period 1897–1952, in a forthcoming book on the Japanese gold standard. Special thanks are due to Professors Ōshima Mario and Kazusaka Takashi for their ideas on the subject.


2. To say this is to ignore the important role of various kinds of commodity-money—standard goods such as cloth and rice that had important monetary functions.


4. For China’s silver standard, see R. Von Glahn, Fountain of Fortune: Money and Monetary Policy in China, 1000–1700 (Berkeley: University of California Press, 1996), and the forthcoming study by Lin Man-houng (Reordering China: Silver Crisis and Societal Changes, ca. 1814–1850), to whom thanks are due for providing me with a copy of her unpublished manuscript.

5. A general account of the Tokugawa monetary system can be found in R. Mikami, Edo no kahei monogatari (Tokyo: Tōyō keizai shimpōsha, 1996).

6. The Sino-Japanese term ryō (Chinese liang, pidgin tael) referred in China to a weight of silver (which had many variations) and in Japan to the basic currency unit (equivalent to one koban coin) in the gold coinage system.

7. This picture is complicated by the issue of paper money by private merchants and domainal governments. These domainal monies (hansatsu) were ostensibly convertible but in practice often traded at deep discounts against the central government’s metallic coinage.


15. Under the terms of the Convertible Banknotes Law of 1884 and its later revisions, the Bank of Japan’s note issue followed a fiduciary model like that of the Bank of England. The note issue was to be entirely covered by a species reserve of silver and gold coins and bullion, later exclusively gold coins and bullion, but a further issue could be made, backed by a fiduciary reserve consisting of government bonds and other securities. An additional issue against securities (the excess fiduciary issue) could also be made. If the excess issue extended over 15 days, it required the finance minister’s approval and was taxed at a minimum rate of 5 percent (reduced to 3 percent in 1932). In practice, the ratio of specie backing (which came also to include foreign-exchange reserves) to the note issue was generally over 50 percent until 1931, when it began to decline very rapidly.

16. The question of the advantages of silver over gold was a subject of domestic controversy. An argument for preserving Japan’s silver standard was made at the time by Garret Droppers, an American professor of economics at the University of Tokyo who was later an advisor to Woodrow Wilson (G. Droppers, “Silver in Japan.” *Transactions of the Asiatic Society of Japan*, vol. 23, 1895: vi–xxix). For a discussion of parallel issues concerning China’s silver standard, see C. Lai and J. Gau, “Fetter or Lifeboat, The Silver Standard and the Chinese Economy, 1900–1937” (Department of Economics, National Tsing-hua University, Taiwan, 1999). Special thanks to Professor Lai for providing me with a copy of his unpublished book manuscript.

18. See Matsukata, Adoption of the Gold Standard.

19. Fixed and floating, that is, in relationship to the Western gold/dollar bloc. The Japanese silver yen of 1871–97 was virtually fixed in relationship to the Chinese tael, and the institution of the gold standard in 1897 meant the advent of floating rates in the yen- debacle exchange.


22. In this connection, it is important to note that under Japan's classical gold standard, unlike the case in England, the gold convertibility of the yen was always "for external use only." Gold yen coins did not circulate inside Japan and most Japanese people never saw them.


25. This point is discussed by Fukai Eigo among others (Kaiko 70 nen [Tokyo: Iwanami shoten, 1941], 108–14).

26. See Y. Yasuba, "Did Japan Ever Suffer from a Shortage of Natural Re-


36. The disastrous restoration of the gold standard has been intensively studied; an engaging and authoritative account is given by T. Nakamura, *Shōwa kyōdō to keizai seisaku, aru ōkura daijin no higeki* (Tokyo: Nihon keizai shimbunsha, 1978).

37. Takahashi’s "Keynesian" policies are the subject of a forthcoming study by Richard Smethurst.

38. Asai, "Jizoku teikokushugi."


40. See R.A. Werner, *En no shihiisha* (Tokyo: Soshisha, 2001), forthcoming in English as *Princes of the Yen, Japan’s Central Bankers and their Battle to Transform the Nation*.

41. This was, of course, what Japan had tried to operate in its wartime empire. There is one early historical precedent, in the wide Eurasian circulation of paper money under the Mongol Empire.


43. These works include R.T. Murphy, *The Weight of the Yen* (New York: W.

44. A point developed by Murphy, Weight of the Yen.

References


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