

FINANCIAL DIPLOMACY: THE TAKAHASHI KOREKIYO MISSIONS OF 1904-1905

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Late in 1904, despite a series of defeats suffered by the Russian army and navy, Count Witte of Russia repeated what he had said at the outset of the conflict with Japan, namely, "that if we should succeed, in the end, in defeating the Japanese, it would be by virtue of our superior finances. The Japanese cannot resist our finances. I have nothing to say of the two other factors — the army and the navy. Perhaps the Japanese can carry on the war one and a half, two, at the most two and a half years. Considering the finances alone, we can keep it up for four years. Other factors being left out of account, the Japanese can therefore be brought to sue for peace by their financial ruin."¹ Yet, as Witte recorded in his *Memoirs* later, less than a year had passed after this optimistic statement before he was on his way to Portsmouth, New Hampshire, to represent his country at the peace conference, by which time his Russia "had exhausted all our means and had lost our credit abroad. There was not the slightest hope of floating either a domestic or a foreign loan. We could continue the war only by resorting to new issues of paper money, that is by preparing the way for a complete financial and consequently economic collapse."² By contrast with the deterioration of Russian finances abroad, those of Japan stood stronger in the international financial markets at the end of the war than they had at the beginning. As an American journal pointed out shortly before the peace conference was convened, "The strange point... is the fact that a 10 per cent increase in the Russian debt has been followed by a slump in Russian credit; while an increase of more than 160 per cent in the Japanese debt has been followed by a wonderful advance in the credit of that country."³ To a considerable extent the very different financial performances can be attributed to the course of

¹ Quoted in *Forum*, April 1905.

² *The Memoirs of Count Witte*, Garden City and Toronto, 1921, p. 135.

³ "The Financial Facts About Russia and Japan," *The World's Work*, July 1905, p. 6347.

events on the battlefields, but since Japan's military and naval successes themselves were dependent on the nation's finances, a full understanding of Japan's achievement in the world financial market requires a consideration of the financial diplomacy during 1904 and 1905 of Bank of Japan Vice-Governor Takahashi Korekiyo.

In 1903 Japanese trade was increasing, capital was in abundance, and stocks were rising in price. As relations between Japan and Russia deteriorated, however, these favorable conditions began to turn downward, especially after October, 1903, and with the outbreak of war on February 8, 1904, the Japanese economy experienced the shock of transition to wartime conditions.⁴ Of special concern was Japan's ability to finance the war with Russia. The Meiji Government moved immediately to promote savings within Japan, but it was clear that domestic capital would not be adequate for the task.⁵ The example of the Sino-Japanese War of a decade earlier, suggested that Japan would have to spend at least one-third of its war expenditures overseas.⁶ The government, therefore, had to be concerned with the maintenance of a specie reserve adequate to support such expenditures, and the picture there was not reassuring. The amount of the Bank of Japan's specie reserve fell from Y116,962,184 at the end of December, 1903, to Y105,921,628 by the end of January, and continued to decline thereafter until by the end of May, 1904, it had fallen by nearly Y50 million to a total of Y67,442,130.⁷ In February the government moved to confront the problems of wartime finance by appointing two elder statesmen, Inoue Kaoru and Matsukata Masayoshi, to oversee Japan's finances during the war. There followed a series of conferences called by these two, attended by government officials, representatives of the army, and businessmen and financiers, designed to provide for mutual understanding and cooperation in the private and public sectors in confronting wartime economic problems.⁸

⁴ Toyo Keizai Shimposha, *Kin'yu Rokujunenshi* (A 60 Year History of Finance), Tokyo, 1924, pp. 443-444.

⁵ *Ibid.*, p. 441-442.

⁶ Gaimusho, *Komura Gaikoshi* (The History of Komura Diplomacy), Tokyo, 1966, I, 410.

⁷ *Ginko Tsushinroku* (Banking News), July 1904, reprinted in Nihon Ginko Chosakyoku, *Nihon Kinyushi Shiryo* (Collected Materials on Japanese Financial History), Tokyo, 1957, VI, 1024-1029.

⁸ *Komura Gaikoshi*, I, 409-410; Akashi Teruo and Suzuki Norihisa, *Nihon Kin'yushi* (Financial History of Japan), Tokyo, 1957, I, 232.

Even before the outbreak of the war, from as early as October, 1903, Japan's minister to Great Britain, Hayashi Tadasu, held talks with London bankers concerning the possibility of floating a bond issue in London. He found some interest in such a flotation if the Japanese bonds were guaranteed by the British Government. In late December Foreign Minister Komura Jutarō asked Hayashi to determine what the British attitude would be in the event of war between Japan and Russia. If the British Government proved willing, the Meiji Government hoped to float a bond issue of 20 million pounds sterling, guaranteed by the British Government, to be sold at 4% and with the flotation price being the face amount.⁹ British Foreign Minister Lansdowne responded to Hayashi's query by pledging that his government would faithfully honor its treaty of alliance with Japan in the event any Russo-Japanese conflict expanded to include another power as a Russian ally. Under the terms of the Anglo-Japanese Alliance of 1902, such an eventuality would, of course, require Great Britain to come to Japan's aid. In the event such an eventuality did not come about, what exactly did the Japanese Government desire of Great Britain? Pressed by Hayashi for a response, Komura, in effect, instructed his minister to confess to Lansdowne Japan's financial unpreparedness for a war with Russia. The Japanese army and navy were prepared, Hayashi was to tell Lansdowne, and with British financial assistance Japan's position would be secure in every way. As "bait" for such assistance, there was the prospect of an "open door" for commerce in Manchuria once the Russians had been driven out.¹⁰ This initiative on the part of Japan met, however, with a negative response from Lansdowne, who pointed to a multitude of problems that made such British assistance impossible. In January, therefore, the Japanese Government abandoned its efforts to obtain a guarantee of its loans from the British Government, hoping, however, that the British Government would extend its encouragement, at least, to London bankers should the necessity for a foreign war bond flotation arise.¹¹

Hayashi now continued his exploratory talks with British financiers on what the likely response would be to a Japanese bond flo-

⁹ Okurasho, *Meiji-Taisho Zaiseishi* (A Fiscal History of Meiji-Taisho Times), Tokyo, 1957, XVII, 50-51.

¹⁰ *Komura Gaikoshi*, I, 407-409.

¹¹ *Loc. cit.*; Komura to Hayashi, January 15, 1904, Japan Foreign Ministry Archives Microfilm, Telegram Series, Reel 41 (hereafter cited as TS 41).

tation under wartime conditions. At the same time he suggested to Foreign Minister Komura that a full-time financial representative should be sent to London.¹² Hayashi found advice pressed on him from every direction. The present, he was told, was not a good time for a bond flotation with the uncertainty prevailing as to the direction Russo-Japanese relations would take. Nor would there be any prospect of a flotation immediately after the outbreak of hostilities, he was told, since there would be considerable uncertainty over the possibility of other powers participating in the war. Japan's prospect of floating a bond issue overseas would be immeasurably enhanced if she could begin the war with a victory.¹³ In the meantime it would be best if Japan followed the outbreak of hostilities with a domestic bond flotation of about Y50 million, and then watched for a favorable opportunity to borrow in London.¹⁴ On January 22, 1904, Hayashi wired Komura that the London money market did not offer a hopeful prospect for Japan at present. Even in the event that Japan scored early victories in a war with Russia he considered it doubtful that Japan would be able to raise more than Y5 million at first and then at a high rate of interest.¹⁵

In late January and early February Inoue and Matsukata moved to send a financial representative to London to assist with the flotation of a foreign bond issue. Matsukata was convinced that Takahashi Korekiyo, Vice-Governor of the Bank of Japan, should be sent, while Inoue favored Sonodo Koichi, President of the Yokohama Specie Bank. Finance Minister Sone Arasuke, Bank of Japan Governor Matsuo, and Takahashi himself, all agreed with Inoue that Sonoda should be sent, but the state of Sonoda's health and the urgency of the situation after the outbreak of the war, led Takahashi to be chosen. Sone and Matsuo, who had earlier argued that Takahashi would be needed in Japan, agreed.¹⁶ Takahashi was no stranger to the problems that confronted Japan, financially, in the war with Russia. As early as November, 1903, he had been instructed by Matsuo to give consi-

¹² Hayashi to Komura, January 15, 1904, Gaimusho, *Nihon Gaiko Bunsho* (Japanese Diplomatic Documents), Tokyo, 1958, XXXVII-2, 126-127 (hereafter cited as *NGB*).

¹³ Hayashi to Komura, January 16, 1904, *ibid.*, 127-128.

¹⁴ Hayashi to Komura, January 18, 1904, *ibid.*, 128-129.

¹⁵ Hayashi to Komura, January 22, 1904, TS 40.

¹⁶ *Takahashi Korekiyo Jiden* (Autobiography of Takahashi Korekiyo), Tokyo, 1936, pp. 651-652; Inoue Kaoru Ko Denki Hensankai, *Segai Inoue Ko Den* (Biography of Count Inoue), Tokyo, 1933-34, V, 65.

deration to those problems and had responded with a projection that the Bank of Japan specie reserve would fall quickly to Y52 million with the outbreak of war. Takahashi pointed out the necessity for Japan to curtail imports and to obtain foreign capital to shore up the specie reserve.¹⁷ Now, in meetings with Inoue and Matsukata, as well as with the cabinet, Takahashi was told that expenses for the war were estimated at Y450 million. If, as in the Sino-Japanese War, one-third of that amount was to be spent overseas, it meant that the projected specie reserve of Y52 million would leave Japan nearly Y100 million short of the specie necessary to cover those expenditures. Takahashi was instructed therefore, to arrange for a bond flotation of that amount overseas, using Japan's customs revenues for security if necessary. But that amount would be adequate only for the campaign to drive the Russians out of Korea, he was told. If the war advanced beyond the Yalu River into Manchuria additional funds would be needed.¹⁸

On February 17th the Finance Minister obtained a decision from the cabinet on floating a sterling public bond issue of up to 20 million pounds (approximately Y200 million) in the London market, or, if that proved impossible, to sell overseas some of Japan's previously floated public bonds. For this purpose the cabinet agreed to the proposal for the dispatch of Takahashi Korekiyo overseas with suitable credentials. While he was authorized to float up to 20 million pounds, if the opportunity arose, it was 10 million pounds that was needed, Takahashi was told, and that amount could be obtained in two flotations of 5 million pounds each if it proved impossible to obtain the entire 10 million pounds at one time. The interest rate should be under 5%, the price of the bonds should be in accord with market conditions (subject to the approval of the Finance Minister), and the bonds should be long term. Japan's customs receipts and railroad receipts were available as security, and Takahashi was to explain that the purpose of the flotation was to augment Japan's specie reserve and thus preserve her international accountability. The bonds were not to pay for the war, he was to tell the London bankers. Japan had domestic resources adequate to that task.¹⁹ On February 24th, Takahashi sailed from Yokohama with his private secretary, Fukai Eigo, after a farewell luncheon given by the Yokohama Specie Bank at

¹⁷ Koga Hidemasa, *Takahashi Korekiyo*, Tokyo, 1967, pp. 130-131.

¹⁸ *Takahashi Korekiyo Jiden*, pp. 657-658.

¹⁹ *Meiji Taisho Zaiseishi*, XVII, 51-52.

which Inoue Kaoru impressed all in attendance with the importance of Takahashi's mission in a tearful farewell speech. The fate of Japan, he told those in attendance, was hanging on the success or failure of the Takahashi mission.²⁰

Takahashi's first stop en route to London was in New York City. There he met with a number of bankers to determine their attitude toward Japan under the circumstances and to explore the possibility of obtaining capital from the New York financial market. From those with whom he talked, Takahashi got the impression of strong support for Japan in her war with Russia. There seemed, however, no likelihood that Japan would be able to float her war bonds in the United States with any success since the United States was, in 1904, still importing capital from Europe for its own internal development.²¹ Nevertheless, there were signs that Americans were ready as individuals to respond to Japan's financial needs should it come about that Japanese war bonds were floated in the United States.²² Japanese living in the United States, moreover, were permitted to subscribe to Japan's domestic war bonds, and some Americans contributed financially through the Red Cross and other charitable groups.²³

While in New York City Takahashi received a wire from the manager of the London branch of the Yokohama Specie Bank, Yamakawa Yuboku, who told him that there was no prospect of successfully floating Japanese bonds in London. The Yokohama Specie Bank, he said, had no credit among the British people whatsoever, and to attempt to float the bonds in London would only lead to humiliation for Japan. The only possibility, he told Takahashi, was to obtain the money in the United States. That alternative having already proved impossible, Takahashi left New York for London facing what seemed to be sure failure. In London, however, Takahashi set quickly to work to open negotiations with banks with whom Japan had previously done business — Parr's Bank, the Hong Kong and Shanghai Bank, Union Bank and Chartered Bank — and with other influential

²⁰ *Segai Inoue Ko Den*, V, 70; Fukai Eigo, *Jinbutsu to Shiso* (Personalities and Thoughts), Tokyo, 1939, p. 45.

²¹ *Takahashi Korekiyo Jiden*, pp. 658-659.

²² Minister to the United States Takahira Kogoro to Komura, February 15 and 16, 1904, TS 41.

²³ Komura to Takahira, February 17, 1904, TS 41; Takahira to Secretary of State John Hay, May 6, 1904, "Notes from the Japanese Legation in the United States," National Archives Microfilm M-163, Reel 8.

bankers such as Lord Revelstoke of Baring Brothers, Sir Ernest Cassel, and the Rothschilds.²⁴ As had been the case in New York, Takahashi found a good deal of support for Japan's cause in the war with Russia, but when the discussions came around to tangible ways in which that support might be demonstrated, they tended to produce no concrete offers. Takahashi concluded that there were a number of reasons for the lack of willingness on the part of London bankers to assist with Japan's financial needs:

1. Russia had the backing of French bankers, and since the outbreak of war the value of Russian bonds on the Paris and London markets had been increasing, while those of Japan were falling in price. There seemed little likelihood, under these circumstances, that a new issue of Japanese bonds would find a ready reception among the public.

2. If the bond issue did indeed end in failure, the existing Japanese bonds would be further affected. What was worse, the evidence of Japan's inability to raise funds abroad that such a failure would provide, would adversely affect Japan's prospects of victory over Russia.

3. If the bond issue did end in failure, the adverse affect on the existing Japanese bonds would be harmful to the banks and private individuals holding them.

4. The British Government had not made clear its position on the Japanese bond flotation.

5. The British and Russian royal families were related.

6. Russia's own finances seemed to be so secure, based on the French banking connection, that the war would inevitably end in Russia's favor.²⁵ Some concern was also expressed over the fact that the Russo-Japanese War was a conflict between the yellow and white races, and the inadvisability of Britain siding financially with the yellow side in such a war.²⁶

On April 8th, however, Komura wired Hayashi in London that:

it is imperatively necessary for us to procure an ample fund. This necessity is increasing with time and the Imperial Government is anxious to secure the funds as quickly as possible even by arranging with powerful financiers for a private loan which

²⁴ *Takahashi Korekiyo Jiden*, p. 661.

²⁵ *Loc. cit.*

²⁶ *Segai Inoue Ko Den*, V, 71; *Komura Gaikoshi*, I, 410-411.

may subsequently be turned into a public one at favorable opportunity and they wish to know your opinion in consultation with Takahashi. You are further requested to telegraph fully to me the views regarding financial conditions of leading British financiers with whom Takahashi is reported to have interviews.²⁷

Hayashi responded that the time was not yet ripe for a bond flotation, but that progress was expected within the next two weeks.²⁸ On April 10th, three bankers — Hong Kong and Shanghai Bank, Parr's Bank and Panmure Gordon and Company — proposed a short term loan to Japan of 3 million pounds at 6% interest, with a flotation price of 92% of face value, and with Japan's customs receipts as security. What is more, the British side wanted to appoint someone to supervise Japanese customs, on the order of Sir Robert Hart in China. Takahashi objected strenuously to this last provision as demeaning to Japan. Japan, he pointed out, had never defaulted on the principal or interest of any foreign loan and to place her in the same category with China, therefore, was insulting.²⁹ This provision dispensed with, Takahashi turned his attention to bringing about improvements on the other conditions proposed by the British banking group. In this he was assisted by the string of Japanese military and naval successes in the Far East, and the effect that these successes had on the market price of existing Japanese public bonds in London and Paris. Between April 12th and 20th, the various existing Japanese bond issues rose by 3¼ to 5 points in the market, while Russian 4% bonds fell by 2½ points. Under such favorable conditions Takahashi was able by April 27th to get the London bankers to agree to an increase in the amount of the bond flotation to 10 million pounds, with half the amount (approximately Y50 million) to be floated at once, the other half to be deferred. The bankers also agreed to extend the term from five to seven years and to raise the flotation price to 93% of the face amount, with net proceeds (after commissions) for the Japanese Government of 88%.³⁰ Tokyo, however, was not satisfied. The authorities there were willing to settle for a flotation of 5 million pounds, even though 7 million pounds was needed immediately, but it argued that if customs receipts were to be given as security, the sale price should be 95% of the face value and the government's net proceeds should be 90%.

²⁷ Komura to Hayashi, April 8, 1904, *NGB XXXVII-2*, 134.

²⁸ Hayashi to Komura, April 8, 1904, *ibid.*, 134-135.

²⁹ *Takahashi Korekiyo Jiden*, pp. 671-672; *Komura Gaikoshi*, I, 411.

³⁰ *Meiji-Taisho Zaiseishi*, XVII, 56-57.

while it suggested other minor changes as well.³¹ Hayashi, however, supported Takahashi in contending that the terms were as good as could be obtained under the existing circumstances. When Komura passed on the Finance Minister's query as to the possible salutary effect the army's victory in the Yalu River battle might have on the negotiations, Hayashi responded again that the terms were the best that could be obtained under the circumstances and that the matter should be left to Takahashi's discretion. Despite the victory by the Japanese Army "the notion of ultimate victory by Russia is still lingering at the bottom of the public mind," he told the authorities in Tokyo.³²

Perhaps unaware of the difficulties Takahashi was encountering with his own government, a friend, financier Arthur Hill, hosted a dinner party to celebrate the achievement of the April 27th provisional contract. At the dinner party Takahashi was seated next to a leading American banker, Jacob H. Schiff, senior partner in Kuhn, Loeb and Company of New York City. Schiff was returning to the United States from a trip to Europe which had begun in January. A German-born Jew, Schiff was an ardent foe of the Russian Government over its mistreatment of Russian Jewry and was a proponent of the use of financial pressure against that government. He had not only opposed the sale of Russian government bonds in the United States, but had also called upon Jewish bankers like the Rothschilds to refuse to do business with the czar so long as he continued to oppress his Jewish subjects.³³ Now Schiff plied Takahashi with questions at dinner concerning Japan's economic situation and post-war plans. When Schiff expressed doubt that 5 million pounds would be adequate for Japan's needs, Takahashi, explained that his government had directed him to raise double that amount, but that he had been successful in getting London bankers to accept only 5 million pounds at present. Much to Takahashi's surprise, the following day he was informed of the identity of Schiff and told that the New York banker had offered to underwrite the remaining 5

³¹ Matsuo to Komura (for Takahashi), April 30, 1904, *NGB* XXXVII-2, 136.

³² Hayashi to Komura, May 1, 1904; Komura to Hayashi, May 2, 1904; Hayashi to Komura, May 3, 1904, *NGB*, XXXVII-2, 137-140.

³³ Gary Dean Best, "Financing a Foreign War: Jacob H. Schiff and Japan, 1904-05," *American Jewish Historical Quarterly*, LXI (June 1972), 314-315.

million pounds that Takahashi sought, with the bonds to be floated in the United States.³⁴

On May 4th, Hayashi wired Komura that he had been informed by Takahashi of the prospect that Japan would be able to float half of the 10 million pounds in the United States, and that the marquis of Lansdowne, the British Foreign Minister, had expressed considerable satisfaction at the prospect of a joint Anglo-American bond flotation for Japan. Hayashi pointed out to the Japanese Foreign Minister that rather obvious benefits would accrue to Japan from such a joint flotation, not only in the financial sphere, but from the diplomatic standpoint as well. He urged a quick approval by Tokyo of the terms of the proposed bond issue to take advantage of this financial diplomacy.³⁵ The following day Hayashi wired Tokyo again:

In view of the high probability of our loan being taken up by American and British financiers, I submitted to you... my views on the subject, laying stress upon the desirability of a prompt decision on the part of the Imperial Government. Takahashi now tells me that he has received instructions regarding the details of minor importance. I am afraid if much time is spent upon the detailed points without deciding upon the general line, the present favorable opportunity may easily be missed. Lord Lansdowne . . . was much pleased to learn that a part of our loan could be raised in America. He was also satisfied to know that the other half could be taken up here. In circumstances such as these, it is of the utmost importance to decide at once upon the general measure to be taken on the matter... It is needless to say that Takahashi is doing his utmost to secure the best possible terms under the circumstances, and it is advisable that the details should be left entirely to Takahashi's discretion. The effect of the loan if successfully raised both in England and America will be most beneficial to us in every way.³⁶

A few days later, the difficulties with Tokyo and with the bankers cleared away, Hayashi reported that a provisional contract had been signed on May 7th. As a result of Japan's Yalu River victory and "especially of American participation in the financial operation," a very favorable reception was being accorded to the flotation, with the new bonds already commanding a premium of up to 2½ per cent even before the flotation. "After all," Hayashi wired Komura, "there is no doubt that Takahashi has secured the best possible terms in time of war, taking advantage of those favorable circumstances. There-

³⁴ *Takahashi Korekiyo Jiden*, pp. 673-674.

³⁵ Hayashi to Komura, May 4, 1904, *NGB*, XXXVII-2, 141.

³⁶ Hayashi to Komura, May 5, 1904, *ibid.*, 141-142.

fore, I hope that the Japanese public will not display grumbling and a discontented mood with respect to the loan by indulging in academic argument. Such an attitude if taken will not make a good impression here."³⁷

With the addition of the Americans to the underwriters of the bond flotation, Takahashi was able to get the price raised to 93½ per cent of the face value.³⁸ On the day of the flotation, Takahashi visited the London stock exchange where he made a brief speech and received an enthusiastic welcome. It was quite a rare honor for an outsider to be so invited and the impact on the news media was heightened by the fact that he was mistaken by many for the Japanese minister Hayashi.³⁹ Subscriptions were closed at 3 p.m. of the same day they were opened in London, with over 150 million pounds offered for the British share of 5 million pounds of the bond issue. Over 30,000 subscriptions were received indicating the broad support the bonds received from smaller investors. In New York City, subscriptions closed the day after they were opened, with the American share oversubscribed by five times.⁴⁰

While the London oversubscription was the greater, the success in New York was at least as surprising, given the lack of experience there with foreign public bonds. Even midwestern cities like Chicago and St. Louis were heavy subscribers to the Japanese bond issue.⁴¹ The demand for the bonds in the United States was so great that some were changing hands at 96¾% even before they had been issued.⁴² Various explanations were advanced for the success in the United States. The American press pointed to the intimate and extensive commercial relations of the United States with Japan and recalled that it had been the United States which had brought about Japan's entry into contact with the modern world, a fact which, the press concluded, had no doubt exerted a sentimental influence on

³⁷ Hayashi to Komura, May 8, 1904, *ibid.*, 145.

³⁸ *Meiji-Taisho Zaiseishi*, XVII, 58; copies of the London and New York prospectuses, with Japanese translation, are on pp. 60-74.

³⁹ "A Talk on Floating Foreign Loans: Account of a speech delivered by Bank of Japan Vice-Governor Takahashi before the Banking Club dinner on January 24, 1905," *Ginko Tsushinroku*, February 1905, reprinted in *Nihon Kin'yushi Shiryo*, VI, 1066.

⁴⁰ *Meiji-Taisho Zaiseishi*, XVII, 75-76.

⁴¹ Consul Kiyomizu (Chicago) to Komura, May 25, 1904, *NGB*, XXXVII-2, 157-159.

⁴² Takahira to Komura, May 13, 1904, *ibid.*, 149-151.

Americans.⁴³ Others pointed to the attractive terms of the Japanese bonds compared to terms prevailing in the market for less speculative securities, and to the successes of Japan's army and navy.⁴⁴ As for the success in London, there was general agreement that American participation in the bond issue had much enhanced the marketability of the bonds there.⁴⁵ The earlier described concern at the prospect of Britain doing it alone with financial support for Japan was dissipated when the British were joined in the affair by the United States. As Schiff later described the effect of the American participation, it gave Japan's loans "a moral backing and stimulus which at once changed the entire situation and made everybody eager instead of hesitant, as had been the case until that moment."⁴⁶ Of assistance, too, in popularizing the cause of Japan, and thus in making Japan's war bonds more attractive, was the public relations effort mounted by Japan during the war years.⁴⁷

The flotation accomplished, Takahashi made preparations in June to return to Japan, only to be instructed to remain in London.⁴⁸ The war crossed the Yalu and the earlier estimate of war expenses had to be revised. An additional Y200 million was needed, the authorities decided, and Takahashi was directed to float a new bond issue of 20 million pounds using the income from the tobacco monopoly and, if necessary, the income from the railroads as security. Takahashi argued that conditions were not satisfactory for such a bond issue, however, so close on the heels of the first. It would probably be October at the earliest, he told Tokyo, before the London market would be prepared to digest another Japanese bond issue.⁴⁹ Moreover, Takahashi calculated that the customs revenue should be adequate to secure an additional Y120 million of foreign bonds without the necessity for using any additional security.⁵⁰ By early October conditions had not much improved. Jacob Schiff argued that any new

⁴³ *Loc. cit.*

⁴⁴ *Ginko Tsushinroku*, June 1904, reprinted in *Nihon Kin'yushi Shiryō*, VI, 1019-1021.

⁴⁵ *Ibid.*, July 1940, reprinted in *ibid.*, VI, 1025-1029.

⁴⁶ Schiff to Takahashi, February 24, 1910, Jacob H. Schiff Papers, microfilm reel 3, American Jewish Archives, Cincinnati, Ohio.

⁴⁷ Robert Valliant, "Selling Japan: Japanese Attempts to Manipulate Public Opinion," *Monumenta Nipponica*, XXIX (Winter 1974).

⁴⁸ *Takahashi Korekiyo Jiden*, p. 687; Komura to Hayashi, July 27, 1904, TS-41.

⁴⁹ *Meiji-Taisho Zaiseishi*, XVII, 87-88.

⁵⁰ *Takahashi Korekiyo Jiden*, pp. 687-688.

flotation of Japanese bonds should be delayed until January.⁵¹ A number of incidents in early October contributed further to insecurity in the London market where Japan's bonds were concerned. A speech by Okuma Shigenobu, which dwelt on Japan's need for enormous amounts of foreign capital with which to finance the war, and the North Sea incident involving Russian warships and British fishing boats, combined to bring about a weakening in the position of Japanese bonds on the London market.⁵² In mid-October Takahashi succeeded, however, in reaching tentative agreement with the syndicate over a 12 million pound issue which Minister Hayashi called the best which could be obtained under the circumstances with the outcome of the war still considered by the bankers to be very much in doubt.⁵³ Since the new bonds were a second mortgage on Japan's customs revenues, the terms were somewhat inferior to those for the first bond issue. Under the proposed terms the price of the bonds would be 90% of the face amount, with a net to the government of 85%, with the other details substantially the same as in the case of the first issue.⁵⁴ The government, however, was insistent that it should receive net proceeds of 90% as in the case of the first bond issue.⁵⁵

During the balance of October, negotiations continued between Takahashi and the banking syndicate, and between Takahashi and the authorities in Tokyo, designed to reach terms on which all could agree. Takahashi was able to get the syndicate to agree to net proceeds of 87½%, but he was convinced that despite the continuing string of Japanese military and naval victories, the figure would not go above that amount, and in this conclusion he was supported by Minister Hayashi, who urged the government to consent to a flotation on that basis.⁵⁶ The government, however, was convinced that the impending victory at Port Arthur would make possible better terms in the bond flotation. The talks with the syndicate should not be broken off, Takahashi was told, but should be stretched out until that victory was

⁵¹ Uchida (Consul-General, New York) to Komura, October 5, 1904, *NGB*, XXXVII-2, 179-180.

⁵² Arakawa (Consul General, London) to Komura, October 7, 1904, *ibid.*, 181; *Meiji-Taisho Zaiseishi*, XVII, 90-91.

⁵³ Hayashi to Komura, October 12, 1904, *NGB*, XXXVII-2, 182.

⁵⁴ Takahashi to Matsuo, October 17, 1904, enclosure #1 in Komura to Hayashi, October 19, 1904, *ibid.*, 185-186.

⁵⁵ Komura to Hayashi, October 19, 1904, *ibid.*, 185.

⁵⁶ Hayashi to Komura, October 20, 1904, *ibid.*, 186-187.

achieved. The present terms might be regarded as satisfactory under the conditions in London, but they were considered to be controversial in Tokyo.⁵⁷ In the meantime, however, general market conditions in London worsened to the point that the syndicate withdrew even its offer of 87½%. Now, it informed Takahashi in late October, the market price would have to be reduced from 91% to 90% of the face amount, with net proceeds to the Japanese Government of only 86½%. Its stalling tactic having worked to Japan's detriment, and the Russian resistance having proved stouter than the authorities in Tokyo had anticipated, approval was speedily wired to Takahashi to go ahead with a bond flotation on those terms, but to exert every effort to obtain an improvement if that were possible. In the end Takahashi managed to get the sale price raised to 90½% in the agreement of November 8th, and the second flotation of 6% bonds was made at this price.⁵⁸

In the middle of November, market conditions in London began to improve, and while the second bond flotation was not as popular as the first it was a great success in both London and the United States. In London applications were closed at noon of the day following the opening, with nearly 30,000 subscribers again applying for 13 times the London share of the flotation. In New York City applications closed on the 18th, four days after they opened, with an over-subscription of roughly four times the American share.⁵⁹ Again the unsatisfied demand for the bonds led to their sale at a premium immediately after the flotation. On December 5th, 1904, Takahashi left London for New York City to arrange for disposition of the money as it came in from subscribers. While there the close friendship between Schiff and Takahashi which had begun in London was further cemented. In January, Takahashi returned to Japan from his first financial mission overseas after nearly a year abroad.⁶⁰

Takahashi arrived in Yokohama on January 10th, 1905. The following day he was visited by Bank of Japan Governor Matsuo, and he then reported to Finance Minister Sone on the 12th, to Matsukata on the 13th, Inoue on the 14th, and to Prime Minister Katsura Taro on the 15th. On the 16th he was commanded to an audience with

⁵⁷ Komura to Hayashi, October 21 and 22, 1904, *ibid.*, 187-188.

⁵⁸ Komura to Hayashi, November 2, 1904, *ibid.*, 190; *Meiji-Taisho Zaiseishi*, XVII, 90-92 — copies of the prospectuses are in pp. 94-108.

⁵⁹ *Meiji-Taisho Zaiseishi*, XVII, 108.

⁶⁰ Koga, *Takahashi*, pp. 150-151.

the Emperor Meiji after which, with Matsuo, he held talks with Inoue. Late in January a conference of the elder statesmen (*genro*) was held at Prime Minister Katsura's official residence, with Inoue and Matsukata in attendance, as well as Ito Hirobumi and Yamagata Aritomo. Invited to the conference, Takahashi was asked if it would be possible for the government to raise an additional Y200 million to Y250 million in foreign bonds. Takahashi responded that he was sure he could do so by telegram without so much as leaving Japan. Would it still be possible to raise that amount if the tide of battle turned against Japan, he was asked. By careful timing it could be, he answered, but the terms would naturally be less advantageous. On this note Takahashi withdrew from the conference.⁶¹ At some time late in January, however, Takahashi wired Schiff in New York concerning the possibility of a new bond flotation. Schiff, who had earlier in the month expressed the hope to London financier Sir Ernest Cassel that Japan would not place another foreign loan on the market again soon, nevertheless responded favorably to Takahashi's overture. As he wrote Cassel on February 9th:

Japan will apparently come out with another loan soon, because we received a wire from Takahashi at Tokyo two weeks ago, asking what we thought of the chances for a new loan, and how we thought it ought to be funded. We replied to him very fully by cable, and now the newspapers report that Mr. Takahashi is sailing from Tokyo on February 17th for America. We here believe that by the time the matter is ready it will be possible to place another Japanese loan, if it is secured by the railroads or the tobacco monopoly, especially as the outstanding bonds have recently become more and more popular with the public. Also it appears from several indications that the war is not likely to continue long.⁶²

A few days after the conference in late January, Takahashi was instructed to proceed to London to arrange for a new flotation. On his first financial mission, in 1904, Takahashi had gone abroad as a Bank of Japan Vice-Governor, which meant that he was not an official representative of the Japanese Government. Now he was appointed a Special Financial Commissioner of the Imperial Japanese Government in order to facilitate his negotiations with the banking syndicate

⁶¹ *Takahashi Korekiyo Jiden*, pp. 697-699; *Segai Inoue Ko Den*, V, 76.

⁶² Schiff to Sir Ernest Cassel, January 9, 1905 and February 9, 1905, Schiff Papers, Reel 20.

and with officials of foreign governments. He was also nominated by the emperor to the House of Peers.⁶³

On February 11, 1905, Takahashi was given the government's instructions concerning the new bond flotation and his power of attorney. That evening he was entertained by Inoue at a farewell banquet, and on the 14th, Bank of Japan Governor Matsuo hosted a farewell party for him attended by Inoue, Matsukata, Prime Minister Katsura, Foreign Minister Komura, Finance Minister Sone, business leader Shibusawa Eiichi and others. On the 17th he departed Yokohama for London by way of New York, instructed to float Y200 million in public bonds either in one flotation or, if that proved impossible, in two flotations of Y100 million each.⁶⁴ His train delayed by heavy snow, Takahashi did not reach New York from Vancouver until March 6th. In New York City Takahashi consulted with Schiff on the possibility of floating not the Y200 million his government had requested, but Y300 million. With ease he obtained Schiff's agreement to underwrite half of this large amount in the United States. Moreover, Schiff told Takahashi that he could obtain further assistance for Japan from German bankers like Max Warburg of Hamburg if Takahashi considered it desirable.⁶⁵ This intimation of German interest in helping to underwrite Japan's war effort was supported by diplomatic despatches between Berlin and Tokyo.⁶⁶ Negotiations for this third loan proceeded so smoothly and so rapidly, however, that the German desire to serve as joint underwriters with London and New York could not be accommodated.

Takahashi arrived in London on March 19th and in four days reached agreement with the London syndicate. On the 22nd Takahashi reported to Tokyo that the Anglo-American banking syndicate had agreed to a flotation of 30 million pounds, with half to be floated in each country. The bonds were to be secured by the income from the tobacco monopoly and were to be sold for 90% of face value at an interest rate of only 4½ per cent and with maturity in twenty years. Banks on the European continent were to be allowed to act

⁶³ *Takahashi Korekiyo Jiden*, pp. 697-700; *Segai Inoue Ko Den*, V, 75-76.

⁶⁴ *Segai Inoue Ko Den*, V, 76-77; Komura to Hayashi, February 16, 1905, *NGB*, XXXVIII-2, 50.

⁶⁵ *Takahashi Korekiyo Jiden*, pp. 707-709.

⁶⁶ For example, Inoue (Minister to Germany) to Komura, March 3, 1905, *NGB*, XXXVIII-2, 55-56.

as agents of the syndicate in accepting subscriptions there.⁶⁷ Again Takahashi encountered difficulties with the authorities in Tokyo. Although he had succeeded in floating a bond issue 50% larger than that requested by Tokyo, and on far better terms than the previous issues, he found the government pressing for an increase in the flotation price. Although he was unable to bring about such an increase, Takahashi did manage to get a slight improvement in the net proceeds to the Japanese government to 86¾%.⁶⁸ Again Hayashi supported Takahashi's efforts in cables to Tokyo, and when he learned that a London newspaper had received a telegram from Tokyo expressing dissatisfaction with the terms of the new bond issue, he wired the government that:

the terms which Takahashi virtually has succeeded in securing the best obtainable under the present circumstances, and such telegrams... can do nothing but injure the popularity of the loan, especially as it is understood to have come from a very good source. I think it advisable therefore that Takahashi should be fully confided in and the sending of any such undesirable telegrams should be discouraged.⁶⁹

In the face of such support, the reluctance on the part of the authorities in Tokyo withered, and the following day Foreign Minister Komura wired to Hayashi the government's approval of the terms of the third bond flotation.⁷⁰

This third Japanese war bond flotation, the first 4½% sterling public bonds, was even more successful than the first two, despite the size of the loan, being aided, no doubt, by Japan's victory at Mukden. In London applications were accepted only between 9 a.m. and 2:30 p.m. on March 27th, with over 50,000 subscribers in Great Britain applying for over 150 million pounds, while subscriptions through agents on the European continent totaled over 11 million pounds from Germany, Belgium, Switzerland, Holland and Austria-Hungary, for a total of nearly 163 million pounds, or nearly 11 times the London share of the flotation. In the United States applications totaled approximately \$500 million (approximately 100 million pounds), or about seven times the American share. In both countries a large percentage of the applications continued to come from small subscribers.⁷¹

⁶⁷ *Takahashi Korekiyo Jiden*, pp. 710-711; *Segai Inoue Ko Den*, V, 78.

⁶⁸ *Meiji-Taisho Zaiseishi*, XVII, 117.

⁶⁹ Hayashi to Komura, March 24, 1905, *NGB*, XXXVIII-2, 58.

⁷⁰ Komura to Hayashi, March 25, 1905, *ibid.*, 58-59; copies of the prospectuses are in *Meiji-Taisho Zaiseishi*, XVII, 119-132.

⁷¹ *Meiji-Taisho Zaiseishi*, XVII, 132.

In April Takahashi made preparations to return to Japan. Not only had he succeeded in floating an issue of war bonds considerably larger than the government had told him was necessary for 1905, but domestically the government had floated a Y100 million loan in March and had announced its intention to float another in April. In fact, so close had the three loans followed one another that Tokyo worried lest the world conclude from it all that Japan was in financial difficulty. This was not the case, Komura assured Hayashi, but rather each of the bond issues represented a part of the total of 780 million yen estimated to be necessary for the war effort during the current financial year.⁷² On April 21st Takahashi left London for New York City to arrange for the disposition of subscription money there, intending to leave from New York for the return trip to Japan. While in New York, however, Takahashi received a wire informing him of Japan's victory in the naval battle at Tsushima of May 27-28, followed soon by a wire from Matsuo asking if it would be possible for Japan to capitalize on the naval victory to float an additional Y300 million in public bonds in Great Britain and the United States. Matsuo's wire described the Y300 million as a consolidation loan, and Takahashi responded that it was the opinion of the bankers that the war bonds should be consolidated only after the conclusion of peace.⁷³ If the war was to be continued, then further war bond flotations should take place only after that decision was made. Matsuo, however, quickly replied that if the war was to be continued, Japan would need a total of Y780 million, of which it would need to float foreign bonds to the amount of a further Y300 million, and this amount might have to be raised in a hurry. Takahashi answered that it would not be possible to float another bond issue until the middle of October, and that the best time would be April or May of 1906. He again requested permission to return to Japan.⁷⁴

Pressure from Tokyo continued, however. On June 15th Takahashi received a further wire from Matsuo explaining that the government had used Y200 million more than it had estimated for the

⁷² Komura to Hayashi, April 18, 1905, TS-62.

⁷³ Instead of a consolidation loan, the Y300 million was considered by Foreign Minister Komura, who represented Japan at the peace conference, as an essential condition for strengthening Japan's position at the peace table. Okamoto Shumpei, *Japanese Oligarchs and the Russo-Japanese War*, New York and London, 1970, p. 152.

⁷⁴ *Takahashi Korekiyo Jiden*, pp. 719-722; *Meiji-Taisho Zaiseishi*, XVII, 139-140.

year, and that it calculated it would need Y235 million to carry it until March of 1906. All told, Y535 million was needed for the remainder of 1905 and the early months of 1906. Of the total Y500 million would have to be raised through public bonds. However, Y500 million of public bonds had already been floated within Japan and the nation was groaning under the weight. Therefore, Y300 million of the total needed would have to be floated overseas. While the money was designed to meet the expense of continuing the war if that proved to be necessary, if the peace negotiations that were about to begin proved successful in ending the war then the money would be needed for evacuating the Japanese armies from the Asian continent and for paying servicemen's and survivor's bonuses. Any surplus could be used to redeem the early high interest domestic bonds.⁷⁵ Takahashi consulted with Jacob Schiff in New York City. Prospects were not good, he was told, for floating such a loan in just the United States and Great Britain so close on the heels of the first 4½% bonds. Something novel would be needed to improve the prospects. And now the close relationship that had developed between Takahashi and Schiff paid dividends. German bankers, with the support of their government, had desired to participate in the third flotation as joint underwriters with the London and New York syndicate members. If Germany now entered the syndicate, Schiff told Takahashi, it would enhance the general popularity of the bonds while at the same time it would clear the way for Japanese bonds to penetrate the world market on a wider scale thereafter. With Takahashi's approval, Schiff cabled a relative, Max Warburg, a banker of considerable influence, in Hamburg. The Warburgs replied that they were ready to join in the flotation at any time. As Schiff explained the situation to Sir Ernest Cassel in London:⁷⁶

The proposal of the Japanese Government to raise another £30 million apparently surprised Mr. Takahashi as much as us, for he was preparing to go home last week when he received orders to stay for the purpose of taking up new negotiations. It seems that the Japanese have not the greatest confidence in Russia's willingness to conclude a peace upon the conditions which they intend to stipulate, and the Government apparently wants to protect itself in all directions. Mr. Takahashi says that even if peace should come, he thinks the proceeds of any additional foreign loan would be applied toward the retirement

⁷⁵ *Ibid.*, pp. 723-725.

⁷⁶ "Speech by Takahashi before Bankers' Club dinner," *Ginko Tsuchinroku*, April 1906, reprinted in *Nihon Kin'yushi Shiryo*, VI, 1081-1087.

of the internal loans, which the Japanese Government must want to liquidate as soon as possible, so that the country's own capital ... can once more become mobile. We have suggested to Mr. Takahashi, if the money must be raised, that the new loan be of the same type as the last, and that it be secured by a second lien upon the tobacco revenues ... [We] are very much in favor of including Germany this time, particularly as the gentlemen of the Deutsch-Asiatische have recently intimated to us through Warburgs that they would be willing to go into a new Japanese loan with us ... We have furthermore received the impression from Mr. Takahashi that his government would be glad to see the German market also opened to its securities... [We] here think it would be best to distribute the new loan among the three markets, which would in any event make a good impression.

He asked Cassel to explain "our viewpoint" to the London members of the syndicate.⁷⁷

Schiff was correct in assuming that the Japanese Government was interested in securing the financial backing of German bankers. Since Germany had for long been a source of funds for Russia, the capture of the Berlin financial market by Japanese war bonds would be a coup of financial diplomacy second only to the conquest of the New York market. Tokyo did not have to be told, as it was by a German close to financial circles, that for Japan to float public bonds in Germany would be a blow to Russia and one way to encourage Russia to make peace.⁷⁸ Yet contemporary sources agree that it was Schiff who took the initiative in inviting the Germans to participate and who was then instrumental in getting the London syndicate to go along.⁷⁹ The ease with which the United States and Germany were enlisted behind the fourth bond flotation, however, was in sharp contrast with the difficulties experienced with the London group of bankers. At the same time that Schiff wired the Warburgs soliciting their participation, Takahashi cabled the bankers in London to get their opinion of the new flotation and of German participation. In reply he was told that it was undesirable from London's standpoint for any new Japanese bond issue to be floated at present. When Takahashi responded that he had no other choice, and that New York and Berlin were each willing to take one-third, he was told by one of the London bankers that it would be to Japan's disadvantage

⁷⁷ Schiff to Sir Ernest Cassel, June 23, 1905, Schiff Papers, Reel 3.

⁷⁸ Inoue (Minister to Germany) to Komura, March 24, 1905, *NGB*, XXXVIII-2, 57.

⁷⁹ Takahashi in his autobiography later wrote that Schiff sent the telegram to Warburg at his request. *Takahashi Korekiyo Jiden*, p. 729.

to permit German participation. According to Takahashi, Schiff then advised him to go to London to talk personally to the bankers there. If the London bankers would not consent to the new flotation there, Schiff personally would see to it that the entire Y300 million which Japan sought was floated in New York and Berlin alone.⁸⁰

Takahashi left New York for London on June 24, 1905. At Southampton an agent of the London bankers as well as the manager of the London branch of the Yokohama Specie Bank boarded his ship and tried to dissuade him from a fourth flotation. The arguments against the flotation were potent. It had only been a few months since the first Y300 million bond issue had been floated and subscriptions were still being paid in. Japan had an enormous sum of money still on deposit in London so there was no apparent need for additional money immediately, and the London market simply was not prepared to absorb another large Japanese bond issue so soon. It would not be good for the London market and it would not be to the advantage of those already holding Japanese war bonds. Moreover, these disadvantages would accrue to the disadvantage of any new Japanese bond issue. Not only were these arguments advanced by the bankers, but they filled the financial sections of London's major newspapers. Some questioned Japan's motives in seeking to raise such a large bond issue so soon after the first Y300 million flotation. Did Japan intend to negotiate in good faith at the peace conference, or was she making financial preparations to continue the war?⁸¹

Takahashi met these arguments with the same explanations he had provided for Schiff. Japan had to plan its finances well in advance, he explained, and in doing so it could not disregard the possibility that the peace conference might be unsuccessful or might drag on for months. Japan must therefore plan for war even while working toward peace. If she did not take advantage of the opportunity to float a bond issue now, and the peace conference did not succeed, the disappointment at the shattered peace prospects might make it impossible to float Japanese bonds at that time. It was better to float them now, and if the peace conference was successful, to use the money for evacuating the troops and other necessary post-war uses. As a result of his patient explanations Takahashi was able to bring

⁸⁰ *Ibid.*, pp. 729-731.

⁸¹ "Speech by Takahashi," *Nihon Kinyushi Shiryo*, VI, 1082-1083.

most journalists to an appreciation of Japan's position.⁸² To the bankers' objections Takahashi responded by arguing that this time Germany would join in the flotation and that this would promote the popularity of the bonds.⁸³ When the British bankers objected to the participation of Germany, Takahashi pointed out the diplomatic advantages for Japan that would result from that participation and called to their attention the fact that the New York bankers strongly favored that participation. As a result the British finally consented to the Japanese war bond flotation, the second 4½% sterling public bonds, on terms substantially the same as for the first 4½% bonds. The terms were settled on July 4th, with the flotation amount being 30 million pounds, sold at 90 per cent of the face amount, with the government's net proceeds being 86¾% and the redemption period 20 years. The government approved the terms by telegram on July 5th and the bonds were floated on July 11, 1905.⁸⁴

Several days before the flotation, Schiff wrote his son that "people are so crazy about Japanese loans that in spite of the great stagnation which prevails in the whole investment field it appears that the public subscription will be a success." The German participation was helping to make the bonds popular this time, he reported. It meant that only a third of the bonds would come to the United States as a result, but that was not to be lamented since London and New York would have been oversupplied if the bonds had been confined to those markets.⁸⁵ True to Schiff's prediction, the fourth flotation, too, was a tremendous success. Applications closed in London at 2:30 p.m. on the day of the flotation, with the London share oversubscribed ten times. Berlin also experienced a ten-fold oversubscription, while New York's was 4½ times.⁸⁶ The loan successfully floated, Takahashi's thoughts again turned to leaving London for the return to Japan, but again he was instructed to remain in London. There would be a need for low-interest foreign capital in Japan's postwar plans, both for industrial expansion and for the redemption of high-interest wartime bonds. On September 5, 1905, the peace treaty between Russia and Japan was signed at Portsmouth, New Hampshire, ending the war. During

⁸² See, for example, *The Economist*, July 8, 1905.

⁸³ "Speech by Takahashi," *Nihon Kin'yushi Shiryo*, VI, 1083-1084; *Meiji-Taisho Zaiseshi*, XVII, 142.

⁸⁴ *Meiji-Taisho Zaiseishi*, XVII, 141-143 — copies of the prospectuses are in pp. 145-174.

⁸⁵ Schiff to Mortimer Schiff, July 6, 1905, Schiff Papers, Reel 11.

⁸⁶ *Meiji-Taisho Zaiseishi*, XVII, 174-175.

the months between the fourth war bond flotation and the peace treaty, Takahashi worked at carrying out his government's policy of making the Industrial Bank of Japan the agency for introducing foreign capital into Japan. After the peace treaty was signed he turned to the task of floating a consolidation loan to be used for the redemption of high interest war bonds. In November, 1905, he succeeded in negotiating a ¥500 million, 4% interest, unsecured bond issue, with half to be floated that month to redeem domestic bonds, the other half deferred until it could be used to redeem the 6% foreign bonds. This flotation saw France join the ranks of the underwriters, with 12 million pounds of the 25 million pound flotation allotted to the Rothschilds in Paris, and the remainder divided between the British group (6.5 million), the American group (3.5 million), and the German group (3 million).⁸⁷

Considering the war-time years alone, Takahashi succeeded in floating four bond issues overseas totaling some 82 million pounds in face amount. The scale of foreign borrowing was unprecedented for Japan. The success of that borrowing, with each bond issue oversubscribed many times, with progressively strengthened credit despite the enormous increase in its public debt, was unprecedented in the financial markets of the world for wartime bond flotations.⁸⁸ This was fortunate since, as Fukai Eigo, Takahashi's private secretary, pointed out, this was the first time that the ebb and flow of Japan's national fortunes was intimately related to her success or failure in large scale foreign borrowing. And Japan faced the situation with very little experience at floating foreign loans.⁸⁹ By contrast with the Sino-Japanese War of a decade earlier, which cost approximately ¥255 million, the Russo-Japanese War cost ¥1.984 billion. Moreover, the cost borne through public bonds was increased from ¥117 million in the Sino-Japanese War, to ¥1.555 billion in the war with Russia. Since foreign borrowing accounted for roughly half of this latter figure, it is difficult to avoid the conclusion that Japan would have found it virtually impossible to carry through the Russo-Japanese War to its successful conclusion without the foreign loans negotiated in London and New York by Takahashi Korekiyo.⁹⁰ Not only did the foreign

⁸⁷ *Ibid.*, XVII, 184-187 — copies of the prospectuses are in pp. 189-218. *Nihon Kin'yushi Shiryo*, VI, 1086-1087.

⁸⁸ "Speech by Takahashi," *Nihon Kin'yushi Shiryo*, VI, 1087.

⁸⁹ Fukai Eigo, *Kaiko 70 Nen* (Reminiscences of 70 Years), Tokyo, 1942, pp. 67-68.

⁹⁰ *Komura Gaikoshi*, I, 407.

borrowing contribute a significant share of the expenses of the war, but it also acted as a prop to the Japanese economy throughout the war. The inflow of specie from the borrowings abroad stimulated the domestic economy, providing capital elasticity and maintaining private purchasing power, and in this way contributed even to the success of the domestic bond flotations and tax increases which made up most of the remainder of the expenses of the war. Without the foreign bond flotations it is difficult to see how Japan could have maintained the level of her war effort in Manchuria without bringing about economic collapse at home.⁹¹

But Japan's success in floating 82 million pounds in foreign war bonds was more than a financial victory for Japan. It was a diplomatic victory as well. Only a decade before, at the conclusion of the Sino-Japanese War, Japan found Russia, Germany and France allied against her to deprive her of the Manchurian spoils of that war. Japan's isolation of those days had been partially corrected in 1902 by the conclusion of the Anglo-Japanese Alliance. Her diplomatic position was further strengthened during the war with Russia by the successive conquests of the New York and Berlin financial markets by Japan's war bonds. By 1905 it was Russia which found itself increasingly isolated. It is certainly true, as some have pointed out, that American and German bankers probably would not have been permitted to participate in the flotations had this financial support of Japan not been in accord with the foreign policies of their government.⁹² To this extent the bankers' actions were only the surface manifestation of more complex foreign policy considerations. It is equally true, however, especially in the American case, that the bankers would not have participated in the flotations had those flotations not been in accord with the bankers' own foreign and financial policies. For Jacob Schiff, who played a central role in the success of Japan's financial diplomacy, the bond flotations offered a way for Jewish bankers to strike at the Russian Government for its oppression of Jews.⁹³ But from the financial standpoint, the bonds were attractive, especially in the commissions provided the underwriting banks. For investors, the prospect of an early redemption based on an in-

⁹¹ Akashi and Suzuki, *Nihon Kin'yushi*, I, 232; *Kin'yu Rokujunenshi*, pp. 437-452.

⁹² For example, Lionel M. Gelber, *The Rise of Anglo-American Friendship*, London, 1938, p. 172.

⁹³ Schiff to Kaneko Kentaro, February 10, 1905, Schiff Papers, Reel 4.

demnity for Japan from Russia offered the possibility of an even higher annual return on their investment. Without attractive terms, and tantalizing possibilities, the bonds could not have achieved the success of nearly \$200 million (face value) in flotations in the United States in eighteen months, no matter how ardent the support of the United States Government or of Jacob Schiff and other bankers. The importance, then, of the terms negotiated between the bankers and Takahashi Korekiyo cannot be overlooked, nor can the support of Tadasu in defending those terms to the authorities in Tokyo.

It was, as one Japanese historian has observed, a classic case of the intertwining of international politics and international banking.⁹⁴ Bankers were acclaimed as heroes and were awarded medals for their services in behalf of the Japanese war effort. Jacob Schiff, for example, was twice decorated by Japan and was received in audience by the Emperor Meiji.⁹⁵ King Edward VII, too, received Schiff in audience and expressed great satisfaction at the cooperation of American bankers in floating the Japanese bonds.⁹⁶ Takahashi Korekiyo was rewarded with a barony in 1906. Clearly the close personal relationship that developed between the two men during the war years and continued down to Schiff's death in 1920, were the key elements in the success of Japan's financial diplomacy.

⁹⁴ Gamaike Satoshi, "Nichi-Ro Senso o Meguru Gaisai Mondai," (Financial Problems Surrounding the Russo-Japanese War), Shinolu Seizaburo and Nakayama Jiichi, editors, *Nichi-Ro Sensoshi no Kenkyu* (Studies on the History of the Russo-Japanese War), Tokyo, 1959, p. 352.

⁹⁵ Uchida to Schiff, March 28, 1905, and December 23, 1905, Schiff Papers (originals; Schiff to Sir Ernest Cassel, May 14, 1904, Schiff Papers, Reel 15. See also Hayashi to Komura, June 30, 1904, TS-41.

⁹⁶ Hayashi to Komura, May 11, 1904, *NGB*, XXXVII-2, 139-140.

⁹⁷ Iwamura Takeo, *Hyoden Takahashi Korekiyo* (Life of Takahashi Korekiyo), Tokyo, 1948, p. 72.