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**THE PARIS BOURSE AND FRENCH FINANCE**

**- With Reference to Organized Speculation in New York**

**STUDIES IN HISTORY, ECONOMICS AND PUBLIC LAW**

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**THE PARIS BOURSE AND  
FRENCH FINANCE**

WITH REFERENCE TO ORGANIZED  
SPECULATION IN NEW YORK

BY

WILLIAM PARKER, Ph.D.



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COLUMBIA UNIVERSITY

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## PREFACE

THIS study grew out of the difficulty of the writer in finding anywhere in print or in the words of financial practitioners a clear account either of the relations between the banks and the stock exchanges, or of the somewhat complicated methods employed by the latter in handling their enormous and highly significant business of speculation. Parts of four years' graduate study in Economics in the Universities of Indiana, Illinois, Pennsylvania and Columbia were devoted to this problem, and later, two years with an international banking firm in New York gave an opportunity for direct observation.

The author takes pleasure in acknowledging his indebtedness to the faculties of economics and philosophy of the above schools and to those of Cornell where his undergraduate work ended. Special acknowledgment is due to Professor E. R. A. Seligman for helpful suggestions and to Mr. S. F. Streit, Chairman of the Clearing House Committee of the New York Exchange, for many constructive criticisms and references drawn from his long and thorough knowledge of the subject.

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## INTRODUCTORY

THE author's original plan to cover in the following dissertation the stock exchanges of Berlin, Vienna, London and New York with the same degree of attention given to the Paris Bourse, was interrupted by illnesses and finally by the impact of the war which well nigh put an end to deliberation on subjects unrelated to it. It had long been a mystery to the writer why the great stock market of New York employed a system of settling its contracts so much at variance with the custom of all the great European bourses. The difference, not a technical one merely, as the actual methods are much the same both in principle and practice, consists in the relations of the exchanges to their respective money markets, New York settling every day the transactions of the preceding day, (Friday and Saturday morning sales lumped together in Monday's clearance), while in Europe, a fortnightly and monthly settlement is the rule. Such settlements in Europe, however, do not include the strictly cash sales which are settled there individually, as they occur, and with considerable latitude as to terms. In New York practically all transactions as between broker and broker are made "regular way", that is, are settled by delivery of shares and payment of cash on the following day. On the European bourses, the customers of the brokers who buy and sell for the account must decide at the close of every fortnight or month, as the case may be, whether they will take up, sell out, buy in, or carry over their securities. As the term market is a device for the purpose of facilitating the carrying of securi-

ties until placed, and the fixing of their value by speculative buying and selling, varying quantities, depending on the season, the size of the market, etc. are always carried over. In Europe, the holders secure funds for this purpose for the definite period between settlements, making and settling their loans *en masse* at the end of every such period, which is at the same time the date of the settlement between brokers and brokers, and between brokers and money lenders. In New York, hundreds of millions of dollars of stocks and bonds are also carried over on borrowed money, but entirely through separate individual transactions between customers and brokers, and between brokers and bankers. Conservative brokers borrow from the banks for this purpose, on the average one-third in call loans and two-thirds on time, for from thirty to ninety days or more, and lend to customers chiefly on call. In practice, however, these latter loans are seldom called if margins are maintained, but run indefinitely, sometimes for years.

In New York there thus exist two definite rates of interest for security loans—the call rate, which is unlimited by law (on sums over \$5,000) and which has gone in panic times over 100 per cent, and the time rate, limited, as are all other legal rates in New York State, to six per cent. This legal limitation has even been adduced as the reason for lack of a term market in this country on the European plan.<sup>1</sup>

Another legal prohibition based on popular suspicion has forced the short sale contract into different forms in this country and in Europe. Here, the short seller “borrows” the stock that he anticipates buying in the indefinite future in order to make delivery the following day, as required by the rules. This arrangement is made by the short seller’s

<sup>1</sup> Warburg, *The Discount System in Europe*; vide Natl. Monetary Commission Pub.

broker by means of "long" stock in his own office, or with another broker whose customers are carrying securities on margin, and such loans go through the clearing house lumped together with sales without distinction.

In Europe, on the contrary, another method was adopted to conform to the law. The "bull" carrying over stock on settlement day sells his stock for cash to the capitalist who wishes to make a fortnightly or monthly loan. This is of course done through the broker, as in Wall Street. At the same moment and as part of the loan transaction, he contracts to repurchase it from the capitalist at the end of the term designated at a price slightly higher, say by one-third or one-fourth of one per cent, the difference being the amount of interest charged by the lender. On the next settlement day, if he still desires to carry his stock, the operation is repeated. The European short seller or "bear" having sold so many shares is entitled to their price, and with it he buys the shares for cash from the bull on settlement day, and resells for the next settlement, appearing to the bull in the guise of the capitalist.

The mystery of these important differences was solved largely by the investigations of foreign banks conducted by the United States Monetary Commission<sup>1</sup> and the subsequent enlightenment as to the overwhelming importance in Europe of the central reserve system of banking, with its unlimited power of note issue based on discounted bills. This observation applies especially to the continental countries of Europe, as in England unlimited note issue was obviously not contemplated by the framers of the Bank Act, and is obtained only by suspension of the latter by Parliament. Furthermore, some monetary difficulties of the present war were met in altogether another way—by the issue of small

<sup>1</sup> *Vide* publications U. S. Monetary Commission.

denomination treasury notes. In ordinary times, however, even in England instant resort to the central reserve of the Bank of England by embarrassed banks or individuals with proper security is always possible. This fact made it feasible for banks and others to employ considerable funds in loans on securities of fluctuating value for periods of as long as two weeks, and on the more stable securities for one month. On the continent, especially in France, where the use of checks long remained underdeveloped, flexibility of credits and security have been gained by the ease and safety of note issue and general acquaintance therewith. In England, on the other hand, the great use of checks economizes money reserves while the extraordinary development of the discount market with its international connections lessens the need for a more efficient apparatus of note issue. But the English system must be adjudged a failure in that it admits of comparatively frequent and violent fluctuations of the Bank of England's discount rate.

Until recent years another factor of importance in the making of these short term loans at a low rate has been the possession of large amounts of time deposits by continental banks, as contrasted with the demand checking accounts of American banks.

When the significance of the lack of a central reserve bank and of a discount market to which congested banks can turn for relief is fully realized, it is not difficult to see why American banks have been not only unwilling, but, indeed, unable to finance the Stock Exchange on the basis of all-time loans, even of so short a duration as one week, an experiment which was tried both by the big exchange and by the Consolidated. The fact was, as has been so ably pointed out by Mr. Warburg,<sup>1</sup> that the American bankers used the stock

<sup>1</sup> Warburg, "The Discount System in Europe," "Defects and Needs of our Banking System,"; *vide Essays on Banking Reform in the U. S.*, Proc. Acad. Pol. Sci., July 14.

market much as European bankers used their central reserve bank, as a primary source of ready cash in emergencies. It was not at all adapted to this use, of course, and served it only at the cost of periodic, more or less severe falls in prices, sometimes of certain securities at the foot of the favored list, sometimes of the whole market, with gradual recoveries as the suddenly withdrawn money slowly returned.

Since the establishment of the Federal Reserve System this antiquated arrangement has been done away with, but only to the extent that rediscountable paper is held in the banks' vaults, and drawn upon by them in time of need for rediscount. An inspection of the course of prices of fifty stocks,<sup>1</sup> half railroads and half industrials, from 1911 to 1919 does not reveal any striking modifications for the period since the inauguration of the new banking system. But the latter part of this period which marked the introduction of the new banking system was also the abnormal period of war. The testimony of downtown brokers is to the effect that bankers are now less inclined than formerly to make call loans and are equally backward in calling them. Stock speculations, however, have been discouraged in all countries throughout the war and the period has provided a strain on credit relations generally wherein stock market speculation has played a minor part. The ability of the New York money market, under the new dispensation, to support a prolonged speculative movement is still to be tested, though there can be no question that it has been enormously strengthened.

When discountable paper shall have attained such volume in this country as to be available for the absorption of most of the monetary shocks that come and go with the seasons, and with world-wide events not so cataclysmic as war, it is safe

<sup>1</sup> *Times Annalist*.

to say that a term market in the European sense, with a collective clearing of securities and money loans, can develop in New York.

But the banking difficulty is not the sole one to be considered in anticipation of such a project. There is the highly technical one of settling a whole fortnight's or even a week's dealings in securities, cash, and loans in a market where the weekly sales might easily amount to 10,000,000 shares, worth, say, \$800,000,000, and where the value of stocks currently carried on borrowed funds could easily reach \$1,000,000,000.

For what particular reason, the collective settlement was first instituted is obscure. It is obvious to every book-keeper that the reduction of accounts to balances and the settlement of the mere balances is a time and money saving device. Manifestly, where a group of traders were engaged daily in mutually balancing, interdependent purchases and sales, we may suppose that they resorted to the collective settlement, periodically for their mutual convenience, and that they made the settlement dates as far apart as they could prevail upon capitalists and bankers to finance them. Safety forbids the postponement of stock market settlements beyond a certain period, while economy of operation requires a certain accumulation of accounts in order to secure the full benefit of the extraordinarily small balances that are obtainable, as little as \$10,000 having been required in one instance in New York to settle transactions involving 204,000 shares worth \$12,500,000.<sup>1</sup> Generally speaking, however, deliveries are reduced to approximately thirty-five per cent of sales, and cash payments to ten per cent or less of the original contract obligations.<sup>2</sup>

<sup>1</sup> Pratt, *The Work of Wall Street*, 1903, p. 123.

<sup>2</sup> Cf. *ibid.*, p. 120.



Up to 1892, the New York Stock Exchange had no stock clearing house at all. All deliveries of shares and checks between brokers—as well as between brokers and the banks, where securities were hypothecated and certifications made, were handled individually, every office having a swarm of messengers who sometimes worked hard all day, and at its close, left their office in exactly the same position as regards securities and cash on hand as when they had begun their day's work. Every afternoon, an army of these messengers carrying valuable packets of securities and checks would traverse the financial district, lining up, in long queues reaching to the street, at the wickets of the various offices, and blocking traffic for hours. The amount of certifications required of the banks had grown, by 1892, with the increase of business, to enormous proportions, and it was the threat of the bankers to shut down on certifications that finally induced the Exchange to institute a system of reducing totals to balances before settling.

The practice of overcertification, though illegal, grew out of the necessity of the brokers of financing purchases of stocks for their customers during the short interval from the time the broker received and paid for the stock and the time he delivered it to the purchaser and received his check, or if margin stock, from the time he deposited it with a bank and thus secured the right to draw his check on the latter. On a balance of say \$50,000 left by the broker with his bank, the latter allowed the broker to draw checks up to \$1,000,000, certifying them as requested, although the broker's deposit was far from covering the sums certified. The broker, however, was required to cover his checks at the close of the day, by deposit of checks received by him from his debtors, immediately upon receipt. This practice is now modified to the extent that the broker every morning contracts a daily loan with the bank for approximately the amount he will require for the day, giving his guaranteed note.

The Stock Clearing House, established by the New York Exchange in 1892, was and has remained to this date (March 1919) a comparatively simple organization. It receives "clearance" sheets and "tickets", recording sales and purchases of active securities, from the brokers every day except Friday, balances, and verifies them and returns to the member brokers statements indicating the balance of shares each has to deliver and to receive, if any, and the names of the brokers to whom deliveries of securities and checks are to be made, or from whom they are to be received. These deliveries are then made individually by the broker within a specified time. As to the differences between actual prices and the nominal settling prices, however, the Clearing House goes a step further. It not only performs the bookkeeping work, which, of course, is checked by each broker's office, but also receives the checks of the brokers who have debit differences, and indorses the drafts of all other brokers who have credit differences. As these debit and credit differences are always exactly equal, this is also in reality a bookkeeping credit device; but it requires the intervention of a bank (Manhattan Bank) and of the Bank Clearing House, through which the checks and drafts are in turn cleared.<sup>1</sup>

As will be seen in the following chapters, the settlement system of the Paris Bourse is much more complicated and complete; and this is true also of the Berlin and Vienna bourses, and of the London Stock Exchange from which<sup>2</sup> eight hundred to one thousand firms (out of about four thousand members) in good markets send in clearance sheets. The methods of these central financial markets were all adopted within ten years of their development in Frankfort, Germany, where the first well-authenticated system of clear-

<sup>1</sup> Pratt, *op. cit.*, p. 116.

<sup>2</sup> Hirst, *The London Stock Exchange*.

ing intermediate contracts in securities was established in 1867, though there had been partial clearings in Glasgow, Scotland, and Manchester, England, as early as 1848. The adoption of these methods does not seem belated when we remember that in 1815, securities of stock companies listed on the London Exchange numbered but 30, on the Paris Bourse but 20 and in Berlin 11.<sup>1</sup>

It was from the stock clearing houses of the European capitals that the New York Exchange obtained its data in 1892; but it could not adopt the term settlement under our then antiquated banking system, and this fact necessitated a series of modifications in details. Under the Federal Reserve System, established in 1914, with its consolidated reserves and enormous power of note issue not rigidly limited to a forty per cent gold reserve, and with the gradually developing discount market, the time has come when a more scientific and economical system of financing the purchase and sale of securities may be instituted. Under the system now in vogue, the banks and other lenders of money on call to the broker can, if the whole market is considered, demand on a day's notice the return of hundreds of millions of dollars of their funds loaned on securities. Upon receiving such a notice the broker endeavors to arrange an equivalent loan with his own bank or elsewhere. As brokers' loans are constantly being called as a result of their serving at least as a secondary banking reserve, or are being paid up by the broker, there results a constant daily shifting of loans from bank to bank, and as the securities deposited as collateral are sold, and delivered and repurchased and resold, there results an endless process of substitution of one hypothecated stock or bond for another, several substitutions frequently being made during a single day. In the panic

<sup>1</sup> *Handwörterbuch der Staatswissenschaft*. Article, "Börse."

of May 9, 1901, for instance, eleven substitutions were made in one loan.<sup>1</sup> All these transactions, with the contingent accounting routine, are made individually and daily, with messengers hurrying to and from the banks, delivering, collecting and exchanging packets of securities, clerks scanning prices, and figuring interest, and brokers absorbed in arranging loans and in drawing and depositing checks. Every morning, the "chain gangs" of the brokerage firms may be seen moving to the vaults where the packets of securities on hand have been carried the preceding evening and under armed guards returning with the paper fortunes to their offices; while in the loaning banks other hundreds of millions of hypothecated securities are stored nightly in huge steel safety vaults. All this handling of securities and checks is obviated under foreign clearing systems or reduced to a fortnightly or monthly movement, except in the case of cash transactions, which however constitute a relatively small part of the total.

Furthermore, in addition to the movement of securities between the brokerage firms and the banks there are the daily deliveries of the clearing-house balances of securities among the brokers themselves, and of all securities as well on contracts that do not pass through the clearing house.

In Berlin and Vienna, where the evolution of the process of financing industry has proceeded furthest, the securities themselves or receipts therefor are exchanged between brokers, or between brokers and the banks at a central institution, of which both bankers and brokers are members—in Berlin, *Die Bank der Berliner Kassen Verein*, and in Vienna, *Die Bank der Giro und Kassen Verein*. Money loans on securities are also put through the clearing process, as shifts are made from bank to bank by the various brok-

<sup>1</sup> Pratt, *Work of Wall Street*, p. 192.

ers. At the end of the settlement period such loans appear on checks of a special color and are available upon receipt of notice by the bank from the Kassen Verein Bank of the deposit or transfer on account of the securities previously agreed upon as the pledge.<sup>1</sup>

In the words of Adam Smith, the capitalistic system of individual competition flourishes through the pursuit by the individual of his own profit, which works out on the whole to the general good. The very crown and summit of this system is represented notably in the functioning of the London and New York stock exchanges, where the decisions of the individual speculators and investors, swayed of course by their confidence in the security-marketing firms and their prior decisions, determine the direction and volume of the flow of capital into the innumerable fields of economic production. This unadulterated *laissez-faire* has seemed too haphazard to the German mind.

In no other countries are the banks so closely connected with the whole process of organizing, promoting and financing industrial enterprises of all kinds as they are in Germany and Austria. They are the most important members of the Stock Exchange. The Deutsche Bank, for instance, had at one time fifty representatives (now many less) on the Berlin Exchange, and the Dresdner Bank had from twenty to thirty members. In Germany there are no brokerage houses as in New York. Persons desiring to buy stocks or bonds go to their bank for information, and purchase or sell securities through it on such terms as may be agreed upon. These range from no margin at all in the case of a well-known customer, to fifty per cent or more in other cases, depending

<sup>1</sup> S. F. Streit, *Description of Methods of Centralization of Receipt and Delivery of Securities in Use in Paris, Berlin and Vienna*. Pamphlet.

upon the man and the security. Usually a margin of from twenty per cent to forty per cent is required.

The banks of Germany are practically the originators of all kinds of enterprises, taking great pride in the success of their operations, and having a good record, guided as they are by the ablest minds available. Having gained the confidence of investors to a high degree, they have found it possible to use, for the development of enterprises, the deposits of those to whom the shares are afterward sold. These enterprises they control through contract stipulations and representation on boards of directors enforced by votes of thousands of proxies entrusted to them by their shareholder-depositors. Also, of course, they have the custody of securities, the Dresdner Bank in 1909 having \$400,000,000 worth in its vaults.

This situation has long thrown into the hands of the German bankers a tremendous power of discretion to shape the course and flow of the surplus wealth annually produced by the German people and others whose accumulations they could influence. In 1908, 8 large Berlin credit banks controlled 74 per cent of the entire capital of the 421 credit banks of Germany. These banks, together with the Reichsbank with its \$58,000,000 capital and its immense prestige virtually dominated and coordinated German financial, commercial and industrial policy, and, with the aid of a few "personages", German political policy as well.<sup>1</sup>

In 1893, an exhaustive investigation of the whole question of stock and produce speculation in Germany<sup>2</sup> was made by a distinguished body of German financiers, economists and business men. As an outcome of their findings and as a result

<sup>1</sup> Parker, "German Banks and Stock Exchange Speculations," *Proc. Academy of Political Science*, Jan. 1911.

<sup>2</sup> *Bericht der Börsen Enquete Kommission.*

of violent agrarian agitation against speculation, a series of restrictive regulations were passed in 1896, 1908, and 1910 by the Imperial Government and the Prussian State Government, putting the Börse under the jurisdiction of the Berlin Chamber of Commerce and officializing its activities in the most approved Prussian style. These laws and regulations greatly restricted public participation in speculation, eliminating the smaller speculative element, and consolidating still more the power and resources of the larger banks as regards the marketing of securities and control of the Berlin Bourse.

These developments in German finance, while not necessarily synchronous with the adoption of a thorough-going settlement of cash differences, stock balances, and money loans and stock hypothecations between brokers and the banks, have inevitably facilitated the full development of the system, inasmuch as the struggle for accommodations in Berlin centers not so much as in New York between the bankers and the brokers, as between the banks and the Reichsbank.

It remained for the Viennese, however, to bring the technic of stock market operations to its full flower.<sup>1</sup> In Vienna, the bank of the *Giro und Kassen Verein*, as in Berlin, comprises in its membership both bankers and brokers. Like the Berlin Kassen Verein Bank, it goes further than the *Caisse Commune*, the clearing house of the Paris Bourse, in that it actually has the custody of the bulk of active securities traded in currently, and transfers them on its books only at every settlement from broker to broker to banker and *vice versa* as indicated on the clearance sheets and tickets, the percentage of such clearances of sales being much higher than in Berlin. Thus with the transfer of

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<sup>1</sup> V. S. F. Streit, *op. cit.*

stocks, and cash reduced to the lowest balances, the making of bank loans and the giving of security therefor have all become mere bookkeeping credit transactions. In consequence, the name of the messenger boy is not legion. His work is done by a stroke of the pen.

Something of this nature is the plan now proposed for adoption by the New York Stock Exchange, in so far as it can be applied to its system of daily settlements. It necessarily involves a more intimate organization if not a closer relation between bankers and brokers than now exists, and foreshadows the appearance in New York of the fortnightly settlement which it must necessarily precede, and which the banks are already demanding, because it provides a more stable investment medium and eliminates the overcertification evil. The following quotation from Mr. S. F. Streit, Chairman of the Clearing House Committee of the Exchange, defines the immediate objective aimed at by the formation of a stock clearing corporation.

1st. The clearing of loans, whereby the advances of banks to brokers for the purpose of paying off loans is reduced to a minimum. At the present time when a loan is called which a broker desires to reborrow, it is necessary for him to secure credit from his own bank for the purpose of paying off the loan. It is proposed to have the banks send their securities to the Clearing Corporation where they will meet the representative of the bank loaning the money, and while the securities are in the physical possession of the Clearing Corporation the old loan is paid off and the new loan made, with such changes in securities as may be necessary by the brokerage house, thus eliminating any credit advances by a third institution.

2nd. The clearing of stock balances. The advantages are illustrated by taking the situation under the present clearing system. If a member buys 1000 shares of Steel and sells 900 shares, the Clearing House furnishes him with an *authorization*



*statement*<sup>1</sup> of a balance of 100 shares of stock to receive and pay for the next day. If, however, the member buys 100 shares of Steel and sells 900 shares of Southern Pacific, the present clearing system is of no assistance to him should there be no other transactions in the same stocks. It is proposed to furnish credit by the Clearing Corporation in such a manner that the proceeds of the delivery of the 900 shares of Southern Pacific will be used to reduce the debit caused by the purchase of the 1000 shares of Steel, so that the net credit extension required will be only that necessary for the payment of the difference.

It is estimated that at least sixty-five per cent of the present daily extension of credit by banks to brokers will be eliminated by this plan.

<sup>1</sup> Author's italics.

## CHAPTER I

### ORGANIZATION OF THE PARIS BOURSE

NEXT to the Bank of France, the Paris Bourse is probably the most important financial mechanism in France. It is the third largest stock exchange in the world. Listed on its different markets are some 2,000 varieties of stocks and bonds<sup>1</sup> whose nominal value before the war was estimated roughly at \$32,000,000,000.<sup>2</sup> The comparison of this vast total with the \$1,000,000,000 of local securities listed on the other exchanges of Lyons, Bordeaux, Toulouse, Lille and Nantes reveals the overwhelming superiority of the Paris Bourse among the stock exchanges of France. Whether the national wealth of France in 1914 was roundly \$59,000,000,000, as reported by the National Geographic Society, or \$83,000,000,000 as computed by Leroy Beaulieu in 1911, or \$57,000,000,000 as estimated by Levy,<sup>3</sup> the fact that some \$23,000,000,000<sup>4</sup> of it was in the form of French-owned, French-listed securities, not to mention French holdings listed only on foreign exchanges, is a striking revelation of the national importance to France of the institution where alone these forms of property claims may be bought and sold through an intermediary.

<sup>1</sup> *Cotestidal and Cour de la Banque et de la Bourse*, July, 1914.

<sup>2</sup> Cf. Neymarck, *Journal de la Société de Statistique de Paris*, Jan., 1915.

<sup>3</sup> Cf. Julhiet, *N. A. Review*, May, 1916, p. 735—"The War and French Finance." Also *vide* Neymarck, *Le Rentier*, July 12, 1913.

<sup>4</sup> *Journal of Economy*, Nov. 1915.

Just as the Bank of France has possessed a monopoly of note issue in that country,<sup>1</sup> the seventy members who since 1898 have constituted the *Compagnie des Agents de Change*,<sup>2</sup> as the official organization of brokers is called, has possessed a legal monopoly of the business of buying and selling for others public securities and securities susceptible of quotation (*valeurs mobilières*). This has been the case since 1720, except for a period during the revolution when the members numbered but sixty. It has long been a serious offense in France for anyone but an authorized broker to mediate between a buyer and seller of securities, for a commission. This somewhat medieval situation developed naturally in the days when commerce and trade were struggling for recognition against the noble and clerical land-holding interests.<sup>3</sup> It has continued, partly because of the enormous advantages of a single central market, partly on account of the fact that since the preponderance of its dealings has always been in French government securities, the government was interested in maintaining so influential a credit instrument effectively under its control, and partly because such agencies have always been a ready source of revenue.

The colloquial name of the *Compagnie des Agents de Change*, taken from the raised platform in the center of the <sup>9</sup>Bourse on which the brokers stand, is the *Parquet*, and this name is applied as well to the companies of authorized brokers in the above-mentioned provincial cities, to whom is also extended by a sort of legal fiction, as far as their own locally listed securities are concerned, the monopolistic prerogative of the *Parquet* at Paris.

The title to the brokerage monopoly in stocks and bonds

<sup>1</sup> "The Paris Bourse," Cleveland Moffet, *Century Magazine*, March, 1904.

<sup>2</sup> Alphonse Courtois, *Opérations de Bourse*, p. 206.

<sup>3</sup> E. Vidal, *History and Methods of the Paris Bourse*, pp. 194-276.

has not, however, been either peacefully or wholly enjoyed by the official Paris Parquet.<sup>1</sup> From the earliest days of speculation, the poachers on its preserves have camped on its very doorstep. In the big hall of the Bourse building, in the shelter of its porticoes, on its broad flight of steps, and in the streets roundabout, these ubiquitous outsiders have traded with each other, with the outside public, and through the official brokers, even in stocks and bonds listed on the official market as well as in the always considerable though fluctuating number not listed.<sup>2</sup> Though constantly opposed and prosecuted by the Parquet and the authorities, they persisted in maintaining the "free market," as the dealings outside the official market are called, until, by 1893, the five hundred firms that then composed the unauthorized market were doing three-fourths of the total business of the Bourse.<sup>3</sup>

This startling success at last kindled the long-smouldering hostility of the Agents de Change into open war. They brought great pressure to bear on the government, and petitioned for a law abolishing altogether the outside brokers (commonly called *Coulistiers*, from their habit of trading on the outskirts of the Bourse crowd, the wings of a theatre in French being named *Coullisse*),<sup>4</sup> and making it a penal offence for any of them to carry on business. The Chamber, however, in 1893, passed a law putting a tax on Bourse transactions only, it being thought that this measure would force into the light and thus check the illegal transactions. It was found to have so little effect (from 1893 to 1897 the

<sup>1</sup> Robert Milles, *La Bourse de Paris*, p. 178.

<sup>2</sup> Émile Guilmard, "Coulisse et Coulistier," *Journal des Économistes*, May, 1900. *Le Marché Libre*.

<sup>3</sup> I. B. Brandreth, "The French Stock Exchange," *Bankers Home Mag.*, Sept., 1910.

<sup>4</sup> M. Freméry, *Des Opérations de Bourse*.

tax on transactions paid by *Coulistiers* was twice that paid by the *Parquet*)<sup>1</sup> that the *Parquet* members again took the offensive and engineered a tremendous newspaper campaign against the *Couliste*.

The press published biting articles against the outside brokers, many of whom from their methods of doing business were easily open to attack. It was shown that a majority of them were Jews and foreigners—mostly Germans, who were financed by Jewish and German capitalists. Accusations were made that they had conspired to depress the price of Russian and French *rentes* and thus injure the credit of the allies. Full advantage was taken of the Anti-Semitic movement, product of the Dreyfus case.<sup>2</sup> Under pressure of the popular clamor the Government passed a law requiring all persons dealing in officially quoted stocks to produce for each deal an official stock-broker's memorandum (the famous *bordereau*), subject to a stamp tax, besides taking other measures that will be referred to later, the whole being known as the reorganization of the financial market of 1893.<sup>3</sup>

In considering the remarkable institution thus described, an institution which has no parallel in any country in the world, two questions naturally arise in the mind of one not familiar with the French system: first, as to the possibility<sup>4</sup> of an outside market attaining, under the very wing of the official monopoly, such extraordinary proportions; and second, as to the need felt by the powerful official monopoly of protecting itself against this illegal competition by an appeal to the National Government. The fundamental cause of this perpetual strife, a thing that exists on no other exchange to such an extent, is to be found in the peculiar character of the *Parquet* itself.<sup>4</sup>

<sup>1</sup> G. Boissière, *La Compagnie des Agents de Change*, p. 147.

<sup>2</sup> Vidal, *op. cit.*, p. 241.

<sup>3</sup> Cf. E. Friends, "The Paris Bourse," *Forum*, Oct. 1901.

<sup>4</sup> Cf. Boissière, *op. cit.*, p. 140.

The Compagnie des Agents de Change, though a monopoly, is a monopoly which operates under the strict and comprehensive control of the French Government.<sup>1</sup> All of its most important customary practices have been enacted into law. The rate of members' commissions is fixed by law. Only French citizens may become official brokers, and then only after acceptance by the Minister of Finance upon being nominated by a retiring member, or by his estate. The number of Agents de Change may be increased or decreased only by the Government. It is a misdemeanor for brokers to reveal the name of a client. No foreign government security may be admitted to official quotation without the consent of the French Government, which is not always given.

But the two most important provisions bearing on the Parquet-Coulisse mystery are, first, the "solidarity" of the Agents de Change, whereby all the members are held responsible for the liabilities of one toward both givers of orders and lenders of money, a unique feature that will be described later in connection with the credit facilities of the Bourse; and second, the rigidly enforced rule that under no circumstances may an official broker buy or sell securities for his own account. He is a commission broker only, an agent, and never a principal. If he should at any time receive an order to buy and an order to sell the same amount of the same security at the same price, he could not, under the rules, offset or "apply" the two opposite orders in his office. He must verify in the market the impossibility of obtaining a better price for either, with the aid of an official acting under the supervision of the Syndical Chamber, the name of the board of governors of the Compagnie.

This last rule, which is considered necessary in France for the protection of the investor, entirely eliminates from

<sup>1</sup> J. Combat, *Manuel des Opérations de Bourse*, p. 160.

the official Bourse that important class of speculative brokers, who under the name of jobbers form the backbone of the London Stock Exchange, and as room traders are responsible for the bulk of the dealings, at least on one side, in New York. This energetic and venturesome class often possessed of large capital, but debarred from the Parquet or unwilling to do a commission business solely, has from the beginning been the chief support of the outside, free market, the *Coulisse*.<sup>1</sup> Here they could legally buy and sell any securities on their own account without the payment of a commission, and here they also had from time immemorial managed to deal for others in Parquet securities, collecting a brokerage from both sides. For the Parquet had been constrained to concede to them, on account of their numerous and irrepressible dealings, the right of the so-called "Franco", i. e. a purchase and sale of the same security in the same market on the same day, under an obligation to pay a commission only upon the amount of the larger transaction, on whichever side it might be.

It might seem that the avoidance of the small commission of  $1/20$  or  $1/16$  of 1 per cent which they would pay on matched orders, or even double the amount due on single orders, would scarcely be sufficient incentive to the formation of so great an outside market, but it must be remembered that this small sum repeated many times on a multitude of transactions grows through the course of a session to a considerable amount. In all the large markets, such business is often done on a very small margin, the profit emerging from the enormous turnover. In addition, the outside brokers had always the profits of their speculative purchases and sales.

Naturally enough, the growing pressure of competition

<sup>1</sup> Cf. Boissière, *op. cit.*, p. 354.

among the *Coulisse* firms, due to their constantly increasing number, made them more and more reluctant to pay the *Agents de Change*'s commission, and impelled them to the alarming encroachments of 1893 on the *Parquet*'s commission business. This resulted in a certain advantage to the public through a broadening and bettering of the market for its securities, the spread between successive purchase and sale prices being theoretically decreased by one-fourth to one-half of the total commissions each way, but tending, of course, toward a complete supersession of the carefully safeguarded official market (*marché officiel*).<sup>1</sup>

This development of the outside market could have been prevented by the *Parquet* by the admission of the *Coulistiers* to their association, but they had neither the power nor the desire to take such action. Only the French Government could increase the number of official brokers, and only the Government could alter the Commission rule and allow official brokers to trade for their own account and profit, as was the practice of the *Coulistier*, or, as they call themselves, *Banquiers*. This change neither the French Government nor the French people were inclined to make. It seems to have long been a fixed idea in France that the integrity of the quoted prices must be maintained solely through the agency of the strictly commission broker, and this is one of the strongest claims of the *Parquet* to support for the continuance of its monopoly. It entirely overlooks the fact that the utility of a quotation as an index of current security values depends quite as much upon the number and amount of transactions at that figure as upon their genuineness. A broad and active market, *i. e.* one made by a large number of people trading in the same security, is the best guarantee of price integrity, not only because successive prices are

<sup>1</sup> Cf. Courtois, *Opérations de Bourse*, p. 206.



apt to be "close" to each other, but also because it is much less susceptible of manipulation than a narrow market however safeguarded. In no other important country is there the rigid separation of stock market men which obtains in Paris, and it is safe to predict that permanent peace will not settle upon the Parquet and Coullisse until dealers for their own account are admitted to a fuller participation in the official market.

The objections to this arrangement, however, do not proceed entirely from the French investor. The members of the Compagnie des Agents de Change are clothed with great financial and social prestige. There are many traders who do not attract either the personal or official attention of members of the Compagnie. Up to the early nineties, it was necessary to deposit \$20,000 with one in order to deal for the account, *i. e.* to speculate, and although this sum has since been greatly reduced, a good introduction is still advantageous to the prospective client. The fact that the price of each seat on the Parquet was at that period some \$300,000 (in 1898 also) <sup>1</sup> explains in a measure the aloofness of the official broker.

It must not be supposed, however, that the 70 Agents de Change personally transact the great volume of business that daily rolls through the official market. Each of the 70 brokers is permitted by the rules 6 clerks (*commis principaux*) authorized to negotiate purchases and sales. Thus the actual intermediaries on the Parquet may total 490, a number that compares favorably with the 500 to 600 brokers who ordinarily appear on the floor of the New York Stock Exchange.

It is rather the principle of "*solidarité*" which imposes upon the members collectively responsibility for the derelic-

<sup>1</sup> Vidal, *op. cit.*, p. 170.

tions of each that causes the official broker to be so careful both as to his clients, who are often carried uncovered for heavy amounts, and as to his associates, who have such power to involve him in their downfall. For this reason power is given to the Syndical Chamber to examine members' books at any time and to bring pressure to bear on those members who overextend their credit. Thus, the exclusively broker organization of the Parquet, the small number of seats, and the principle of solidarity have all combined to exclude the *Coulistiers*, financially or otherwise *personae non gratae*, from the official market.

The character of the official organization has also given rise to another class of stock-market men, distinct both from the Agent de Change and the Banquier who deals solely on his own account. They exist to some extent in every market, but are especially numerous and important in Paris. These are the "*Remisiers*", so called from the term applied to their remuneration, the "*remise*". This is the rebate or discount allowed them from the regular commission by the Agent de Change on the business they bring. It was said in 1892 that nine-tenths of the Parquet's business came through the *Remisiers*. There are grades of middlemen varying from the individual who brings in occasional small transactions to those who have desks in the Agent's offices or who have large suites of offices of their own, and who stand high in the favor of the Agent de Change and the "*Haute Banque*". Recently, the largest banks have come to overshadow all others in this comparatively modest function, collecting all over France thousands of orders that they send in a lump to the Parquet.

The *Couliste Banquiers* have long acted as *Remisiers*, and often have large sums due them at the close of each settlement, the result of the business contributed to the various Agents de Change during the preceding period intervening

between settlements. This not undesirable activity on the part of the outside brokers was one of the main reasons for the tolerance extended to them by the official monopoly, but there were two other no less potent reasons. The monopoly of the Parquet has been held in the Courts to apply only to public securities of France and others susceptible of quotation. This left a considerable field where the operations of the outside broker were entirely legitimate, and where he could not be suppressed. These curb securities that for one reason or another were not listed on the official or main market exist everywhere, and are everywhere left to the curb broker.

But we find in Paris that the premier security of France, the *Rente Française*, has for many years enjoyed its best market not on the official Parquet, but on the *Coulisse de la Rente*, or Curb Market in Rentes, a sort of official annex market of the Parquet, tolerated in fact, but without standing in law.<sup>1</sup> When the tax on Bourse transactions was imposed, the Agents de Change supplied this Coulisse market with the blank forms required by the Government, but left them still without recourse against welsing on the part of traders: for it is the French law that unauthorized brokers deal in officially quoted securities cannot make binding contracts. The explanation of this seemingly anomalous policy on the part of the Agents de Change lies in the growing democracy of France. Through the force of impassioned appeals in the Chamber of Deputies and elsewhere, that the interest of a private monopoly must not transcend the needs of public credit, and through universal recognition of the value of the extended market for rentes on the Coulisse, public opinion has not only sanctioned but has even enforced this modification of the legal rights of the Parquet. Furthermore, there have been

<sup>1</sup> Vidal, *op. cit.*, p. 247.

important attacks on the principle of the monopoly itself, regardless of the securities to which it applies.<sup>1</sup> The very circumspectness of the Agents de Change, which prevents them from giving tips on price movements, tends to alienate them from the popular heart. The argument that the brokerage monopoly is medieval and unjustifiably oppressive meets a ready sympathy in modernist quarters. The specific political situation in the Chamber of Deputies had also to be considered. This explains why the Parquet postponed so long, and secured after only a stiff fight the enforcement, in 1898, of its rights against the expanding *Coulisse* of the early nineties to the results of which we now return.

The requirement of the production of a *bordereau* (procureable only from an Agent de Change) for each transaction, and the absorption of some of the most substantial outside brokers through the raising of the number of Agents de Change from 60 to 70 dealt the *Coulisse* of that day a crushing blow. Many *Coulistiers* emigrated to Brussels, London or Berlin and continued their business from those centers.<sup>2</sup> The status of the *Coulisse des Rentes* or "*Groupe des Banquiers en rentes Françaises*" as they now call themselves, remained unchanged, owing, of course, to their close alliance with the members of the Parquet. Those who remained of the true *Coulisse* accepted the conditions imposed by the Agents de Change upon delivery of the *bordereaux*, and found themselves thereafter possessed of a semi-official status (as recognized *remisiers*), with their contracts thus legalized and made binding, and in addition their right to deal in unquoted securities reaffirmed. They organized in two associations corresponding to the cash market and term market in which they had formerly been engaged, called respectively, "*Syndicat des Banquiers au Comptant*" and

<sup>1</sup> Vidal, *op. cit.*, p. 215 *et seq.*

<sup>2</sup> Friend, "The Paris Bourse," *Forum*, Oct. 1901.

"*Syndicat des Banquiers a terme*". The first consists of some 150 members, who must each show a working capital of \$20,000, and who negotiate cash transactions only. The second comprises some 110 members who are required to possess a capital of \$200,000, and who deal only for the settlement at the end of each month. There is no fortnightly settlement on the *Coulisse*; in both *Coulisse* markets, they have the power denied to the *Agents de Change*, of dealing for their own account, constituting themselves a counterparty (*contre-partie*) to the prospective buyer or seller, provided they so state to him before completing the transaction. For this sort of negotiation, they charge no commission, and many buyers and sellers are not loath to avail themselves of it.

For some time after this official pugnacity of 1898, things quieted down, but as the *Coulisse* slowly pulled itself together, misunderstandings and bickerings increased, until in 1901,<sup>1</sup> a voluntary agreement, the famous "*modus vivendi*" which is still in force, was arranged. The principal points of this agreement naturally referred to the *remise*, or rebate, which was to be allowed *Banquiers* by the *Agents de Change* when the former applied for the official *bordereau* to legalize their transactions in the officially quoted securities. For transactions in the time market to be settled at the end of the month, or on the 15th of each month, the two settlement dates on the *Parquet*, the *Banquier* receives a *remise* of 40 per cent of the commission, for continuation operations or carryovers ("*reports*" in French) 20 per cent, and for cash transactions 10 per cent. For certain other securities, largely Turkish, Serbian, etc. currently traded in on the *Coulisse* before the *modus vivendi*, 80 per cent is allowed. The *Coulisse* was also admitted to the Floor of the Bourse building.<sup>2</sup>

<sup>1</sup> Friend, *Forum*, Oct. 1901.

<sup>2</sup> E. Guilmard, *Le Marché Libre*.

Listed on these two semi-official *Coulisse* markets,<sup>1</sup> the formal organization of each of which closely parallels that of the *Parquet* described hereafter, are some \$1,000,000,000 par value of securities as compared with the \$33,000,000,000 of the official list. In addition to these, there are still other securities not listed in any market and traded in by those who have now become the sole "free" brokers, those not connected with either *Coulisse* or *Parquet*, and constantly watched by the latter for secret violations of their official privilege. These however are of comparatively little importance. The "*Groupe des Banquiers en rentes Françaises*", having no legal standing, is not formally organized.

The *Parquet* like the *Coulisse* comprises two or, more accurately perhaps, three markets: the cash, the fortnightly term market, and the monthly term market for certain securities not dealt in for the middle month settlement. But the members of each form one official organization, the general powers of which reside in the General Assembly of all the *Agents de Change*. The special administrative power is delegated to a board, the *Syndical Chamber*, elected on the rotative principle. The chief executive officer, the *Syndic* is also elected by the general assembly. He makes annual reports and is subject to an auditing Committee.

This in brief is the main structural organization of the Paris Bourse. The 70 members of the *Compagnie des Agents de Change* with their adjunct 75 members of the *Groupe des Banquiers en Rentes*, the 110 members of the *Syndicat Française des Banquiers à terme*, and the 150 members of the *Syndicat des Banquiers au Comptant*, some 405 in all—825 if the 420 negotiating clerks are added—make up the mechanism, the functioning of which is described in the following chapter on technique.<sup>2</sup>

<sup>1</sup> Boissière, *op. cit.*, p. 149.

<sup>2</sup> *Ibid.*, p. 89. Also Buchère, *Opérations de la Bourse*, p. 6.

## CHAPTER II

### BOURSE TECHNIC

THERE is no financial district in Paris, as there is in London and in New York. The various banks, main offices and railroads, industrial and financial institutions, are scattered throughout the city, connected with the Bourse only by some recently installed telephones and a troop of messenger boys. On the floor of the Bourse (the name applied to both market and building) which can accommodate some two thousand persons, are gathered in more or less distinctly marked groups the eight hundred and twenty-five Parquet and Coullisse intermediaries, the messengers, clerks, *remisiers*, and a sight strange to English-American eyes, the general public. For in France, the Bourse is a national market, in fact as well as in name, and every Frenchman may personally appear on the floor and overhear his order executed by his broker, a thing unheard of in the Holy of Holies of the "City" or Wall Street. There is no ticker service, but recent news of importance is posted on the bulletin boards, or hawked about by seedy vendors. Some twenty firms do the arbitrage business with foreign markets. These firms are said to make profits of up to \$200,000 annually. The market is open from twelve to three o'clock, the morning being devoted to the reception and preparation of orders.

Any amount may be negotiated in the cash market, especially very small fractions of rentes, though the law of 1904 forbids the listing of shares of less than \$20.00 par value. It is generally said that nine-tenths of the business in terms of capital is done in the term market, while nine-tenths of

transactions in "lots" changing hands occurs in the cash market.<sup>1</sup> Here there are many small transactions in a great variety of securities, made chiefly by people in moderate circumstances, France being a country of few millionaires and widespread thrift. Owing to this characteristic of the transactions it would be uneconomical, as will be seen hereafter, to institute a collective clearing, such as obtains in the time market. Negotiations for cash are usually at the average price, (*cours moyen*) a price equally distant from the highest and lowest of the session. Orders are also given "at the market" (*au mieux*), at a fixed price, and at the opening and closing quotations. Orders may also be given to be executed in the first quarter hour of trading (*à l'ouverture*) and at the last quarter hour (*à cloture*).<sup>2</sup>

To insure the integrity of prices of securities quoted in the cash market, they are entered officially throughout the session, as fixed, upon a certain number of sheets kept by employes of the Syndical Chamber (*service d'opposition*). These registers constitute the record of sales. Each record, containing a certain number of securities, is divided into three columns, the first two for bids and offers, the third for actual prices.

The quotations (*cote*) for the time market, on the contrary, are established after the Bourse session. The brokers meet; an aid of the *Syndic* (executive chief) calls in turn the names of the comparatively small number of securities negotiated therein. Each broker announces the prices at which he has traded. For "firm" deals four prices are quoted: first, high, low, last; for "option" deals, the high and low only. Finally the quotation service fixes the average price, upon which all inheritance transfers, commissions, taxes, etc. are based.

No record of the total daily, monthly or yearly trans-

<sup>1</sup> Cf. Buchère, p. 213.

<sup>2</sup> Vidal, *op. cit.*, *passim*.



actions is available for publication, for either the Paris or the London markets. Financial opinion in those centers for certain alleged reasons is heavily prejudiced against this feature of publicity, so much a matter of course in Wall Street. It is particularly paradoxical in France, the land of democratic finance, that public knowledge of these important figures, which must be approximately known to a few, is not insisted upon. It is a matter of no small moment whether a price quoted refers to one share or to five hundred. The information given to favored clients, by Agents de Change, or others also in a position to estimate total sales, may at times be of inestimable advantage to such clients, in proportion as ignorance of the situation may be disadvantageous to the mass of holders. The excuse sometimes given that such publicity would tend to promote panics, scarcely bears analysis. Clients become accustomed to every recurring set of facts, and discount them eventually according to their own good judgment. While now and then observation of large movements of shares may induce the public to participate, the primary effect, as in New York, would be to produce an active speculation and exploration as to its origin. If a selling movement was well founded, for instance, publication of sales might simply hasten a readjustment operation, which would occur in any event, and thus permit all holders a more equal share in whatever market there might be. Publication of amounts of sales also tends to prevent unloading by those having inside information which should have been furnished impartially to all stockholders. It is difficult to see how such secrecy can be other, in the long run, than a cloak for market rigging and manipulation, rather than an aid to genuine price fixing, which is proclaimed to be the great service of the official Bourse.

It must not be supposed that the Paris cash market,<sup>1</sup> which

<sup>1</sup> The following account of the cash and, in the next chapter, of the

is of considerable size, is analogous to the so-called New York, or American cash market. The latter is in reality a time market strictly comparable to the European time markets, except that the time between the compulsory collective settlements is one day rather than a fortnight or a month. In the cash market of Paris, each transaction is settled individually, within certain wide time limits, and settled ordinarily by cash and stock deliveries. Transactions are not by any means settled at once, or even within the following two or three days. For bearer securities a delay of 5 days in delivery is allowable; 10 days is often taken. For registered securities, a delay of 15 days is possible, and in the case of certain insurance companies, *etc.* where the consent of the board of directors to the new stockholder is required, 8 days more. So packages of securities are constantly being received and prepared in brokers' offices for delivery on previous cash transactions within the above mentioned limits of delay. To facilitate these deliveries between brokers, which of course occur daily, an institution called the *Chambre de Compensation* (settlement service) has been organized. Every morning from 9:45 to 11:15, the brokers send to the *Salle de Compensation* (settling room) the securities they have on hand to deliver, accompanied by a memorandum (*bordereau*). This memorandum is subject to a tax, collected by means of a stamp which must be affixed to the memorandum for the benefit of the Parquet fund, or bank (*Caisse Commune*), which will be described in the Chapter on Credit Facilities. This tax or due is estimated to be about 5 per cent of commissions received. The memorandum itself states the nature, amount and due date of the

term settlements, follows closely the excellent and unique exposition of M. Boissière, *La Compagnie des Agents de Change* (1908), pp. 177-304. Cf. J. Combat, *Manuel des Opérations de Bourse* (1913), pp. 193-274. See also *Manuel des Agents de Change, Banque, Finance et Commerce* (1893), and also *Supplément du Manuel* (1902).

securities, and must agree with the one given by the seller broker to the buyer broker the day after the sale.

The *Salle de Compensation* is specially furnished with cashiers' desks (*cabines*), one for each Agent de Change, and each with a wicket at which sits a clerk (*commis*) during the entire time. He receives deliveries, and after verifying the bill (*engagement*) with the attached memorandum (*bordereau*) and counting and verifying the securities, he makes payment. Each office likewise sends a clerk (*garçon de recette*) to deliver the bundles of shares and receive payment.

The payments, in order to do away with unnecessary cash movements, are in the form of tripartite, perforated green checks, obtained in standard blank form through the Syndical Chamber's agency. The paying broker's clerk retains the stub (*souche*) of the check as a control. The selling broker's clerk keeps the voucher duplicate (*fiche*) as a receipt, and delivers the check proper (*talon*) to a representative of the Syndical Chamber who presents it at once to the bureau of current accounts established in the Bourse itself, under the supervision of the Secretary General.

The employes of this bureau, referring to the data on these checks continually presented to them, make the corresponding debit and credit entries to the accounts of the various brokers. In an hour the current account of each broker is closed, and his credit or debit balance established. Each Agent de Change carries an account with the Bank of France, which through a previous arrangement with the Compagnie des Agents de Change aids the settlement as follows:

Each debtor broker draws a special yellow check on the Bank of France for the amount he owes, to the order of the Caisse Commune. The Caisse Commune then draws its checks upon the Bank to the order of the various creditor

brokers for the amounts due them, the total of which must obviously equal the total of checks drawn to the Bank's credit, as they relate to the same transactions. Then the Bank simply debits and credits upon its books the accounts affected, while the special account created with the Caisse Commune is always exactly balanced. Thus the settlement of immense sums is effected without the least movement of cash.

For the purpose of verification, the bureau of current accounts sends to each broker a daily statement of his account, and a general statement of all balances due the Bank. The latter returns it with certification that it conforms to the balances of the yellow checks. A third statement is deposited in the archives of the Syndical Chamber. Brokers may settle otherwise, outside, by cash or agreement, but if by check on the Bank of France, the check must be a blue one. This process, which is carried on every open day, applies only to the cash market. The term settlement or liquidation, as it is called, though based on the same underlying principles, is much more complicated in practice and takes place only at the middle and end of each month.

Commissions, though varying with the market and the security traded in, average a little less than in Wall Street. In the cash market, one-tenth of one per cent is charged on all except litigated securities, for which one-fourth per cent is required. For the monthly settlement a charge of one-tenth to one-twelfth of one per cent is made, totaling one per cent or a little over if a security is carried through the year (12 successive liquidations). In the market for securities settled fortnightly, one-tenth of one per cent is the prevailing rate.

The obligation of the brokers to guard and collect coupons is an interminable source of expense and trouble, owing to the large number and variety of securities, the dispersion of the paying companies' offices, and often the pettiness of

the individual amounts collected. The Syndical Chamber has established a central bureau for receiving and cashing coupons. It also pays calls on partly-paid stock when properly covered. Brokers deposit the coupons, or often the certificates on which the dividend is due. The clerks of the bureau stamp them with the registered number of the broker, and send them out for collection by its dozens of receipt boys (*garçons de recette*). In forty-eight hours the amount is credited to the broker by means of a rose check at the *Chambre de Compensation* at the same time that he receives the green checks of his debtor colleague.

Furthermore, in order to simplify the process of settling security balances, the Syndical Chamber has another arrangement with the Bank of France by which the latter opens to the *Agents de Change* special deposit offices for securities. Receipts given by the bank are at once received by the Syndical Chamber, which gives in return its own receipts (*récépissés*). These receipts pass from hand to hand, from broker to customer, and especially between offices on liquidation days in lieu of the actual certificates. Securities so deposited must be in packages of twenty-five shares (*actions*), or twenty-five bonds (*obligations*) which are the minimum amounts dealt in on the term market, or 2,500 francs of *rentes*, or the minimum amount of foreign government securities dealt in for the account. The Bank of France receipt deposited with the Syndical Chamber can be withdrawn only when the *récépissé* surrendered therefor bears the name of an official broker as its last endorser.

In 1912, the total separate bundles of securities held by the Bank of France was 863,607, the number of certificates 13,462,309, and the value of the above at prices of December 24, 1913, over \$1,600,000,000. Those deposited by brokers are not stated separately, but may be supposed to constitute a very large part.

## CHAPTER III

### BOURSE TECHNIC (*Continued*)

#### THE TERM SETTLEMENTS

IN the term market, there are no transactions at the "average price", this being ascertained at the close of the session for other purposes. In this market, the purchaser of securities has, unless the contrary has been agreed upon by the contracting parties, the so-called right to discount (*droit d'escompte*), *i. e.* the right to demand immediate delivery of the securities upon payment of the purchase price. It is sometimes used, though less than formerly, by market leaders to embarrass short sellers, and force a rise. However, as such securities are delivered only four days after notice of calling has been given, and after a period of at times six or seven days has elapsed, it would be useless to call after the tenth of the month for the *mediq* settlement, or after the twenty-fifth for the *ultimo*, as the settlement at the end of the month is known.<sup>1</sup>

Unlike the situation in Wall Street, it is entirely legal to trade in options (puts, calls and straddles, *etc.*) in Paris, where they have great popularity on account of the small capital required for large transactions. The almost endless complications and importance of such options have brought out a volume devoted to their explanation.<sup>2</sup> No option

<sup>1</sup> Cf. Buchère, *op. cit.*, p. 257.

<sup>2</sup> Vidal, "Le Stéllage," *Congrès Valeurs Mobilières*, Paris, 1900.

contracts may be made for a longer period than two months (second or fourth liquidation) in either term market.

Option contracts *may* either be converted each day at two o'clock into "firm" (regular) contracts, or be abandoned. They are dealt in for the day after the fifteenth for the medio liquidation, and the day after the last day of the month for the ultimo. They *must* be converted or abandoned by 1:30 o'clock of the day before the liquidation for which they were contracted.<sup>1</sup> All firm transactions, *i. e.* ordinary purchase and sale contracts in the term markets, must be for the next settlement. For French Government securities, shares of the Bank of France, of the Crédit Foncier (national land banks), and shares and bonds of certain French railways, settlement is due at the end of each month, (*ultimo*). For all others settlement is made at the end of the month, and also at the 15th, (*medio*) of each month.

All through the fortnight or month, the Agents de Change have contracted with each other on behalf of their many clients. Their books are filled with open debit and credit accounts, at times with enormous balances both of securities and cash in favor of or against many of their clients. No individual, material guarantees are required by brokers from each other. Each one is supposed to be fully protected as to his client buyers or sellers, by cover, (about ten per cent) or by satisfactory guarantees, and to be responsible for his contract in any case, as will be seen later. In case of panic, the Syndical Chamber has the power to forbid brokers to sell for clients, except in liquidation of a bull position, unless the latter provide shares for immediate delivery.

For the ultimo liquidation, by which clients settle accounts with the Agents de Change, and the latter with each other,

<sup>1</sup> Buchéra, *Opérations de la Bourse*, pp. 250, 259.

and by which the clients through the Agents de Change settle with the *reporteurs* (lenders of money up to full market value on stock), five days are required—the 30th, 31st, the 1st, 2nd, 3rd and 4th. For the *medio* where the same operations take place, four days are needed—the 15th, 16th, 17th and 18th. This settlement of the brokers with each other and with the *reporteurs* is properly called the central liquidation. For this settlement the facilities of the cash market may not be used, all time transactions, without *exception*, being required to go through the *liquidation centrale*.

Some of these time transactions are entered into only for the *medio* settlement, some, like those in Government *rentes*, for the *ultimo* settlement only, while other shares are traded in for both accounts. All time contracts, however, are eventually liquidated at one or the other of these collective, compulsory settlement periods.<sup>1</sup>

The first day of the settlement is the day of general liquidation and carry-over operations (*reports*). The second and third days are devoted to office work, statements of accounts, straightening out of books, establishment of balances of differences of both securities and cash. For the *medio* settlement, (15th-of-the-month), a single day suffices. The day before the last day of the settlement, called "debtors' day," the client debtors deliver securities or settle their cash debit balances with the brokers. The last day, called creditors' day, the brokers, through the Syndical Chamber, exchange the securities and credits that have been received by them, and further distribute them among their client creditors.

In order to simplify the settlements as much as possible, and to hold to a minimum the cash payments for securities, several practices have developed auxiliary to the preparatory book-

<sup>1</sup> Cf. J. Combat, *Manuel des Opérations de Bourse*, pp. 193-274.



settling process which precedes the transfer of credit and securities. One of these processes has to do with the balancing of securities, and is known as a "*compensation*". It occurs between a customer and two or more brokers, when the former has bought and sold similar shares through different offices. To obviate what would be in effect delivering to and receiving from himself, he sells at the making-up price (*cours de compensation*), where he has bought, and buys up to a similar amount where he has sold, until only the balance of his purchases or sales remains to go through the settlement. These orders are marked "for bookkeeping purposes only" and are simply entered on the brokers' books, not executed in the market.

The complement of this process is called a "*délégation*" and has to do only with cash or credits. It is a draft drawn by a customer upon a broker who owes him, in favor of a broker who is his creditor. A special blank form is prescribed for this transaction by the Syndical Chamber. As in all collective settlements, there must be some common price fixed for each security. On the Paris Bourse, this price, called the compensation price, is usually the closing or cash price of the security in question at the end of the period intervening between settlements, and, of course, may be either higher or lower than the compensation price of the preceding and following settlements. It is fixed by the respective syndical chambers on both Parquet and Coulisse. The differences between this price and the various market prices, at which bargains have taken place, constitute the losses and gains of the buyers and sellers, or, as they are called in Paris, givers of orders (*donneurs d'ordres*); for the name client is reserved for another class which, on the Parquet, occupies a place unique in the stock exchange of the world.

This class, which the French call "*reporteurs*", and

"clients", consists of capitalists, banks, railroad and industrial companies, etc., who loan their funds for fortnightly or monthly periods, on securities up to the full extent of their market value. They act through the brokers almost altogether, trusting to their judgment in the selection of the borrower, usually one who wishes to "carry over" stock, bought or sold short, to the next settlement day. Inasmuch as the brokers, as will be described fully in the next chapter, are collectively liable for the huge sums loaned through them individually to their order-giving customers, they are obliged to give a prominent place in the settlement to the *reporteurs*, as well as to their commission-paying friends.

The *reporteur*, as does also the short-seller (in regard to his intentions) advises the Agent or Coulissier, some days before the liquidation, of the amount he wishes to invest. He receives from the Agent a memorandum stating the nature and amount of securities reported and giving a receipt for them. The securities are usually held by the Agent (or rather by the Bank of France to his account) for the *reporteur* until the next settlement. The *reporteur* is required to give two days notice of withdrawal of funds preceding liquidation.<sup>1</sup>

In the cash market, securities, owing to their great number and to the widely varying amounts and denominations of certificates which are dealt in, are not settled. The settlement covers only the cash and credit balances. But in the time markets, both are "compensated". This necessitates the carrying on of two simultaneous processes in the bookkeeping work that precedes and accompanies the central liquidation (settlement) between the brokers. One of these processes has to do with the recording, accounting, and balancing of the securities involved in the period's trans-

<sup>1</sup> Cf. J. Combat, *Manuel*, p. 236.

actions, preparatory to their final acceptance or delivery, and the other with a similar handling of cash and credits. Work is carried on in the brokers' offices along these two parallel lines simultaneously.

To facilitate the handling of the time transactions effected in the period of a liquidation, the Syndical Chamber has prescribed the keeping of an auxiliary book by each broker, called "Register of Brokers". In this register a double page is devoted to each of the sixty-nine colleagues of the broker in question. The left page, divided into a great number of vertical columns, corresponding respectively to the securities negotiated at *terme* (on margin), is used for purchases. The right page, similarly divided, is devoted to sales. All operations entered on the daily account books of the broker and his clerks are carried to this register, the sales of the broker being carried to the left page headed by his name, and entered in the column accorded to the security sold to him. Purchases are carried in a similar manner to the right page of the broker affected, and recorded under the proper security heading.

If only these data were used as a basis of settlement, each broker would deliver to and receive from every other broker immense amounts of many securities, when perhaps his final position would prove to be without change, so far as securities were concerned, or with a small credit or debit balance. The simplifying process is, therefore, carried further. Since on the day before the day of liquidation, entries in this register, mentioned above, are provisionally stopped, the addition of the sums inscribed in the different columns gives the total credit and debit amount of each security of the broker in question in relation to each other broker.

Subtraction of the lower from the higher total of each security gives the credit or debit balance which one broker

has against each of the other sixty-nine brokers for every security in which he has dealt. The obtaining of this elementary balance is the first step in the bookkeeping work of the settlement. This done, the next step is to transcribe these elementary balances into a second note book or ledger (*brochure*), each sheet of which is used entirely for one security. In the middle of this sheet the names of the brokers are printed, one under the other, in alphabetical order, as shown below. Opposite the name of each broker the elementary balance previously obtained is entered, buyer balance on the left, seller balance on the right.

## RIO TINTO

	Brown et Cie.	200
50	Jean Paul	
150	Rousseau Frères	

These elementary balances taken off the day before the day of liquidation are not definitive. They may be modified in one way or another by the operations of the next day (the first day of liquidation), or by reports concluded the same day, or by the *compensations* described above. The provisional elementary balances thus obtained are at once corrected by taking into account these superseding modifications.

Under the head of each security and at the right of the name of the broker to whom sold, is placed the number of shares which the broker has to deliver; similarly, the shares to be taken up are grouped on the left. The difference between the total of the two columns gives the net credit or debit securities balance of the broker toward his colleagues

*en masse*, or toward the syndicate. In case the two totals are equal, the broker has neither to deliver nor receive the stock in question. This second step gives the total balance of each security to be delivered. It is easy to see the great simplification effected by this process, which leaves the position of the broker exactly the same as though he had settled his stock or bond account individually with each of his confrères in turn.

The third step is taken with the help of the Syndical Chamber which substitutes itself for each Agent de Change

LIQUIDATION SHEET. (Reduced to 3 agents and 3 securities)

M. FONTAINE				M. FONTAINE			
	3% rentes	Rio Tinto	Rus- sian 5%		3% rentes	Rio Tinto	Rus- sian 5%
Jean Paul . .	75			Jean Paul . . . . .	50	50	
Brown et Cie . . .		200		Brown et Cie . . . . .	75		75
Rousseau Frères . . .	25		50	Rousseau Frères . . . . .		150	
Balance bought. . . . .			75	Balance sold. . . . .	25		
	100	200	125		100	200	125

in settlement of his account with the other sixty-nine. For this purpose each office transmits to the office maintained by the Syndical Chamber on the evening of the first day of the mid-monthly liquidation, and on the morning of the second day of each end-of-the-month liquidation, a sheet called "liquidation sheet" reproducing in compact form the data carried to the *brochure*, mentioned above. This sheet is divided vertically into two parts, each part containing as many vertical columns as there are securities comprised in the liquidations. All the elementary seller balances are inscribed in the column to the right devoted to the security in

question, opposite the name of the Agent de Change who must make delivery. All the elementary buyer balances are inscribed on the left in the column given to the respective security opposite the name of the Agent de Change who must receive the security. To escape any error which would delay the normal progress of the liquidation, the brokers' clerks check these elementary balances. If a comparison of the total buyer and seller balances reveals a buyer balance, it is carried to the foot of the seller column; and *vice versa*, if a seller balance is found. This process is completed for all the securities on the sheet. The Syndical Chamber is thus furnished simultaneously with the sheets made up by the seventy offices. The liquidating clerks of the Syndical Chamber immediately undertake the final step in the settlement of share accounts. They take account of only the total debit or credit balances in each security of each broker. These sums are transcribed upon the liquidation sheets of a large "format", of the same type as the sheets turned in by the offices, on the right of the name (in the center) of the Agent de Change under the proper security heading if it is a seller balance; at the left of the name of the Agent de Change, if a buyer balance. Adding column by column, that is to say, security by security, the clerks of the Syndical Chamber must find the totals equal, since the securities sold are also the securities purchased. This work must be finished the evening of the first day of liquidation for liquidations of the fifteenth of the month, and the morning of the second day for the end-of-the-month liquidations. It only remains to bring together the Agents de Change who are actually to deliver and those who are actually to receive.

The Syndical Chamber clerks set off (*rapprochent*) for each security successively the offers of and demands for shares. They make the quantities to be taken up agree,

cancel (*biffent*) upon the sheet the names of the Agents de Change whose obligations to deliver or receive securities are settled by offsetting credits (*servis*) and those "rung out" (*libérés*). They then indicate upon tickets (*tableaux*) sent to the offices of delivering Agents de Change the next day, the names of the colleagues in whose names the deliveries must be prepared.

There is left now only the material delivery of the securities. This last task is effected through the mediation of the Syndical Chamber. In each office, the packages of deliveries are prepared, account being taken of the tickets delivered to them from the Syndical Chamber office. If these are registered certificates they are transferred to the name of the buying Agent de Change, or converted into bearer securities, to be passed over to him to make, within ten days, a final transfer to the name of his client purchaser.

Bearer securities are divided into packets containing the least quantity negotiable in the time market. The certificates are delivered to the Syndical Chamber before noon of the morning of the last day of liquidation, accompanied by a memorandum (*bordereau*), or list of contents, names, *etc.* Receipts (*récépissés*) endorsed with the name of the Agent de Change may be, and usually are, substituted for the actual certificates. In the afternoon of the last day of liquidation the certificates and receipts, which in the morning have been stored in the delivery room of the Syndical Chamber, are distributed among the creditor Agents de Change, the latter sending a messenger furnished with power of attorney to take delivery.

To preserve the record of the deliveries, the Secretary General has two statements drawn up, one comprising the securities to be delivered, quantities and names of sellers; the other, securities to be taken up, quantities and names of buyers. Thus, delivery of a few thousand certificates suf-

fices to settle definitively transactions in which millions of shares change hands.

The settlement of the cash accounts due between the various Agents de Change is obviously simpler than the settlement of securities, since here no complications intervene such as those caused by the diversity of the types of securities. When the clerks of the different offices, at the end of each session of the Bourse, post the record of the day's business from the journals to the register of the Agents de Change, they enter the price and amount of each security upon the same page in a special column, to the account of each colleague.

Sums due from securities sold, coupons, options, etc., are totaled on one side and compared with debit totals from securities purchased, options abandoned, etc., and the resulting debt or credit balance established against every other Agent de Change. The morning of debtors' day (third or fourth day of liquidation) also called day of checking of cash, each office makes up its cash sheet, entering opposite the name of each of the sixty-nine Agents de Change, at the left the elementary credit balances, at the right the elementary debit balances previously obtained. Adding the sums entered on each side and comparing them, a total credit or debit balance, as the case may be, is obtained.

This total balance, however, is not yet definitive. It can be modified by means of "*délégations*" (drafts drawn on one Agent de Change to the order of another Agent de Change) by a client who wishes to escape a shifting of his funds. The balance being corrected in view of the *délégations*, a new balance appears, called the balance after *délégation*, which sum the Agent de Change definitely must pay to or receive from the Syndical Chamber.

All the offices file with the bureaus of the Syndical Chamber the evening of debtors' day, their verified cash-balance



sheets, which are checked by the clerks collectively. Then the liquidating clerks carry to a cash-liquidating sheet, similar to those handed in by the Agents de Change, the total balances, creditor to the right, debtor to the left. Adding the sums on the right and on the left, the totals must be equal since the dues of the creditors are a necessary counterpart of the obligations of the debtors. The Secretary General then has drawn up two cash sheets or tickets, the first containing the names of the debtors and the amounts they are to pay, the second the names of the creditors and amounts they are to receive. These sheets are at once forwarded to the Bank of France.

The final settlement takes place the last day of the liquidation, called the day of creditors. The debtor brokers must draw, to the order of the Caisse Commune syndicate, drafts on the Bank of France to the amount of their debt. Before midday, they must furnish to the Secretary General a memorandum issued by the Bank certifying that they are prepared to meet this obligation. In the afternoon, the Caisse Commune gives the order to the Bank of France to credit the accounts of the Agents de Change creditors in the liquidation, the amount of the drafts drawn to their order by the Caisse Commune necessarily equalling the payments made to it in the morning by the debtor brokers. The sums due the clients from the Agents de Change must be paid them, at the latest, the day after the close of the liquidation.

*Close of Liquidation.* The total cash debit or credit of an office does not indicate the position of all the clients of the Agents de Change toward all of the other sixty-nine Agents de Change clients. The amount and value of the securities taken up or delivered must be compared; if taken up, added to a cash credit balance or subtracted from a cash debit balance, if delivered, subtracted from a credit balance

or added to a debit balance. Owing to the "*solidarité*" (see next chapter) of the Agents de Change, this information is not without interest to the colleagues of the Agent de Change. Hence, each office furnishes the Syndical Chamber with a table, called "*tableau recapitulatif*", indicating the cash balance (without showing the *delegations* which alter the exactness of it) including the quantity of securities taken up or delivered, their value having been calculated by multiplying the quantity by the making-up price (*cours de compensation*). The approximate position of each office is thus stated in a sort of bi-monthly balance sheet, which is deposited in the "*Cabinet*" of the Company of the Agents de Change, and may be consulted by all the members of the Parquet.

It should be noted that, although for clarity in description the operations of the liquidation relating to securities and cash were separated, they are carried out simultaneously in practice. The payment of cash takes place at the same time as the delivery of securities and the securities are taken up the last day, at the same time credit balances are available at the Bank of France.

The *ultimo* (end-of-the-month) settlement on the Parquet is accompanied step by step by the *ultimo* settlement on the Coulisse. In fact, so necessary is this correspondence between the two that the Minister of Finance, in his report of September 1915, on the resumption of liquidations interrupted by the war, pointed to the practical necessity of such simultaneous operation. The procedure on the Coulisse markets is in principle and method as nearly as possible identical with that on the Parquet, except that the Banquiers are not obliged to put all their transactions through their central liquidation, and are more careful about their "counter-parties" than the brokers. The right of discount (*droit d'escompte*) also does not exist on the Coulisse.

The Bureau of Compensation of the *Syndicat des Banquiers* for future settlement occupies a building jointly with the *Syndicat* trading for immediate settlement. Here the members of the latter organization send their clerks in the morning with the balances of securities to be delivered to each other member. These clerks also act as receivers and take away the securities to be delivered to them.

Each firm has a separate booth with a desk and counter allotted to it, there being about one hundred and fifty such booths in the institution. The securities are delivered from one firm to the other in packages, similar to the delivery of checks as between banks by the New York Bank Clearing House, except that the securities are verified and the balances proved at the time of the delivery. After this examination, payment is made to the deliverer's employe by a *Bon de Comptabilité*, or order on the members of the association, which also acts as a receipt. Red *Bons* are given for debits and white ones for credits. These are used to establish the net debits or credits of a firm. Debits have to be made good during the morning. For net credits a white *Bon* is given, which, after balances are struck and the cash proven, can be exchanged at four o'clock in the afternoon for a check of the Association on the Bank of France for the amount involved.

It is not obligatory on the part of the members of the Association to deliver all their securities through this department, as in many cases they have not received between eight and nine o'clock in the morning, when the settlement takes place, all that they may have to deliver. Also, in cases where the deliverer is doubtful about the standing of a firm that is to receive his securities, he delivers only a small proportion, about ten per cent to twenty per cent, making the excuse that the balance has not arrived from his client, thus failing temporarily in delivery. As all debits have to be made good by one o'clock in connection with all securities delivered through the settlement room, the deliverer, believing that the buyer has made good by his ability to take that which was delivered to him in the morning, then delivers directly to the receiver at his office the securities in question.

In connection with the securities delivered by the organization for immediate settlement, credits are not paid out until four-thirty o'clock in the afternoon. The routine and principles concerning the receipt and delivery of securities traded in for the account on the fortnightly "Pay Day" is, to all intents and purposes, practically the same as in the case of those traded in for immediate settlement, except that there is an obligation to deliver which is not present in the cash settlement.<sup>1</sup>

In the latter days of the official liquidation, the Agents de Change have large remittances to make to the Banquiers on account of split commissions, etc., while the latter may, as givers of orders, be heavily in debt to the former. These at times not inconsiderable settlements, are made individually, and constitute the one cumbersome feature that impairs the title of the Paris Bourse to a fully perfected technique.

One farsighted or lucky provision is the beginning of the ultimo liquidation on the last day of the month. The monetary demands of the stock market are thereby postponed to the second, third and fourth of the new month, thus in part, escaping the stringency in the money market due to the usual and unusual end-of-the-month payments, a circumstance which causes the Berlin Bourse members, whose final and entire payments are made on the first day of the new month, constant anxiety. But considerations such as this belong rather in the next chapter, on credit facilities.

<sup>1</sup> Quoted from S. F. Streit.

## CHAPTER IV

### CREDIT FACILITIES OF THE PARIS BOURSE

THE Paris Bourse, quite unlike Wall Street, is notable for the huge amount of Government securities, and of foreign securities, listed on its markets. It is the second international market in the world, and has been said to control the credit of forty countries.<sup>1</sup> Since 1823 Paris has invested heavily in foreign securities and up to the outbreak of the war, more than half the stocks and bonds on the Bourse were of foreign origin, notwithstanding the provision that such securities (since 1907) could be listed on the Parquet only with the consent of the Ministers of Finance and Foreign Affairs.<sup>2</sup> These foreign securities are chiefly those of foreign Governments, though there are some of foreign railways, public utilities, mines, and industrials.

In 1914 Paris was the leading market for Russian bonds, and for a large part of the public debt of Spain, Portugal, Turkey, Greece, Egypt, Algiers, Tunis, Roumania, Serbia, and other Balkan states, as well as that of many South American countries. The total foreign investments listed on the Parquet alone were estimated at \$14,000,000,000,<sup>3</sup> the value of the French securities, chiefly Government "rentes" and railroads, being somewhat less. At present of course, the huge war borrowing, estimated at some \$12,000,000,000

<sup>1</sup> Vidal, *op. cit.*, p. 167.

<sup>2</sup> A. Neymarck, in *Journal de Société Statistique de Paris*, Jan. 1916, p. 43.

<sup>3</sup> *Ibid.*, also Hirst, *The Stock Exchange*, p. 90.

to date (January, 1919) <sup>1</sup> swells immensely the sum of domestic securities, while many foreign stocks and bonds have been resold, notably to the United States. Other French stocks and bonds are those of municipalities, the *Crédit Foncier* (corresponding to our own Farm Loan banks), other banks and credit companies, public utilities and industrials.

The annual increment of listings depends on the annual French savings, and the amount of these invested in securities. The average annual savings so invested are estimated by Neymark to be about one billion,<sup>2</sup> which, deducting \$600,000,000 for replacements, leaves some three or four hundred millions as new capital. This habit of saving (*l'épargne*) of which the French never tire, and which has been erected to the dignity of a sort of a guardian spirit, depends in turn upon the annual productive power of the French people. This latter is, of course, one of the most difficult of all economic facts to ascertain. If we accept the statement of R. G. Levy,<sup>3</sup> that the value of the land in France is \$12,000,000,000 and the value of buildings, etc., is \$15,000,000,000, counting securities at his figure of \$40,000,000,000, we find the total wealth of France before the war to have been approximately \$67,000,000,000, a figure which probably considerably understates rather than overstates the actual wealth. If as much as ten per cent gross is earned upon this total, the annual income of France is around \$6,000,000,000.<sup>4</sup> While according to an estimate by L. C. Money the actual national income of the United Kingdom at the outbreak of the war was about \$11,000,000,000. A similar

<sup>1</sup> Next chapter.

<sup>2</sup> Cf. Rist, "Nos Ressources Financières," *Revue de Paris*, Dec. 1, 1915, p. 656.

<sup>3</sup> *Quarterly Journal of Economics*, Nov., 1915.

<sup>4</sup> Cf. Rist, *op. cit.*

estimate for Germany was given in a statement issued a little later by the German Government.<sup>1</sup> In 1912 securities admitted to the list in France totaled about \$600,000,000, in Germany \$650,000,000, United Kingdom \$300,000,000, Austria \$150,000,000, and the United States \$700,000,000.<sup>2</sup>

The great source of French wealth is her wonderfully fertile soil from which she could, if necessary, entirely sustain herself, importing only a small amount of grain and meat in the way of staple foodstuffs. From her great silk, iron, steel and other industries, from her fisheries and her merchant marine, she also draws large returns. The fundamental basis, however, of French credits and French institutions is the industrious and frugal character of the French people, their sterling integrity and sound common sense, even though it is said that French thrift is not so accumulative as English speculation and German enterprise.<sup>3</sup>

As the Bank of France loans out its millions with a minimum of restrictions, confidence in its success being based on the discretion of its directors, so the Paris Bourse owes its great financial stability and high credit to the semi-official and responsible rôle that the Agents de Change have long played in the financial history of France, and the rather rigidly organized and well understood function that they have gradually assumed.

The Agents de Change are more than a mere association of stock brokers who buy and sell on commission.<sup>4</sup> Their organization is a close-knit and responsible one that guarantees to buyers the *bona fide* character of securities on its offi-

<sup>1</sup> *New York American*, Dec. 2, 1915.

<sup>2</sup> Neymarck, "Rapports à l'Institut International de Statistique," *vide* Proceedings.

<sup>3</sup> *Vide* Levy.

<sup>4</sup> *Cf.* Boissière, *op. cit.*, p. 216.

cial list, and guarantees to its givers of orders, as they are called, that all sums or securities due them from any broker shall be rendered, even in case of the delinquency of the broker. The third undertaking of this unique organization is to guarantee to those who lend money on securities (*reporteurs*) through the medium of its members, full repayment of all such sums, regardless of the security on which the loan is made, the individual speculator or investor to whom it is made, or the *Agent de Change* who handles it. In other words this guarantee is not individual but collective, and this collective responsibility of the Parquet to its buying and selling and its money-lending clients has become famous as the "solidarité" of the Agents de Change. (It is not practised by the Syndicates of Bankers, the *Coulisse*).

More than any other one feature, except the prohibition to Agents de Change of dealing for their own account, has this credit solidarity shaped the nature of the fully developed brokerage monopoly. It accounts in large degree for the care taken in the listing of securities, for the close scrutiny of prospective members and the financial responsibility required of them. It also explains the constant watch maintained by the Syndical Chamber over the operations of each member, the great powers of that body, and the supposedly difficult conditions imposed on traders who do other than a strictly cash business. The collective responsibility of the Parquet to lenders of money on securities, a thing unknown on any other exchange, has naturally had a profound effect in attracting capital into the fortnightly and monthly loans (*reports*),<sup>1</sup> by which speculation in stocks and bonds is financed. Making such loans safe, as illustrated farther on, has undoubtedly brought down the rate of interest charged. The *report* rate frequently runs for

[ ] <sup>1</sup> Buchère, *op. cit.*, p. 265.



months under three per cent or four per cent, which rate, plus a commission charge of one-half of one per cent on most securities at the monthly carryovers, makes the net cost of carrying securities some four per cent or five per cent per annum.

The whole result of the perfecting of this complex mechanism for marketing securities has been, aside from the great power acquired by the *Compagnie des Agents de Change*, the promotion of the corporate form of business organization in France.<sup>1</sup> In the United States the development of the New York Stock Exchange, combined with the lack of a discount market for commercial paper,<sup>2</sup> has even to a greater degree brought about the same result, whereas in London, with its great commercial paper market and antiquated stock exchange, the limited partnerships still thrive like the green bay tree.

The listing of securities is safeguarded by requiring that they must be legally issued, with the exception of French rentes which must be admitted, and of foreign government securities which are admitted only with the consent of the French Government. One-fourth of the shares must be outstanding and full paid (*libéré*), they must be quoted in their country of origin, and the price of emission together with a list of subscribers must be officially furnished to the *Compagnie*. The purpose of the issue must, in addition, be a proper economic one; enough shares must be outstanding to make a genuine price; and lastly a transfer agent, and, in certain cases, an office must be maintained at Paris.<sup>3</sup>

The responsibility of enforcing these requirements rests on the *Syndical Chamber*. In 1869, for instance, the *Syndi-*

<sup>1</sup> Cf. Vidal, *op. cit.*, p. 166.

<sup>2</sup> Warburg, "The Discount System of Europe."

<sup>3</sup> Boussière, *op. cit.*, pp. 130-152.

cal Chamber admitted to quotation, the mortgage bonds of the Memphis, El Paso and Pacific Railroad. Because of the favorable publicity, the bonds were quickly placed, and the first three coupons had been paid before the Parquet, hearing rumors of fraud, made investigations, and later denounced the Company.

This brought on the collapse of the Company, whereupon the Syndical Chamber was sued by the defrauded security holders for the amount of their loss. Fraud in procuring admission was shown by the attorneys of the Syndical Chamber, but the latter was held at fault by the highest court for not knowing that only a million of the forty million capital stock had been subscribed, that only a hundred and thirty thousand had been actually paid in, and that the bonds were thus rendered only conditional securities and were unsafe. This omission, the Court held, constituted an act of negligence, and the Syndical Chamber was required to pay one-fifteenth of the damages. This judgment is said to be unique, though the Syndical Chamber has passed on millions of securities.<sup>1</sup>

Speculating customers of the Agent de Change must be known by the Agent to be financially and morally responsible, or must otherwise provide sufficient margin to secure the broker in his operation. In Paris and London speculations are financed by brokers on the mere word of the client buyer or seller to an extent that would cause heart failure in New York. When once an introduction is secured and references verified, business is done largely on faith and trust, though the custom of requiring "cover"—usually about ten per cent, varying with the security, the market and the customer—is an old one in Paris, and sanctioned by law. The broker however is held by his fellow members to a strict

<sup>1</sup> Boissière, *op. cit.*, p. 170.

compliance with the dictates of prudence. The Syndical Chamber can call for his books for examination at any time, and has the power peremptorily to cut short doubtful speculations. In time of panic, the Syndical Chamber can forbid brokers to sell short for clients unless the latter provide shares for immediate delivery. If a broker becomes doubtful of a client's solvency, he can refuse to "report" him, *i. e.*, supply him with funds for carrying over his securities from one liquidation to the next, in which case the client either settles his account, or is "sold out under the rules."

In case of a delay in delivery on the part of a broker, the receiving broker can "post" the other, and at the end of three full sessions the former is "sold out" by an official of the Syndical Chamber, *i. e.*, a new purchase is made for the benefit of the complainant broker, the broker at fault being liable for the difference. The Syndical Chamber has also the power to intervene to compel a broker to furnish names for transfer operations, or an "acceptance," in the process of "indirect discount" (*droit d'escompte*), and whenever a client has cause to complain of failure of a broker to remit funds or shares.

When an Agent de Change fails, he leaves the Parquet forever, a ruined man. The Syndical Chamber steps into his place, calls for a report from each broker who has dealt with him, then proceeds to sell him out, undoing by counter operations all his open transactions, thus releasing each broker from settling with him, and charging the losses or crediting the gains to his assets, leaving his now uncovered colleagues to find a solvent counter party to take the bankrupt's place. The customers are given their choice of liquidating or maintaining their position with the bankrupt broker according to their interests, until a given time, when those owing pay up, and those having credit balances re-

ceive the full amount of their principal, regardless of the state of assets of the bankrupt office. A broker is required to participate personally to the extent of at least one-fourth, in the purchase of his seat <sup>1</sup> and in the deposit of a guarantee fund (*cautionnement*) of \$50,000 with the Government, the two-fourths totaling some \$82,000 (estimating price of seat at some \$240,000). A working capital of some \$80,000 additional is necessary, (an Agent de Change at times advancing in a single session as much as \$12,000 for registration taxes). It is apparent, therefore, that the broker must be of considerable financial responsibility.

The amount of capital required has become so large that it has long been customary for an Agent to associate with himself silent partners (*baillieurs de fonds*) who supply the sum that he lacks and share proportionately in the profits and losses. This capital is, of course, also available to creditors. If that capital is exhausted, resort can be had to his share of the reserve of the *Compagnie* bank (*Caisse Commune*).

If even this should not prove sufficient, then the combined resources of the other members of the *Parquet* can be requisitioned, provided the obligations of the broker are not illegal, as in the *Bex* cases where the Court held that the *Compagnie* was not liable for commitments of a broker who had secretly guaranteed a fixed rate of interest on reports, regardless of the market rate. This collective responsibility is far-reaching and amounts even in normal times to a huge sum. When the great Catholic bank, the *Union Générale*,<sup>2</sup> crashed to ruin in 1882, dragging down a score of allied financial and industrial institutions including the entire *Parquet* of Lyons, the Paris Bourse found itself heavily involved. Large amounts of the *Union Générale* securities had been sold through certain Agents de

<sup>1</sup> Marintsch, *La Bourse*, *op. cit.*, p. 223.

<sup>2</sup> E. Kaufman, *La Banq. en France*, p. 33; also Vidal, p. 189.

Change to the members of the *Coulisse*, and the latter were on the brink of ruin. They sued their confrères on the *Parquet* for the sum of \$16,000,000 and on the ground of irregularities in the transactions were awarded judgment by the courts. Though the *Compagnie* as a whole had then but a vague moral obligation, it stood steadfastly behind its members, borrowing the \$16,000,000 and honoring their signatures, till the last sou was paid.<sup>1</sup>

This joint liability has since been made obligatory by the law of 1898 already mentioned. It means that in case of a sudden and extensive rise in prices and the subsequent default of the share sellers or, what is more often the case, a sharp and unexpected drop followed by the failure of numerous speculators for a rise, the entire *Parquet* would be held liable for the unpaid credit balances, due in the first case to the "bulls", and in the second, to the "bears" and to the *reporteurs* or money lenders. As the amounts loaned out on the *Bourse* range from what was probably a minimum of \$100,000,000, August, 1914<sup>2</sup> to over \$300,000,000 at the time of the *Agadir* incident (1911), it is evident that the engagement undertaken by the *Parquet* is by no means a light one.

The total resources<sup>3</sup> of the *Parquet* have been estimated as follows, the amount of the surplus of the *Company bank* (*Caisse Commune*) being, for reasons of prudence, kept a secret. The value of the seats fluctuates. In 1857 it was \$180,000, in 1898, \$320,000.

The total value of the seats at \$300,000 (1914) x 70 .....	\$21,000,000
The total value of the guaranty fund, 50,000 x 70 .....	3,500,000
The surplus of the <i>Caisse Commune</i> say (?) .....	3,000,000
<hr/>	
A total of .....	\$27,500,000

<sup>1</sup> Boissière, *op. cit.*, p. 317; also Cleveland Moffett, *op. cit.*

<sup>2</sup> See following chapter on War Finance.

<sup>3</sup> Boissière, *op. cit.*, pp. 316-320.

If this should still be insufficient, the reserve of the *Caisse Commune* could be utilized, and recourse could be had by common-law action to the assets and personal fortunes of the bankrupts. Altogether the total value back of the brokers' contracts has been estimated at not far from \$100,000,000, and in 1896 it was stated by Hayaux du Tilly in the *Marché Financier* (p. 105) that the public had not lost a sou through a broker's act in seventy-five years.

As in all great financial centers, there exists in Paris a "money trust." That is to say the private banks or a number of the big credit institutions (as they have called themselves since the failure of John Law's scheme made the word "bank" so unpopular) by acting in common are powerful enough to control to a greater or less degree the credit obtainable by various other institutions and companies. By concentrating their *report* loans, for instance, on some one security, or group of securities, and then suddenly withdrawing *en masse* from the market, at the same time selling these particular securities short, it was possible for this "money trust" seriously to upset the normal market, cause widespread distrust, and demoralize the whole speculating and investing public.

Apart from the danger of raids by financial adventurers, there are sudden withdrawals of funds due to loss of confidence, or to urgent demands for capital from other quarters. Subscriptions to the national loan in 1891 withdrew so much capital from the Bourse that reports were forced up to twenty per cent and thirty per cent on certain securities. For the first payment on the loan of \$140,000,000 some \$468,000,000 were desposited, a large part of this sum evidently having been employed in *reports* at the time.<sup>1</sup>

In the middle of January in the panic of 1907, *report*

<sup>1</sup> O. Marintsch, *La Bourse*.

rates rose so rapidly that speculators brought securities to the Bank of France for short loans until it was forced to raise its loan rate from three and one-half per cent to four per cent although it loans only eighty per cent or less of the market price.<sup>1</sup>

To offset the effect of such influences the Parquet originally formed a common fund (*Caisse Commune*),<sup>2</sup> called popularly the *report* bank, to make loans to brokers and their clients for from fifteen to thirty days, to the full market value of their securities. This fund at first consisted of one-fourth of the profits of each broker, but was augmented later in various ways. At present, the fund is recruited mainly from the sale to brokers by the Syndical Chamber of stamps that must necessarily be affixed to the purchase and sale sheets also issued by the same authority. Dividends are now paid semi-annually by the bank.

The chief functions of the bank are to support the collective current expenses of the *Compagnie*, to make loans to brokers in time of need, and to substitute itself for a bankrupt broker for safeguarding creditors' interests. As the *Compagnie* through its *Syndic* buys and sells *rentes* for the account of the French Government, the *Caisse Commune* maintains a fund to meet the needs of this service. A guarantee fund is held by the *Caisse* in the name and to the account of each of the seventy *Agents*, the amount being fixed by the Syndical Chamber. In 1908 the sum which must be provided by each Agent was about \$20,000, but this may be increased at any time if the *Compagnie* so decides. The amount of the stamp tax collected by the Syndical Chamber varies, but runs about five per cent of the commissions received. The collective reserve, as mentioned

<sup>1</sup> Maurice Patron, *Bank of France in its Relation to National and International Credit*.

<sup>2</sup> Cf. Boissière, *op. cit.*, p. 321.

above, is concealed in order to avoid informing speculators in credit of an opportune moment for a raid.<sup>2</sup>

No advance may be made by the Caisse Commune to an insolvent broker. To a solvent one funds may be advanced under two conditions, first that the advance be for not more than six months, second, that the Agent de Change give the Syndical Chamber the privileges of a silent partner, or give security to an amount equal to the loan. The Syndical Chamber may renew loans up to \$20,000 for six months more. Beyond this, a General Assembly of the Compagnie must decide.

On the *Coulisse* or among *Syndicats des Banquiers*, there is no joint liability for individual obligations. To be admitted to membership in the Syndicat for cash transactions, however, brokers must be able to show means of at least \$20,000, and for admission to the Syndicat for transactions for future settlement, the minimum is set at \$200,000. Listing requirements are not onerous. Each firm may deal for its own account, and is responsible only for its own debts. Loans are therefore made by *reporteurs* on the *Coulisse* with much greater care, the reputation of the firm and character of the security offered being carefully scrutinized. When loans are made on *Coulisse* securities, it is customary for the lenders to require that they shall have custody of the certificates, while on the *Parquet* these are usually left in the hands of the Agents de Change, a receipt issued by the Syndical Chamber being accepted instead. On the *Coulisse* also, the rate varies greatly from security to security, and from firm to firm. In case of a *Coulisse* failure, the creditors share pro rata as in the case of an ordinary commercial failure.

As stated in the first part of this chapter (p. 60) some three or four hundreds of millions of dollars of new capital

<sup>1</sup> Cf. Boisaière, *op. cit.*, p. 333.



are annually available from French sources for speculation and investment in bourse securities. This sum is augmented to an unknown degree from foreign sources, or diminished, on the other hand, by transfer of French funds to foreign markets. It is clear that this golden influx involves either an increase in the prices of the existing securities, the creation of new securities for its absorption, or a series of fluctuations involving losses whereby wealth is transferred to other hands and withdrawn from the market for other uses.

As in all speculative markets, attempt is made to anticipate permanent investment. New securities are constantly being listed and held on borrowed money and old ones accumulated at what is hoped to prove to be a low level of prices. These securities are held by the speculators and others on the bourse by means of the fortnightly and monthly loans (*reports*)<sup>1</sup> provided by wealthy individuals, trustees, railroad, insurance, utility, and industrial companies, the private bankers, called generally *la haute banque*, and the great credit institutions.<sup>2</sup> The Bank of France does not make *report* loans.

These *report* loans, of course, are guaranteed by the Compagnie, and can be withdrawn or shifted at the end of each fortnight or month, according to the account for which they were made. The *report* rate of interest which they bear is the most sensitive credit barometer in France, as is possibly the private commercial paper rate in England. It is prevented from being an exact reflection of the bourse situation through some operators' making outside loans for as long as a year in order to conceal their position or avoid commissions and taxes, or the periodical uncertainties of the

<sup>1</sup> J. Combat, *Manuel des Opérations de Bourse*, p. 232.

<sup>2</sup> J. Combat, *Banques et Opérations de Banque*, pp. 69, 338.

liquidations.<sup>1</sup> Formerly, the rate varied greatly on different securities, as it does to-day in New York, London, and on the *Coulisse*, a spread of 3.7 per cent between *Rio Tintos* and *rentes* being not unusual.<sup>2</sup> This fact caused an endless shifting of loans, *report* arbitraging, for the profit in the difference between the various rates. Since the collective guarantee became effective, however, the rate has tended to equalization over all securities, and opportunities for interest arbitraging are small, though the power of discrimination for cause by the Agents or the *Syndical Chamber* is in nowise lessened!<sup>3</sup> It is noteworthy in this connection that the same rate of interest received by the *reporteur* is charged the borrower, the Agent acting, without other compensation than his commission, as responsible intermediary. In New York and London, on the contrary, the broker borrows (largely from bankers) and lends to his customers at an advanced rate, many members making their office expenses from the resulting profits. The rate runs ordinarily a little less than the Bank of France rate and a little more than the private commercial discount rate on prime bills, varying from one per cent to four per cent on the *Parquet*, and from three per cent to five per cent on the *Coulisse*.<sup>4</sup>

Turning now from the Bourse to the money market, there is a financial institution outside the Bourse, yet most closely associated with it, called *La Haute Banque*,<sup>5</sup> that supplies a large part of the securities as well as the funds with which Bourse operations are carried on. Following is a list of the most important French private banks comprising *La*

<sup>1</sup> J. Combat, *Manuel des Opérations de Bourse*, p. 236.

<sup>2</sup> René Chevrot, *Pour devenir financier*, p. 379.

<sup>3</sup> Boissière, *op. cit.*, p. 208.

<sup>4</sup> Combat, *op. cit.*, p. 236.

<sup>5</sup> E. Kaufman, *La Banque en France*, p. 166.

Haute Banque, one of the distinguishing characteristics of which is that few or no reports of their situation or operations are made public: Rothschild Frères, Heine et Cie., Hottinguer et Cie., J. Stern et Cie., Vernes et Cie., and La Banque de Paris et Pays Bas, a powerful private company of some \$20,000,000 capital that accepts no deposits from the public. The above are the leading private firms that, owing to their limited ownership, do a more venturesome business than the great deposit-accepting, report-making credit institutions<sup>1</sup> that outrank them in wealth and power.

The chief of these latter are Le Crédit Lyonnaise, capital \$50,000,000, La Société Générale, capital \$100,000,000, one-half paid in, Le Comptoir National d'Éscompte, capital \$40,000,000, and La Société Générale de Crédit Industriel et Commercial, capital \$20,000,000.<sup>2</sup>

In 1908 the total loans of these four companies on securities, including reports (at least one-third) were some \$180,000,000 and their total discounts were some \$540,000,000. Being always able to turn a large part of these discounts into cash at the Bank of France, they could loan freely on the Bourse large sums for periods of two weeks or a month. For this same reason, they carry on hand only enough cash to meet their daily needs, and at the Bank of France only enough to insure rediscounting in sufficient volume. The total cash of the Crédit Lyonnais for instance, amounts to eight or ten per cent of deposits, and this is generally true of the others. There are no legal reserve requirements. Loans are made upon all kinds of securities regarded as good, at varying rates, requiring a margin of from twenty per cent on, say, French railroad

<sup>1</sup> A. Neymarck, *Journal de Société de Statistique de Paris*, May-June, 1909.

<sup>2</sup> Lucien Lagrave, *Les Établissements de Crédit*, pp. 30, 55.

bonds, to thirty or forty per cent on miscellaneous securities, depending on the collateral, the individual, and the market situation. Usually one per cent to two per cent more than the Bank rate is charged on securities and likewise on discounts. One-half to one per cent is paid on demand deposit checking accounts. On time deposits one or two per cent for one year, two or two and one-half per cent for two years, and three per cent for three years is paid. These great banks with hundreds of branches in France and abroad thus collect funds from all sources and concentrate them for large mercantile and Bourse operations.<sup>1</sup>

In what might be called the second group of La Haute Banque are H. de Bethman et Cie., Demachy et Cie., Lazard Frères et Cie., de Neuffize et Cie., Perier et Cie., Mallet Frères, and many other private banks, usually firms, but sometimes individuals.<sup>2</sup> All of these various financial interests are more or less directly interested in financing the flotation and absorption of listed and unlisted securities. The amount of free capital they have available for short loans and the amount of securities carried on borrowed funds primarily determine the *report* rate of interest. The rate is of course influenced by the commercial demand for short loans and the total supply of available funds. Such funds may come from foreign as well as domestic sources depending, among other considerations, on the rate of interest prevailing in the foreign country, or in other words, the demand for and supply there of short-time funds. As a rule France has been in the past more often a lender than a borrower, and French financial institutions have invariably turned finally to the inexhaustible resources of the Bank of France.

<sup>1</sup> Interviews with Crédit Lyonnais and Comptoir d'escompte officials; *vide* National Monetary Commission. Also André Liège, *Evolution of Banks and Credit in France*, p. 193 *et seq.*

<sup>2</sup> J. Combat, *Banques et Opérations de Banque*, p. 338.

It is through the commercial discount rate, its discount policy and its enormous potentialities that the Bank of France exercises its influence over the Bourse and its operation.<sup>1</sup> Its power to issue paper money in the form of bank notes depends practically on the demand for money (expressed in terms of what may be called the bankable paper offered it), as will be illustrated in the following chapter on the financial measures necessitated by the war.

The French Government has put only three important restrictions on the issue of banknotes by the Bank of France. The total amount of the issue is fixed at a definite figure, a figure however, which is progressively raised when it seems probable that the issue will be exceeded by the demand; second, the issue must be covered in one of three ways: first, by metal (gold or silver); secondly, by French Government bonds, provincial, municipal, or other public securities, or certain securities guaranteed by public bodies (a list of securities on which loans may be legally made is kept up to date by the bank); and thirdly, by commercial paper of various kinds, of not longer than three months maturity. This paper must have three signatures. Two of these must be by persons domiciled in France. In lieu of a third signature a deposit of securities belonging to the class on which loans may be made, or of warehouse receipts, may be accepted. About 70 per cent of discounted paper bore in 1909 the indorsement of a bank, but the percentage of direct loans to individuals is steadily increasing, especially since 1898 when the minimum amount of an acceptable bill was lowered to \$100. To be admitted to the discount privilege, however, a minimum account of \$100 must first be opened with the bank. The character of the collateral eligible for loans is fixed by laws and de-

<sup>1</sup> A. Huart, *L'Organisation du Crédit en France*, pp. 62-130.

crees, but the amount loaned, depending on the collateral, is determined by the General Council (board of directors) of the bank, a list of such percentages being kept by the bank officials. The percentage (of the market value) runs from 60 per cent to 80 per cent. For loans and all operations on securities, the clientele is composed mainly of individuals. In fact, the current account for loans now used in general business affairs, originated from the need of stockbrokers for temporary transfer loans.<sup>1</sup> The bank pays no interest on deposits.

The supplementary third signature to obtain a security loan may be given once for all by guarantee by separate deed (*aval par acte séparé*). A "mixed account" system also exists, by which securities deposited serve, according to the position of the account, to guarantee advances made or discounts granted to the same customer. The Bank of France has for loans on collateral and discounts of commercial paper two rates, the loan rate running usually one or one-half per cent higher than the discount rate. The Bank does not loan below its published rates. The third restriction on the note issue is the obligation of the Bank to pay out gold, or silver (an option of which it seldom avails itself) on demand upon presentation of its notes. There is no legal requirement whatever as to the amount of gold reserve to be kept behind the notes. That matter is left solely to the judgment of the Bank, the governor and vice governor of which, however, are appointed by the French Government. As the Bank is required to pay out gold or silver for its notes, and as it must also pay out its notes in discounting certain acceptable bills, the extent of the reserve is more or less automatically determined. It has risen and

<sup>1</sup> Patron, *Bank of France in its Relation to National and International Credit*.

fallen with every event in the history of France, and a full explanation of its fluctuations would supply almost a complete story of French national life. All other banks in France, in fact all French financial institutions, and especially the Bourse, function with the knowledge that they can rely on securing funds at any moment in return for definite forms of security from the Bank of France, whose power legally to issue money is in turn limited only to the demand, however great, expressed in terms of these forms of security. In 1907 the Bank had \$697,000,000 of coin and bullion, discounts of \$235,000,000 and advances on securities of \$112,000,000.<sup>1</sup>

By the law of February, 1906, the limit of note issue was fixed at some \$1,160,000,000 and at the close of 1907 the outstanding note issue was some \$950,116,290.

So much for the outside system of credit to which the Bourse has access and which, in ordinary times, keeps it supplied with sufficient funds at a low rate, accepting without question its receipts for securities stored in the Bank of France's vaults and its guarantee of those securities based on its solidarity. The events of 1914-1915 were to be an acid test of financial institutions all over the world, and they left the Bourse financially high and dry. They revealed that not only the *Coulistiers* but the *Agents de Change* as well had not sufficiently foreseen the war to require adequate cover from the buyers on whose behalf they had pledged their own credit to the *reporteurs*. They revealed furthermore that the financial strength of the *Compagnie des Agents de Change* was not equal, in the great emergency, to the obligations it had gradually assumed or had had thrust upon it, and that neither its own efforts to raise funds and

<sup>1</sup> Cf. "Interviews with M. Pallain, etc.," National Monetary Comm., vol. i, p. 189 et seq.

restore confidence, nor the importance of its operations had availed to prevent the closing of its term markets for a period of fourteen months from the outbreak of hostilities, although the big deposit banks managed to resume operations by January 1, 1915.

It is clear that the value of the guarantee of the Agents rests in the last analysis upon their income, which in turn depends upon the rates of brokerage, the volume of sales, and the costs of operation; an income that can be estimated by the general public partly by the price of seats (seldom sold), very vaguely by the receipts from the Bourse tax (since 1893), and more vividly by the silence or lamentations of the Agents themselves.

The volume of sales, as noted *supra*, is not known. The commissions charged by the Agents have been regulated by law since 1638, and in 1801 the court (*tribunal*) of commerce of the Department of the Seine, by virtue of authority conferred on it, fixed the maximum rate at one-fourth per cent. This rate remained in force throughout the nineteenth century,<sup>1</sup> though the Syndical Chamber, in view of the tendency of Agents in competition to lower the rate to minor fractions, fixed in 1887 certain minimum charges, dealing below which would render the Agent liable to severe penalties. The rate of securities involved in litigation alone remained and remains still at one-fourth of one per cent. In the reorganization of 1898, the maximum was fixed by law for all other classes of securities as follows: one-tenth of one per cent for cash operations with a minimum of fifty centimes (about ten cents) per lot; one-tenth of one per cent for term operations (except for the three per cent *rentes* fixed at five-sixths of one per cent); and finally for *report* operations in the term market about one-

<sup>1</sup> Boissière, *op. cit.*, p. 196.



half of the ordinary term rate for all securities except the rente three per cent which took the same rate as in cash transactions, five-sixths of one per cent. In 1901 these maxima were raised for securities of small denominations in the term market, to five cents per share or bond of those selling for less than \$50, ten cents for those between \$50 and \$100 and reduced for foreign government securities selling below \$10 to one-twentieth of one per cent. Below is a table of the actual rates established by the Syndical Chamber of the Parquet within these limits. On shares not fully paid the commission is calculated only on the net amount, the part unpaid being deducted. The franco (see p. 80) was applied to all operations.

CASH	TRANSACTIONS
In all securities	$\frac{1}{6}$ of 1% of amount negotiated minimum 10c.
TERM	TRANSACTIONS
In rentes 3% and rentes $3\frac{1}{2}$ % respectively.	$\frac{1}{2}$ of 1% and $3\frac{1}{2}$ %.
In foreign Government securities.	5c. for smallest lot negotiable in term market and progressively in proportion.
In shares and bonds under \$50	5c. per share or bond.
In shares and bonds between \$50 and \$100	10c. per share or bond.
In shares and bonds over \$500	$\frac{1}{6}$ of 1% of amount of sale.
REPORT	OPERATIONS
In French rentes 3%	$\frac{1}{2}$ of 1%.
$3\frac{1}{2}$ %	$1\frac{1}{2}$ %.
In all other securities undergoing both liquidations, liquidated at end of mo.	$\frac{1}{6}$ of 1% of the amount of sale.
only in special certificates of For. Govt. loans over \$12	$\frac{1}{6}$ of 1% of the amount of sale.
	75c. for the smallest lot negotiable and progressively in the same proportion.

In the early part of 1910 the great falling-off of direct orders and commissions for the Agents became a source of

much anxiety and complaint on their part. Fluctuations in the three per cent rentes gave rise to increased activity among the customers of the *Coulisse* dealers for their own account in term transactions on which no commissions were paid. This resulted in cutting off a certain revenue that formerly came to the *Parquet*. Many investment firms began to sell emissions of securities direct to clients without recourse to a Bourse Campaign, and later themselves provided a market by dealing in such securities (untaxed operations), especially those suitable for saving, trust, and similar funds.<sup>1</sup> The *Parquet* petitioned in vain for higher maximum rates. Finally after much agitation and proof of hardship an agreement was reached March 15, 1910, between the Agents, the societies of credit, and the *banquiers* of the *Coulisse*, suppressing entirely the indirect franco in the cash market, and allowing the direct franco only when the arbitrating client's name was given by the intervening bank. The term "indirect franco" is applied to operations in which the big credit institutions, having collected thousands of orders throughout France and elsewhere, fill them *en masse* in their own names at one-half rates (franco) and turn them over later to their scattered clientele. On the other hand a *remise* of 25 per cent on commissions was accorded.<sup>2</sup>

Even before the war, the advantages gained by the agreement were regarded by the Agents as scarcely offsetting what seemed to be an incurable dullness of the market. In the budget of 1914 the tax on Bourse transactions was raised. This increase provided an added discouragement. Now, with the losses involved in closing the term market for fourteen months and with the meagre amount of sales during the period since it was reopened, together with the demon-

<sup>1</sup> Cf. Deville, *La Crise de la Bourse de Paris*, pp. 71-86.

<sup>2</sup> G. François, *Revue d'Économie Politique*, 1911, pp. 81-89.

strated inability of the credit power of the Parquet quickly to restore the situation, it may be expected that the Agents will ask for a further increase in the rate of commissions. They would probably make this demand even had there been no increase in the cost of living to warrant it. On the other hand, the opponents of the Agents will urge, as in the past, that the institution of the brokerage monopoly is obsolete and ineffective in time of emergency, that its solidarity is the cause of long closing periods as at the time of the Union Générale crash in 1882 when the Parquet liquidations with some \$33,000,000 involved, were postponed seven months.<sup>1</sup> The Parquet will doubtless be attacked as undemocratic, as a privileged company securing increased power without effort as its list of securities grows. It will also be pointed out that the Government should take advantage of the war conditions to indemnify the Compagnie for its equity in the legal monopoly and establish for all securities a free market, composed of both dealers and brokers.<sup>2</sup>

<sup>1</sup> Leon-Say, "Les Interventions du Trésor à la Bourse depuis 100 Ans," *Annales de l'École des Sciences Politiques*, 1888.

<sup>2</sup> Vidal, *op. cit.*, pp. 18 and 256.

## CHAPTER V

### THE BOURSE AND WAR FINANCE

THE effect of even a threat of war on financial institutions was illustrated in 1911 when on July second Germany announced that a warship had been sent to Agadir, Morocco for the protection of German interests. Whether this step was dictated by German military interests with the purpose of carrying forward another step in an aggressive policy, or whether it was deliberately undertaken as an experiment to test German preparations, as was believed in some quarters, or whether it was primarily to divert the attention of the German public from internal matters was but a short time open to question. Relative to the monetary crisis in Germany which attended it, the Kaiser is rumored to have said in effect, that it must not happen again, and to have given directions that German financiers should be consulted and given opportunity to take precautionary measures in case of similar troubles in the future. The instigation to this latter course may not have originated with the Kaiser, but certain it is that from 1911 on the efforts of the Reichsbank to strengthen the German banking system were redoubled, and that three years later Germany was fully equipped financially to meet the outbreak of war.<sup>1</sup>

The announcement of the sending of the Panther was made on Saturday, July 2d. The middle of the year is always a time of financial stress and uncertainty, especially in Germany. In the latter part of June the Reichsbank had

<sup>1</sup> "German Financial Preparation for War," *Revue de Paris*, March, 1915.

given notice that it would require an additional commission for accommodation furnished by it at the end of the quarter, and this indicated, as it proved, that there were heavy engagements on the Berlin Bourse, and that there would be an unprecedented demand for funds. In preparation, gold was drawn from London (some \$3,500,000), Egypt, and possibly from Vienna, while it is known that English, French, Belgian, Dutch, Swiss, and Austrian banks, attracted by the high interest rates; loaned large sums in Berlin.<sup>1</sup> The immediate result of the announcement was a much greater fall in prices, and more disturbance in both London and Paris (where because of internal causes the situation was already delicate), than in Berlin, which had the use for definite periods of foreign resources, an advantage that might be prolonged indefinitely. As the week wore on, prices gradually recovered, but speculation naturally died down as the banks accumulated reserves, and low interest rates with easy money ruled the markets generally. By the end of the month, however, it was apparent that French bankers, as their loans matured, were withdrawing money from Berlin, and from London as well, and also, as it later developed, from Belgium, Russia, and other countries. It is possible that the French Government had decided, as a counterweight to German display of military power, to make the most of French financial superiority, possibly with the object of preventing future crises by making this one as expensive as possible to German borrowers, though this motive was not avowed. Meanwhile the central banks of France, Germany, and England were taking measures to strengthen their reserves, and veiled warnings appeared in the financial press.<sup>2</sup> By the last of August, withdrawals of French funds directly and indirectly from Berlin and the

<sup>1</sup> *Statist*, July 1, p. 24; July 8, p. 59.

<sup>2</sup> *Economist*, July, December, 1911.

fear of war, had driven Berlin bankers and debtors to London and even New York and Chili for replacements, causing considerable liquidation on both exchanges, amounting to as much as \$25,000,000 in New York. This was accompanied by a decrease in prices especially of international securities, notably Canadian Pacific, by many points. It has been estimated that some \$250,000,000 of foreign money was constantly employed by Germany. Heavy losses were occasioned German speculators by the dragging out of negotiations, prices dropping on the Berlin Bourse from 4 per cent to 5 per cent on bank stocks, and from 12 per cent to 20 per cent on industrials. Serious runs on foreign banks occurred in various parts of Germany, and on Black Saturday in September a veritable panic took place on the Berlin Stock Exchange. By the middle of September, led by the Bank of Belgium, nearly every important central bank in Europe had raised its discount rate. Included in the number was the Bank of France, which had maintained its rate at 3 per cent for some three years and eight months. A deputation of German bankers, voicing the protests of all German finance, called at the Foreign Office for assurance as to the progress of negotiations, and to the relief of Europe, were told that they were proceeding favorably. The German press adopted a friendlier tone, and the Morocco affair soon became a matter of history until the events of 1914 recalled it vividly to the present of that date. As indicating the gravity of the crisis in France, it was reported <sup>1</sup> that the banks in Paris at the midmonthly liquidation generally refused to lend to the *Coulisse*, which would have been in a deplorable situation, had not the Rothschilds come to its assistance.

This Morocco incident, coupled with previous ones, seems to have left the impression both in France and Germany,

<sup>1</sup> *Statist*, September 23, 1911, p. 726.

that the next aggressive act of Germany would result in war, and to have convinced the German powers that a sudden onslaught was desirable from a financial as well as from a military point of view, as was exemplified three years later.

In October, 1912 the war cloud burst in the Balkans, and all Europe was plunged into a fever of excitement. The possibility, always in the minds of all, of a general conflagration, made for idle bank balances, low interest rates, little speculation, and a steadily falling level of security prices. This decline in security prices was accelerated as the ominous weeks of the first half of 1914 passed. During this period of tension, French bank balances were largely withheld from Germany, but not, as it developed, from Germany's allies.

It is impossible to understand the money market and bourse events of European countries generally without reference to the political purposes dominating the use of loanable funds.<sup>1</sup>

In 1907 the French Government had given notice that foreign loans might not be listed on the French Bourse without its consent. This followed the Delcasse incident of 1905 when Germany, taking advantage of the Russian revolution of that date, assumed a high-handed attitude toward Russia's ally. On December 16, 1913, a circular issued by M. Caillaux renewed and extended this provision even to treasury notes. According to the Finance Minister, this was due to the efforts of Huerta and several Balkan states, notably Turkey, (behind whom we now know was the hand of Germany) to arrange for advances without countenance of the French Government. This move evidently originated, however, in the protest of Russia after the Ottoman bond issue of \$20,000,000 in Paris early in 1914. Russia

<sup>1</sup> V. R. Aubry, *L'Admission à la Cote des valeurs étrangères.*

complained that the Russian and Serbian issues should have come first.<sup>1</sup>

The total nominal capital issues emitted on the French market were in 1912 some \$1,117,800,000 and in 1913, some \$966,200,000. Not quite 50 per cent of these went into purely French undertakings, the rest going into foreign issues. In the early part of 1914 a great campaign for a Turkish loan was carried through in Paris. Certain railroad concessions were secured for French interests in Turkish territory, while incidentally several millions went, via Turkey, to repay German loans and to strengthen the Ottoman navy. Later, loans of \$100,000,000 to Turkey and \$35,000,000 to Greece were authorized, and though not publicly issued, it is impossible to say how much had been privately advanced when the war broke out. The French foreign office has evidently not always been fortunate either in its forecasts of coming events, or in its control over the international operations of certain French banks.<sup>2</sup> If the armed-camp situation of Europe is to continue, it is evident that French advances to foreign interests ought to be directed by a wider vision.<sup>3</sup>

Throughout 1913 the bank rate remained at 4 per cent; reports averaged 1.95 per cent to 3.27 per cent; money was plentiful, yet there was little speculation.<sup>4</sup>

At the end of June settlement, 1914, on the Bourse the perpetual 3 per cent, France's premier security, stood at 83.05 francs. At the end of July on the brink of war, they sold for cash at 78 francs, a drop of 5 francs on one of

<sup>1</sup> *London Financial Times*, January 6, 1914.

<sup>2</sup> V. J. E. Favre, *Le Capital Français au service de l'étranger*.

<sup>3</sup> Raphael George Levy, "Les Banques Français pendant la guerre," *Journal des Économistes*, Aug. 1915, p. 236. LaChapelle, *Nos Finances pendant la guerre*, p. 164.

<sup>4</sup> Raffalovich, *Marché Financier*, 1913.



the prime securities of the world,<sup>1</sup> that sold over 90 francs at the outbreak of the Balkan war in 1912.

Especially to be noted was the case of the 3½ per cent rente that had just been emitted July 7 to the extent of some \$161,000,000. It had been widely advertised by a popular ministry and was over-subscribed 40 times, largely by speculators who anticipated a speedy resale at a moderate advance over the issue price of 91 francs. On the 8th, 9th, and 10th of July the price actually did rise to respectively 91.25, 91.50 and 92, and large amounts were dealt in on the Parquet and the Coulisse term markets. By the 25th of July the price had fallen to 85 francs, which would have spelled ruin to numerous holders if they had been obliged to liquidate on the 31st. If they failed, in case of liquidation, the Agents concerned would have had to bear the loss, and if it proved too heavy for them, the Syndical Chamber, by virtue of the legal solidarity of the *Compagnie* would have been obliged to pledge all the resources of the Parquet to the reimbursement of the *reporteurs* and the sellers.<sup>2</sup>

This depreciation was of course paralleled by the fall of the whole list,<sup>3</sup> shares of banks, foreign government bonds, railroad and industrial prices dropping from 5 to 675 (Suez Canal shares) points, largely during the second half of July.

As early as July 14 a semi-panic had occurred on the Vienna Bourse, heavy falls of prices taking place for the fourth time in twelve days. This coincided with a statement issued by the Austrian Foreign Office that "Austria Hungary *this time* has decided that its wishes must be at-

<sup>1</sup> *L'Économiste Français*, July 31, 1915, p. 139; *Commercial and Financial Chronicle*, Aug. 1, 1914, p. 299.

<sup>2</sup> LaChapelle, *Nos Finances pendant la guerre*, p. 156.

<sup>3</sup> *L'Économiste Français*, Nov. 21, 1914, p. 56.

<sup>4</sup> *Cote de Banque et Bourse*.

tended to and complied with to the full extent by Serbia." <sup>1</sup> By the 23d prices were collapsing on all the Exchanges of Europe and America. There was a semi-panic on the Paris Bourse. There were rumors of failures of banks and of difficulties of a big credit institution in securing the return of funds advanced to Bulgaria.

On the 24th and 25th, the Paris market, overwhelmed by an avalanche of sales, collapsed entirely. The *Chambre de Compensation* (Coulisse) closed the Coulisse market. The Syndicate of bankers closed their market (Coulisse) and prescribed a limited time in which cash transactions might take place. The Parquet remained open ostensibly, but trading was exceedingly restricted and prices were only nominal.<sup>2</sup> Owing to the long-continued period of anxiety, the amount loaned on securities on the Bourse was the lowest of many years, estimated at some \$125,000,000, of which about \$80,000,000 was in reports. But there had been a sudden and terrifying fall in the value of these securities, and to make the next settlement of July 31st, the Agents demanded of the unfortunate holders who had bought at the higher prices, some \$50,000,000 as the balance of the reimbursement due short sellers and *reporteurs*. Many of the latter had already given notice to the Agents that they wished to be reimbursed at the coming settlement, but it was soon found that the purchasers, largely speculators for a rise, were not able to take up their purchases, and could not borrow elsewhere the sums due. This situation inevitably turned all eyes to the money market, to the big credit institutions that always employed many millions in *reports*, and to the Bank of France, all of which, as will be seen, were already having troubles of their own.<sup>3</sup>

<sup>1</sup> *Economist*, July 18, 1914.

<sup>2</sup> *Economist*, Aug. 1, 1914, p. 231.

<sup>3</sup> Georges LaChapelle, *Nos Finances pendant la guerre*, p. 118.

Some of these credit societies were undoubtedly embarrassed by considerable uncollectible loans of a nature indicated above. Working always on a minimum cash reserve they were in no condition to meet the heavy withdrawals by depositors that had already begun on the 24th. The deposits of the four leading credit companies totaled over \$1,000,000,000 December 31, 1913. For all the banks the deposits were estimated by Raphael George Levy to be some \$2,000,000,000. These credit societies had preceded the Bourse in their claim for credit accommodation from the Bank of France, their sole source of ready money. Many of their loans, of course, had been made to men now mobilized and to those living in territory soon to be invaded, from whom payments could hardly be expected; while, on the other hand, a large part of their deposits was payable on demand.

In a situation quite similar to that of the Bourse and the big credit banks were hundreds of savings banks of Paris and the Provinces, with deposits estimated at some \$1,000,000,000 and little ready cash. It was calculated that between the 25th of July and the 1st of August, withdrawals from the deposit and savings banks exceeded \$600,000,000.<sup>1</sup>

All these, however, were not the only visitors expected at the Bank of France. A secret agreement had been made between the Government and the bank, signed by M. Klotz, finance minister, and M. Pallain, governor of the bank (Nov. 11, 1911) at the time of the Agadir incident. This agreement provided that the bank should put at the disposal of the Government \$580,000,000 in measure as required from the date of mobilization. In return, the bank was to receive treasury notes running three months, and renewable at the

<sup>1</sup> *Economiste Européen*, Dec. 11, 1914, p. 242.

rate of 1 per cent per year. Since that date, it transpired, the bank had undertaken the responsibility of the financial preparations for war. It had followed minutely every indication of financial preparations for war on the part of Germany, and had taken careful measures to meet them. It had sent to its branches a secret circular, to be opened only in case of war, giving detailed instructions that later were everywhere carried out to the minute. It had had printed a stock of \$300,000,000 of 20 franc (\$4) and 5 franc notes to supply the demand for small change it foresaw would result from the hoarding of gold coin during the war. It had apportioned these notes territorially according to the probable demand, and they were issued everywhere at a given moment. This agreement, however, and the preparations made by the bank were then generally unknown, and although the weekly statement of the bank was open to all, and the bank's position was known to be sound, the moment was so fraught with dire possibilities, and the situation of all other financial institutions was so desperate that not without anxiety every mind arrived at the same conclusion, that all now depended on the Bank of France.

The situation of the Bank of France was in every way, good. Since 1870 when the payment of the billion-dollar indemnity to Germany drew the gold out of the peasants' socks, the Bank had steadily increased its bullion reserve. In 1905 it reached some \$520,000,000. July 30, 1914, it stood (including some silver) in round numbers at \$953,000,000. This sum was over 50 per cent of all liabilities, and only some \$383,000,000 less than the note issue (already swollen, in round numbers, to \$1,336,000,000 only \$24,000,000 under its legal limit of \$1,360,000,000), making

<sup>1</sup> LaChapelle, "La Banque de France," *Revue de Paris*, April 15, 1915, p. 822.

a reserve against notes of over 70 per cent. One powerful fact had impelled the Bank thus to build up its gold reserve. It was the visible evidence that the confidence of the nation in its national bank was well grounded. It far outweighed the commercial portfolio as the material rock on which rested the French system of money and credit. So long as confidence in the Bank existed it could issue its notes without limit to meet the exigencies of war without danger of a sudden storm of demands for redemption in coin.

The statement of the Bank for July 30 showed that recourse to its resources since July 23d had been on a large scale. Its note issue had jumped some \$154,000,000, its Paris discounts had increased in the same period over \$164,000,000, and its advances on public securities had grown by over \$8,000,000; it had also lost over \$4,000,000 of its gold reserve on which demands were increasing with every hour. To have attempted to meet at once all these diverse and conflicting demands, obviously in large part the result of panic, would have involved a dangerously great and immediate expansion of its note issue. This would possibly have imperilled confidence in the stability of the Bank and in the Government. In addition, such action would have brought about a rise in prices.

By Monday, the 27th, all continental exchanges were closed, or trading under close restrictions. The 28th of July, Austria declared war on Serbia. On August 1st Germany declared war on Russia, and the French president signed the decree of mobilization. The 28th, the *Syndic* went to the Finance Minister to talk over the situation, and on the 31st two meetings with the big bankers and the Bank of France were held. The bankers said that in view of their precarious situation they could not come to the aid of the Bourse while the Bank of France said it must reserve its resources for the national defense. The unanimous opinion

of the meeting was that the liquidation of the 31st should be postponed, and after consulting with the *Coulisse*, the Finance Minister hesitated no longer in concurring.

Immediately the Syndical Chamber proceeded to arrange its internal affairs to postpone the settlement, while the Finance Minister agreed to homologate the decision, postponing the settlement of July 31st to the end of August and later to the end of September, 1914.

Thereupon the big banks, who saw a large part of their funds immobilized in advances upon unsalable securities, and in non-liquidating *reports*, demanded a moratorium on deposits, the merchants making a similar demand for commercial paper.<sup>1</sup> Existing law authorized the postponement of the maturities of commercial paper, but was silent about deposits, hence the council of ministers refused at first to rescue the banks. Later, urged by M. Cochery, the council, on the plea of emergency and of immediate ratification by the Chamber of Deputies, decreed, on the night of July 31, August 1, a moratorium on bank deposits,<sup>2</sup> though this was clearly illegal.

The 5th of August, the date of the German declaration of war on France, an emergency law was passed, permitting the Government through successive decrees, beyond the two already made (some four in all), to suspend payment of coupons, interests, dividends, sums due on contract, of insurance, mortgages, saving deposits, (except \$20 per month to each depositor). to prorogate delays in payments of rents, etc., and even of installments due on the recent 3½ per cent loan. The whole economic life of the country was arrested, and all credit suspended. It is noteworthy that with the exception of the secret agreement of 1911 between the Govern-

<sup>1</sup> Jean Salames, *Le Moratorium*, 1915.

<sup>2</sup> LaChapelle, *Nos finances pendant la guerre*, p. 118.

ment and the Bank, which was confirmed, all of these emergency measures were improvised on the hour.

Most important of all for the Bank were the suspension of specie payments, and the decree raising the authorized note issue from \$1,360,000,000 to \$2,400,000,000. This enabled the bank, beside providing the Government with funds in accordance with the agreement of 1911, to continue discounting without restraint or conditions, bills offered it by the credit societies and others.<sup>1</sup>

Its discounts risen already on the

	25 of July, 1914,	to \$310,800,000,	increased rapidly from
day to day, on the 27 " "	" "	reaching	316,600,000
" " 28 " "	" "	"	336,400,000
" " 29 " "	" "	"	387,400,000
" " 30 " "	" "	"	488,800,000
" " 31 " "	" "	"	578,000,000
" " 1 " Aug.,	" "	"	608,200,000
" " 2 " "	" "	"	685,200,000

These discounts, in spite of the moratorium which postponed the payment of the bills which the bank was admitting to discount, continued under certain conditions to grow, totaling August 4, some \$800,000,000, and finally, on October 1, \$995,200,000. By a decree of the 29th of August, however, these "frozen" bills were charged with interest at 5 per cent. The effect of this appeared in the reduction of the total held by the bank by \$120,000,000 from October 1 to December 10, 1914, although by April, 1915 there were still in the bank's portfolio some \$600,000,000 of bills prorogated. This policy of course freed the credit banks of deposit from the heavy burden of uncollectible bills, and provided them with resources to repay their depositors on demand, and thus hasten the day when they could recommence the discount of bills drawn after August 4, 1914 and not subject to the moratorium.

In fulfilling its agreement with the Government the Bank

<sup>1</sup> *Economist*, Aug. 15, 1914, p. 322.

by March, 1915 had advanced \$920,000,000 and by a new agreement signed at Bordeaux September 21, 1914, the total amount of advances was fixed at \$1,200,000,000 with interest at 1 per cent per year. This debt to the state and the commercial paper moratorium in effect entailed a forced issue of notes as in 1870. The result of this has not yet been so unfortunate as in the past, but recognizing the danger of inflation the minister of finance engaged the State to reimburse the Bank in the shortest possible time, either by means of ordinary budget receipts, or from the first loan, or from other extraordinary resources. A year after the cessation of hostilities, the renewal of the treasury notes turned over to the Bank in proportion to its advances, will be effected at the rate of 3 per cent per year. The profits of the extra 2 per cent, however, will not go directly to the stockholder, but will constitute a special fund to cover the losses that may be entailed by the "frozen" assets held in the Bank's portfolio.<sup>1</sup>

This policy of the state's guaranteeing directly the outcome of operations undertaken by the Bank on its own responsibility, in the words of M. Ribot, finance minister, could hardly be defended except as an action taken in a time of crisis, which would always remain exceptional.<sup>2</sup> France followed a precedent set a little before by the British Government, in guaranteeing the Bank of England against similar losses, and in consideration of a similar service rendered by the Bank to commerce and the banks and to the credit structure both of the present and the future.<sup>3</sup>

The weekly statement of July 30, 1914, was the last one

<sup>1</sup> LaChapelle, "La Banque de France," *La Revue de Paris*, Apr. 15, 1915, p. 822.

<sup>2</sup> Report of M. Ribot, December, 1914.

<sup>3</sup> *Nos Finances Pendant la Guerre*, p. 279.



published by the Bank until six months of war had passed, when the practice was definitely resumed. At this time, January 28, 1915, the metal reserve of the Bank was some \$999,800,000 as compared with \$953,000,000 at the end of the preceding July, to which, however, must be added liquid assets of some \$37,200,000 at the disposal of the Bank in foreign countries. Bills held subject to the moratorium were some \$636,400,000, loans to the State \$780,000,000, while the note circulation had risen from some \$1,3336,000,000 to \$2,094,600,000. While the embarrasments of the credit banks had resulted eventually in the withdrawal of certain depositors and a large fall in deposits, the universal approval of, and confidence in the Bank of France had had the opposite effect, and its average of current deposits (*comptes courants*) had increased over \$200,000,000<sup>1</sup> from some \$189,514,372 on July 30, 1914, to \$530,115,246. Its current discounts, however, not overdue, had fallen from about \$300,000,000 July 25 in the early days of the crisis to \$239,000,000 in round numbers, while its advances on public securities were in round numbers practically the same (\$140,000,000) as in July 1914 and also July 1913.<sup>2</sup> The discount and loan rates of the Bank that had stood respectively at 3½ per cent and 4½ per cent from January 29, 1914, (previously 4 per cent and 5 per cent) were raised on July 30 to 4½ per cent and 5½ per cent and on August 1 to 6 per cent and 7 per cent, although the Bank of England's rate had gone to 10 per cent. August 20, the rates were lowered to 5 per cent and 6 per cent where they have since remained (January, 1919). The higher rate is naturally imposed for loans on securities, from the greater immobilization of capital that they entail.

In advance of reverting to the intimate Bourse situation

<sup>1</sup> *Nos finances pendant la guerre*, p. 236.

<sup>2</sup> *Vide* Weekly statements, Bank of France.

it is illuminating to trace the course of the French deposit banks whose position was of the greatest concern to the Bourse.<sup>1</sup> The liberal discount policy pursued by the Bank of France, and later the liberation of certain sums that they had employed in reports, did not suffice for many a day to allow these institutions to continue without the moratorium which was legally affirmed August 4, to apply to their deposits. They were not altogether exempted, however. The decree of August 4 allowed them to postpone the repayment of cash deposits and creditor balances on current account for 30 days, dating from August 1, 1914, under the following conditions. Any deposit or credit balance of \$50 or less could be entirely withdrawn during the 30 days by the depositor. On larger amounts, the holder could withdraw, in addition to this sum, only 5 per cent of the balance.

The provisions applied only to depositors of August 1, or earlier. Agricultural, commercial, industrial employers could withdraw each payday enough of their deposits to meet their payroll requirements, on presentation of the payroll. Requisitioned industries could withdraw the total sums due them. By successive decrees of progressively less lenient terms, repayment was postponed in turn to 30 days from September 1, then 30 days from October 1, then to December 31, and finally a last extension was decreed to the end of February. By the new decrees, the minimum of obligatory repayments was carried to \$200 and finally to 50 per cent or 75 per cent of the balance, depending upon whether it was desired for personal or for commercial and industrial use.<sup>2</sup> By the decree of August 29, mentioned heretofore, it was further decreed that the credit companies should pay 3 per cent interest on the "frozen deposits".<sup>3</sup>

<sup>1</sup> G. Manchez, *Sociétés de Dépôts*, pp. 1-169.

<sup>2</sup> Descure, "Le Moratorium," *La Revue de Paris*, Mar. 1915, p. 166.

<sup>3</sup> Report of M. Ribot, 1914.

This provision hastened the action of the credit companies in reducing their debts. Early in December, the Crédit Lyonnais, Société Générale, Comptoir d'Éscompte, Crédit Industriel et Commercial, La Banque de l'Union Parisienne, and the Banque de Paris et de la Suisse, announced that beginning with January 15, they would no longer avail themselves of the moratorium.

In the review of the financial situation, a model of clarity and precise knowledge, written by finance minister Ribot while the French Government, early in December, 1914, was still at Bordeaux, mention is made of the decision just taken by some of the credit companies to begin again the discount of commercial paper on as large a scale as possible. Ribot also refers to criticisms of a lack of courage and confidence made against them, saying that with the general prostration of business (thousands of concerns had closed their doors since August 1) the demand for discounts was not great, cash transactions being the rule, and that moreover, the credit companies had preferred to wait until the Bank of France had declared itself prepared, as it had just done, to discount under the same conditions as before the war, the bills presented to it. Below is a comparison of certain items, in round numbers, in millions of francs, from the June 30, 1914 and 1915 statements of the four leading credit companies.<sup>1</sup>

	Cash		Bills Discounted		Reports and Secured Loans		Deposits and Credit Accounts	
	1914	1915	1914	1915	1914	1915	1914	1915
Crédit Lyonnais . . . .	231	808	1648	858*	357	254	2378	396
Société Générale . . .	160	102†	739	278†	403	475†	1644	1081†
Comptoir d'Éscompte	197	393	1017	560	249	181	1437	1083
Crédit Industriel et Commercial . . . . .	15	22	137	118	72	46	291	307

\* Includes Gov't treasury notes (*Bons de la Defense Nationale*).

† Dec. 31, 1914.

<sup>1</sup> *L'Économiste Français*, Aug. 1914 and 1915; May 1915.

Of all the great French financial institutions, the Bourse was undoubtedly the hardest hit by the sudden explosion of the war, and the reason is not difficult to comprehend. The objects of its transactions are exclusively long-term securities, representing for the most part a fixed capital. With the closing up of thousands of factories, shops and businesses of all kinds following the mobilization, with the complete stoppage of trade with Germany and Austria and Russia and its decline with other countries, and with the invasion of the richest and most industrialized provinces of France by the foe, it was inevitable that some interest and dividends should cease to be paid, perhaps forever. It was natural also that everyone, and especially those in need of funds, should wish to sell, and that none should wish to buy. Consequently it is not surprising that security prices, even those of the French Government, fell even lower and lower. Neither is it surprising that the buyers, who had contracted to purchase some \$100,000,000 at July prices, largely with the expectation of carrying them over from liquidation to liquidation on borrowed money until they could sell them to permanent investors at an advance, caught in the trap of war, were unable for many months to take up (pay for outright) their purchases, or even to pay up the ever-increasing "differences" between the prices of July 1914 and the actual prices, whatever they might be, or even to borrow by their sole efforts, the necessary sums.<sup>1</sup> The following table of a few leading shares indicates the general course of the market from July 2, 1914 to July 26, 1917, including prices of December 7, date of the reopening of the market for cash transactions after the closure early in September when the Government moved to Bordeaux.

<sup>1</sup> Cf. *L'Économiste Français*, August 8, 1914, p. 203.

	1914			1915	1916	1917
	July 2	July 30	Dec. 7	July 22	July 27	July 26
3 per cent. Rentes <i>per- petuel</i> (at 95 in 1913)	83 fr. 75c.	78	72 fr. 50	69	64 fr. 30	61 fr. 10
Russian 5 per cent. . .	102 fr. 5	95 fr. 9	88 fr. 20	.. . . .	89 fr. 50	75 fr. 5
Bank of France shares.	4060	4400	4350 Prox.	4475	5175	5210
Crédit Lyonnais . . .	1592	1340	1050	1006	1220	1137
Suez Canal . . . . .	4975	4300	4000 Prox.	3990	4470	4500
Northern Ry. . . . .	1725	1249	1400 Prox.	1215	1485	1286
Paris-Lyons Ry. . . . .	1235	1190	.. . . .	1052 Prox.	1165	990

Prices of July 30 to September 3 on the Parquet and from August 17 on the Coulisse, which was temporarily reopened on that date after the closure of July 24, were for cash, and were more or less nominal. For the great mass of securities the decree of August 29 postponed the liquidation 30 days, while the decree of September 27, 1914, in view of the apparent impossibility of the situation's being retrieved by the market itself, suspended indefinitely "all demands for repayment and all legal actions relative to time transactions previous to August 4, 1914 in rentes, Government obligations and other securities, as well as to related *report* operations." The amounts due were to be increased by interest at the rate of 5 per cent per year.<sup>2</sup>

This decree, on September 15, 1915, when the war was going better, and the reopening of the term market was in view, was modified as follows. The liquidation was to take place at the end of the month, 14 months from its original postponement. The differences between the prices of that date and those of July 15 and June 30 (for securities not quoted in the middlemonth) due from purchasers,

<sup>1</sup> "Marché, Financier hebdomadaire," *Economiste Européen*, etc.

<sup>2</sup> *Economiste Français*, Oct. 3, p. 383.

were made payable 10 per cent the day after the settlement, and 10 per cent at each end-of-month settlement for the next 9 months to June 30, 1916. Differences (caused by further falls in prices) due as the result of succeeding settlements (after September 1) were to be payable at once as in ordinary times. The accumulated moratorium interest was made payable from the 2nd of the following October. It was also provided that debtors could obtain further relief through appeal to the courts. Sums due in the future from the end of October to the end of June 1916 and also those accorded a further postponement by the courts were to bear interest at 6 per cent. All demands for payment from debtors with the colors, or from inhabitants of invaded provinces, were to be indefinitely postponed. All demands for payment and legal action not comprehended in the foregoing, except in regard to enemy subjects, were provisionally postponed.<sup>1</sup>

This decree was not issued without opposition. The 3 per cent rente which had stood at 83 francs 70c. at the June settlement of 1914 had declined to 68 fr. 25 c. on September 10, 1915, and reached 66 fr. 50 (4½ per cent basis) on September 30 following, a decline of 17 fr. 20. Many holders complained, and a deputy asserted vehemently that the liquidation price should be fixed as that of July 31, 1914, the date of the postponed July liquidation, but M. Ribot, pointing out that no actual settlement had taken place at that time, and that if it had, prices in the panic would have touched an unknown low level, stood firmly for the preservation of the original contracts.

In the meantime, between August 1914 and September 30, 1915, many relief measures had been proposed and some adopted. Indeed it was as the consequence of the final

<sup>1</sup> *Journal Officiel*, Sept. 16, 1916.

attainment of an accord between the Bourse, the Bank of France and the Government that it was decided to attempt the liquidation and prepare for the opening of the term market under a regime of limited prices. Some of the decisions had even been taken and put into effect as early as November. The first arrangement reached was in the nature of an offer by the Bank to pay over 40 per cent of the loans (not exceeding a total advance of \$40,000,000) for carrying forward securities, on the deposit with the Bank of the securities in question. The money was to be paid to the Agents de Change depositing securities on behalf of their clients, and acceptance of course was voluntary. The statutes governing the Bank did not allow it to make advances on all the diverse securities reported. Three signatures were required to enable the Bank to discount. Orders were to be drawn by Agents, acting for clients to whom sums were due, on the debtors represented by their Agents. These would be countersigned by the *Syndic* for the Syndical Chamber of the *Compagnie*, and discounted at the Bank up to 40 per cent of the sums reported, at 5 per cent. These sums were then to be turned over to capitalist *reporteurs* who desired to be reimbursed.<sup>1</sup> This partial solution left the *Coulisse* out in the cold, but that enterprising community (*Chambre Syndical de Banquiers*) promptly began the organization of a kind of solidarity of its own. They invested \$2,200,000 in National Defense notes (*bons*) and eventually used this security as the basis of a liquidation bank to assist in solving the "frozen" carry-overs on the *Coulisse*.<sup>2</sup> However, neither arrangement seemed to have had any immediate effect. The Agents de Change on their

<sup>1</sup> Cf. *L'Économiste Français*, Nov. 14, 1914, p. 495, and Nov. 21, 1914, p. 920.

<sup>2</sup> *Ibid.*, Nov. 28, 1914, p. 960.

part put difficulties in the way, and the Coullisse could not find lenders with the necessary capital. Thus matters dragged along through 1915, until, through rising prices here and there, and friendly adjustments, the total sum tied up at the middle of the year was estimated at some \$60,000,000.<sup>1</sup>

The efforts of M. Ribot, to whom it was a cause of anxiety in view of the coming loans, that this great national security market should be so long embarrassed, finally succeeded in bringing about the arrangements that led to fixing the date for the term settlement at September 30, 1915.

The Bank of France agreed to raise the limit of its advances offered to \$50,000,000. The Parquet issued \$15,000,000 of 6 per cent notes backed by the credit of the *Compagnie*, and these were easily placed. With these funds, to which was added by M. Ribot a contingent guarantee of the treasury of some \$15,000,000 in treasury notes renewable every three months for two years, the Agents not only offered to reimburse all *reporteurs* who desired it, but loaned \$7,000,000 to the Coullisse to enable it to reimburse creditors for the "differences" and the moratorium interest due them on Coullisse securities.

It was agreed that the settlements on the two markets should proceed simultaneously, as many operators and capitalist *reporteurs* were debtors on one and creditors on the other. The settlement was to be carried out according to the ordinary regulations. Purchasers of securities could take them up at any settlement, but if not able to do so, could continue to be officially *reported*.

One of the big problems of the Bourse had been the 3½ per cent rentes in which speculation had been particularly heavy on the Coullisse de Rentes. Some time before, Mr.

<sup>1</sup> Cf. *L'Économiste Français*, June 26, 1915.



Ribot, having agreed with the Bank of France that it should advance necessary sums on them, had made them convertible at 91 into 5 per cent notes of the National Defense (on a  $3\frac{1}{2}$  per cent basis) and he announced at this time that nearly all of them had been so converted. As to the floating 3 per cent rentes, always an important part of the carryovers, he stated that a great financial institution (Caisse de Dépôts et Consignations) had agreed to buy them as offered.<sup>1</sup> These efforts were successfully carried through and it soon appeared that the sums raised would not be needed, as the *reporteurs* did not ask reimbursement after the liquidation of the 30th. They had regained confidence and continued to support the market,<sup>2</sup> the business of which however, had shrunk to a minimum of its former total. In fact, it is improbable that French finance and the Paris Bourse will ever regain their old international position and prestige.

All these measures described in the preceding pages, important as they were in themselves, were subordinate or tributary to the first great financial necessity of a nation at war, the raising of funds for the national defense. Some account of this process, with which they were inextricably involved, is necessary to a clear comprehension of the measures described above.

When M. Ribot took office the 26th of August 1914, he found indeed that the task of financing the war was one of tremendous difficulties. The prostration of the banks and the Bourse, and the Government's lack of facilities, to say nothing of the \$160,000,000 loan which had just been issued and of which only \$76,000,000 had been paid up,

<sup>1</sup> *Nos Finances Pendant la Guerre*, p. 166.

<sup>2</sup> Cf. G. LaChapelle, "La Bourse de Paris," in *Revue de Paris*, July, 1915, p. 384.

deprived him of the power to issue an immediate and large loan in the usual way. As mentioned above, he went first to the Bank of France, and up to January 28, 1915, had relied on it to the extent of \$780,000,000.<sup>1</sup> His next step was to take care of the balance of the 3½ per cent rentes, as shown previously, by offering to exchange them for treasury notes (see below) on a 3½ per cent basis with a 5 per cent premium, and entrusting the Bank with their immediate rescue. This operation added \$92,400,000 (this amount was eventually paid up) to the Government's resources. He then inaugurated the issue of treasury notes denominated "*Bons de la Défense Nationale*" and conducted a great patriotic campaign for their purchase, reorganizing the agencies of the treasury for the placing of the notes, of which there were some 18 categories, directly with the ultimate buyers. The interest, at first 5 per cent, was payable in advance, and was deducted from the price of issue. It was virtually a huge discount operation of their Government's notes on the part of the French people. They were at first issued in denominations of \$20, \$100, and \$200, and later in as small amounts as \$1 and \$4 sold through the post offices. They matured in 3 months, 6 months, and 1 year and were exchangeable at par for future long-term loans. Later the rate on the three-month maturities was cut to 4 per cent and the Bank of France was empowered to discount any not having over three months to run. The issue met with general approval by the public, and by the 30th of June, 1915, over \$1,100,000,000 of these notes were in circulation, and by the 31st of August following, \$1,394,000,000 not including those placed in England and the United States. As the amount of these notes increased, especially the longer maturities, pre-

<sup>1</sup> *Bilan de Bank de France.*

parations were made for a longer term issue.<sup>1</sup> These notes or bonds bore 5 per cent interest, were to mature in 1925 and were emitted at 96 fr. 50. Subscriptions by the 30th of June were nominally over \$500,000,000 and by August, 1915, had exceeded \$600,000,000.<sup>2</sup>

By the 12th of November, 1915, according to M. Ribot,<sup>3</sup> the total of notes had reached \$1,670,000,000 and the total of bonds of 5 and 10 years maturities, had passed \$731,000,000, a combined total of over \$2,400,000,000. It was time for the great national loan that had been heralded from the first days of the war.

This loan which could be paid up in notes, short term bonds, the 3½ per cent rentes, or even the 3 per cent perpetual rentes was for an indefinite amount, at 5 per cent perpetual, but guaranteed against conversion up to January 1, 1931, and exempt from taxation. The issue price was fixed at 88 per cent for those who paid up in four successive installments by March 15, 1916, and at 87 fr. 25 for those settling at once. Subscription began November 25, 1915.<sup>4</sup> The total amount subscribed was \$3,260,000,000 of which \$1,273,600,000 was cash. The share of France in the Anglo-French loan placed in the United States had been \$259,000,000 and the gold loan in London had brought in \$302,400,000, the grand total being at this date (January 31, 1915), including advances from the Bank of France of \$1,060,000,000, some \$5,531,400,000.

By the 31st of July 1916, according to the report of M. Ribot to the Budget Committee,<sup>5</sup> the total receipts from loans including \$100,000,000 or more placed in the United

<sup>1</sup> "Loi de 10th et Décret du 13 Février 1915," *Journal Officiel*.

<sup>2</sup> *Nos Finances Pendant la Guerre*, p. 252.

<sup>3</sup> *Journal Officiel*, Nov. 13, 1915.

<sup>4</sup> *L'Economiste Français*, Nov. 27, 1915, p. 695.

<sup>5</sup> *Ibid.*, Sept. 1916, p. 383.

States, treasury notes sold in England of \$463,000,000, advances from the Bank of France of \$1,660,000,000 and from the Bank of Algeria of \$9,000,000, had reached some \$7,653,000,000, while the total expenses of the Government, civil and military, from August 1, 1915 to December 31, 1916 were estimated at some \$12,300,000,000. A new loan was necessary. It was issued, beginning October 5 and closing exactly on October 29, 1916. The rate was 5 per cent perpetual, price 88 fr. 75 or 87 fr. 50 for holders of the preceding 5 per cent loan whose subscription was full paid. It was not to be subject to conversion before January 1, 1931 and was to be free from all taxes. On the 11th of December M. Ribot announced in the Chamber of Deputies that total nominal subscriptions were some \$2,300,000,000.

From November 26 to December 6, 1917 subscriptions were taken for a third national perpetual loan of \$2,500,000,000 real capital. The rate was fixed at 4 per cent, the price (for immediate payment) at 68 fr. 60, and the *rentes* were exempt from taxation. In addition a sinking fund was provided to retire them. The French subscription alone was \$2,055,300,000.<sup>1</sup>

A report on the 1918 budget by Louis Main<sup>2</sup> estimated the total expenditures of the Government from August 1, 1914 to December 31, 1917, at \$21,300,000,000, met in part by \$4,000,000,000 in notes and by \$6,200,000,000 from the three big loans.

In the early part of 1918, such were the straits to which the treasury was reduced, new 5 per cent bonds (*obligations*) of the national defense were issued at par, but with the advantage of being payable at the will of the holder at

<sup>1</sup> M. Klotz, Finance Minister, in Chamber of Deputies, Dec. 28.

<sup>2</sup> *L'Économiste Français*, Dec. 1917.

the Bank of France, at the end of the first year, or at the end of any six months thereafter. If held for the full period of maturity, 5 years, a premium of six months additional interest was offered.<sup>1</sup>

In September 1918, the fourth and last war loan was authorized.<sup>2</sup> It was a 4 per cent perpetual rente emitted from October 20 to November 24 at 70 fr. 80. The unpaid coupons, not to exceed 50 per cent of subscriptions, of the loans emitted or guaranteed by Russia were made receivable in payment, as were also of course, the treasury notes, and coupons and certificates, under certain conditions, of previous bonds, and *rentes*. The loan was an enormous success. The total amount subscribed was over \$6,000,000,000 in nominal capital or a real return of over \$4,000,000,000 of which half was expected to be in new money.<sup>3</sup> It is understood that some \$50,000,000 of Russian coupons were turned in. There were 7,000,000 subscribers, the average amount of the subscriptions being \$140. Some \$104,000,000 were allotted to the London market and oversubscribed on the first day of issue. Treasury notes to the extent of \$2,400,000,000 were converted into the new issue, more than had been absorbed by the three previous issues together, although some \$6,600,000,000 are still outstanding.<sup>4</sup>

Over \$10,800,000,000 (actual capital received) or nearly \$12,000,000,000 nominal (actual repayments) had been comprised in the four great war loans at 5 per cent and 4 per cent. The total debt, according to Mr. Ribot, was \$34,000,000,000 (address in Senate December 1918) as compared with \$6,400,000,000 before the war. Of the present

<sup>1</sup> *L'Economiste Français*, May 4, 1918, p. 571.

<sup>2</sup> *Journal Officiel*, Sept. 26.

<sup>3</sup> Announcement of M. Klotz, Finance Minister, Dec. and Jan.

<sup>4</sup> *Economist*, Dec. 28, 1918, Jan. 4, 1919.

debt outstanding \$5,400,000,000 was placed in other countries.<sup>1</sup> It was forecast by M. Ribot that the French budget for 1919 would be \$3,400,000,000. He estimated the private incomes of France at perhaps \$8,000,000,000 as compared with an estimate of \$6,000,000,000 before the war,<sup>2</sup> the increase in part or whole being due, of course, to the monetary inflation, the note issue of the Bank of France on November 14, three days after the signing of the armistice being well over \$6,000,000,000.

The "frozen" bills discounted by the Bank had declined in amount to some \$200,000,000 and its gold and silver (\$60,000,000) stocks increased to \$1,153,347,368 (a little over 10 per cent of the note circulation) partly held abroad, while the 3 per cent rente, the gauge of France's credit, that had fallen in the dark days of March 1918 to 56 fr. 75, stood November 1, 1918 at 62 fr. 3.<sup>3</sup>

<sup>1</sup> M. Klotz, address before the French Senate, 1918.

<sup>2</sup> *Economist*, Dec. 7, Dec. 28, 1918, pp. 772 and 880 respectively.

<sup>3</sup> *Bank of France Statement*, and *Cote Vidal*.

## CHAPTER VI

### CONCLUSION

To contrast fundamental institutions of different countries, of a financial or other nature, is nearly as difficult as to contrast the national characters of which they are the outgrowth, and in part the expression. In comparing American institutions with those of England and France and Germany, it is to be borne in mind that it is, first, a comparison of American with European institutions; and secondly, excluding England, that it is a comparison of American institutions, evolved largely from English models, with continental European institutions springing from entirely different historical backgrounds.

Up to the recent Russian revolution, no European country had been so thoroughly democratized as the United States. Everywhere in Europe, vestiges of the long continued upper-class privileges survive in all forms of business where they would not be understood or tolerated in this country. The tenacious grasp of the modern prototypes of the old clerical and noble class on these slowly slipping privileges has acted not only to hold back democratization of industry and finance, but also as a brake on all progress as well, especially when progress, even merely in the sense of efficiency, connoted any extensive change. This observation applies more to the Latin and Slavic countries and to England than to Germany where indeed autocracy had rather by immense effort, harnessed efficiency to its car. This lack of a desire to change, even to progress, born of inertia and

fear of losing some privileged position, is particularly noticeable in financial institutions.

In France the Agents de Change have a century-old legal monopoly of dealing in listed securities for a commission, and by the same token may not buy and sell on their own account. Hence the immortality of the *Coulisse* whose members act as brokers in unlisted securities, and, by connivance with the official Agents, in listed securities as well. They also act as principal in dealings in all securities. The *Coulisse's* function of buying and selling on its own account is performed with some formality on the London Exchange by a definite class of jobbers who ostensibly do not deal directly with the public, but only with brokers representing clients. In New York any broker may buy or sell without formality in the open market for himself as principal, or for clients for a commission.

The merits of the three systems have been variously discussed. There are opportunities for collusion between brokers or between the various groups of market men to defraud their clients under each system, and, as in all business, the integrity of the operator, the vigilance of the customers, and full publicity of pertinent facts for the benefit of the latter are the best safeguards against dishonesty.

In Paris the Agents, and to a less degree the *Coulistiers*, are responsible parties. To belong to any of the formal organizations, a broker must possess a minimum capital. In New York as on the Paris Parquet, the number of seats is limited and the value of each ranges from \$40,000 to \$100,000. On the New York curb, however, which corresponds to the Paris and London unlisted markets, and which no one pretends to defend without reserve, there is no limit to membership, and one might add, no qualifications, though the volume of sales at times makes it one of the biggest markets in the world. In the London Exchange



membership is also unlimited, though certain conditions are imposed. The amount of capital required is small, and that responsibility on contracts is less is shown by comparatively numerous failures.

The onlooker on the floor of the three exchanges is chiefly impressed with the exceptional activity of the New York market, and of the Yankee market in London. In Paris one stock at a time is "called" and traded in till no more bids or offers meet in a common price. In London the brokers seek out a jobber or jobbers in the stock they wish to trade in, and dicker with them individually, while in New York, everyone rushes in apparently indiscriminately to buy or sell one or many stocks, either as principal or as agent, though it is true that there has been a natural development in New York of skilled "room traders" who take no orders from the public, but act entirely as jobbers.

The trading principles of all three markets are fundamentally the same if the whole market in each city is considered. An important cause of the divergence in practice is the tremendous number of different securities listed in Paris and London as compared with New York, whose securities up to the present have been chiefly those of American enterprises. As American industry is notorious for its centralization, it follows that enormous amounts of capital are represented by comparatively few kinds of securities, with the tendency in this direction increasing, a fact that diminishes the need for so many skilled specialists in the stock market. This is a democratic and efficient practice that contrasts favorably with the multiplicity and intricacy of the types of securities one finds in certain foreign countries.

The speculative public in all countries is divided into two general classes, one of which, most numerous on occasions of prosperity in certain industries, is not noted for its per-

spicacity, while the other class is distinguished by an extraordinary amount of that very quality. In the United States the general interest in speculation and the democratic atmosphere has caused the alertness of the speculator or investor to be supplemented by devices for increasing the fruits thereof. To a greater extent than anywhere else in the world, he is quickly and accurately supplied through the stock ticker and news ticker services with market information. The amount and price of each sale is recorded on a running tape in every broker's office and elsewhere, and the daily papers print the total sales of each day while shrewd surmises are always afloat as to the identity even of important buyers and sellers. For certain reasons known to themselves the powers that be in Paris and London give out no total of daily sales. The trouble, or expense, or lack of interest on the part of the public, or danger to uninformed persons of panicky tendencies are given as reasons. But the advantage of the New York method in securing full publicity of transactions is obvious.

The rigid government regulation of the continental bourses is a practice that finds no counterpart in the English speaking countries where each man is supposed financially to look out for himself. In France government regulation of the Bourse has had a long historical evolution. It is a vestige of the old tributary position of commerce and finance to the noble and clerical governing class now being retained and strengthened for other reasons. In Germany government regulation is of recent origin and is clearly due to the greater socialization of industry and finance in that country (*vide* introduction chapter) under a power-centralizing and efficiency-worshipping autocracy.

The ever vigilant factor, however, that really controls the stock markets and their operators is the banks, especially the financial banks, and it is significant that reform legis-

lation in Germany not only did not diminish, but actually increased the power and influence of the big German banks over market operations. There is no doubt that there is everywhere a concert among the banks in regard to stock-exchange loans, their amount, the securities favored, the brokers and customers favored or discriminated against, the rate of interest, the listing of securities and a variety of other matters where the common interests of the money lenders are affected. As indicated previously, our antiquated banking and monetary system had constrained the New York banks to make only day to day loans on the stock exchange whereas all European stock loans run for longer periods, usually two weeks or one month. These time loans, with their consistently low rate of interest, have long been a contrast to our call-loan system with its fluctuating interest rate which at times goes above 100 per cent. Only recently (June 1919) the interest rate rose on a wide bull market to 15 per cent, proof that our discount market or clearing machinery is not yet working smoothly in sufficient volume.

It is in this relation of the banks to the stock market that we have yet the most to learn from European practice. To extend bank loans from overnight to bi-monthly or monthly periods will bring about an immense saving in accounting routine, in money, and in financial ability to dodge the lightning, which would then strike only at known intervals. Before this constructive reform, must come a preliminary overhauling of the system of clearing stocks by interposing an efficient clearing mechanism between each broker and all his confreres at each settlement of accounts, a mechanism perfected to the extent of being readily applicable to the huge amount of clearance that will pile up with a term settlement, and one that can be coordinated with a union of stock-exchange banks to handle stock loans on a more effective and safe basis than exists at present.

Whether such a reform, as it undoubtedly must be considered from the banking point of view, would be accompanied by changes in the rate of commissions and in the practice of brokers acting as middlemen in credit, borrowing immense sums from the banks and loaning them piecemeal to customers, is a moot question. In Paris and Berlin, bankers, so far as the rate of interest is concerned, loan direct to the speculators. In London, on the other hand, the same system prevails as in New York, the broker and jobber making a profit on the rate paid and charged. In Berlin so careful a watch is kept over the national interest, that restrictions placed on the rate that might be paid on funds borrowed from foreign countries, prevented German speculators from competing with each other for non-German accommodation.

A change in this matter of credit organization would work a fundamental alteration in the character of our brokerage firms, aligning them on the one hand more definitely in the interests of their customers, on whose commissions they would be solely dependent, and on the other hand, tending to eliminate them altogether by bringing the banks into closer contact with the trading community.

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**JAPAN'S FINANCIAL RELATIONS WITH  
THE UNITED STATES**



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**JAPAN'S FINANCIAL RELATIONS  
WITH THE UNITED STATES**

BY

**GYOJU ODATE, Ph.D.**



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**To**  
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## INTRODUCTION

THE financial relations between Japan and the United States are of relatively recent origin. Only since the opening of the great war in 1914 have they become of prime importance. During the past few years, they have assumed particular complexity, and a great variety of problems has developed which affects likewise the phase generally known as international banking as well as domestic banking organization, particularly in Japan. These problems have undergone a series of changes, and new aspects have assumed importance from time to time. Discussion of them has been fragmentary and concerned rather with the difficulties of the moment than with any systematic and extended survey of the situation as a whole. Neither has there been any attempt made to indicate their inter-relations.

In the present study, the effort has been to consider these problems systematically from the Japanese point of view, with the primary purpose of presenting to the American public Japanese experience during this period. As the foreign trade of Japan is an integral part of her economic structure, the sudden change in her international financial relationships has had a striking effect upon her banking and financial situation. Her experience is very interesting as well as instructive, but the facts are scarcely known outside of Japan.

Prior to the outbreak of the great war in 1914, the United States was primarily occupied with domestic trade, and regarded foreign trade rather as an outlet for a domestic surplus of goods than as an integral part of her trade or-

ganization. Moreover, her vast undeveloped resources not only absorbed her own capital, but required great amounts of foreign capital as well, so that she was a debtor nation. The defective financial organization which then existed, in particular the decentralized banking system, also contributed its part. In consequence, before the war the United States played a relatively small part in international trade as an exporter of manufactured goods.

Conditions in Japan were no better. Her national finances were in a strained condition, due to the enormous foreign debt incurred during the Russian-Japanese War of 1904. In addition, her national resources were poor and her financial organization was defective. Both the United States and Japan, therefore, depended upon London for the financial settlement of their foreign trade.

The outbreak of the war in 1914 radically changed the situation. Great industrial activity in both nations occurred from 1915 on, in order to fill the orders from Europe for war materials, and from the neutral countries for goods to take the place of imports that used to come from the belligerents. As the war progressed, the trade and industry of both the United States and Japan flourished as never before, and their financial status was destined to change rapidly, from that of debtor to creditor.

From the middle of 1916, London began to lose its financial position, and the foreign trade of both the United States and Japan could no longer be financed through that city. As the currency of no third country could compare with the former position of England, while the currencies of both the United States and Japan, fortunately, had suffered no international depreciation, the logical alternative was direct exchange between Japan and the United States. Henceforth, the city of New York assumed the former financial position of London, and the international balance



of Japanese foreign trade had to be settled through the city of New York.

These radical changes in the financial relationships between the United States and Japan raised a number of important financial problems. In the first place, existing methods of financing were not adequate to meet the new situation because of the poor quality of their financial machinery. Second was the growing importance of America's long term investment in the Orient. The solution of these problems and the encouragement of closer financial and economic ties between the United States and Japan involved many important banking and financial problems in both countries.

Neither the United States nor Japan possessed a free gold market; both dollar and yen exchanges, in particular the latter, were subject to great fluctuations in rates; and their currencies were not in wide demand. But a more serious problem was the complete lack of standardized commercial paper, namely, the bank acceptance, and the lack in Japan of a well developed open discount market, which is the nucleus of international finance. In the United States, this important financial machinery had been introduced only in 1914, and it was still in the very beginning of its development. The absence of these prime factors of international finance in Japan, and their partly developed condition in the United States, affected the entire financial organization in both countries in respect to the financing of their foreign trade. In the case of Japan, the official rate of the Bank of Japan was not, in fact could not be, an effective means of controlling market rates; and therefore there was not the relation between the ordinary commercial banks and the central bank which should exist. Again, there was not only lack of cooperation between the domestic commercial banks and the exchange banks, which specialized in the

financing of foreign trade, but there was a positive conflict of their interests. The only possible means for the exchange banks to procure funds was to borrow from the central bank, and this involved the further problem of note issue. As the note issue of the Bank of Japan was under the dictatorial control of the Finance Minister, his relation to the money market was of vital importance, and his actions in that connection, were by no means faultless. Finally, Japan's financial relations with foreign countries were not at all close.

In the case of the United States, the city of New York, lacking a well developed open discount market, was deficient as a financial center. Furthermore, the city was also without other factors which are necessary to fit a money market for world finance. It had practically no capital investment outside of Europe and its foreign trade was not evenly distributed, but the greater part of it was with Europe. American banks were not well represented in foreign countries, particularly on the Asiatic coast, while the city of New York was not well supplied with representatives of foreign banks.

Considering the efforts made to solve the new situation after the dislocation of the world's financial center, the most important among the methods employed to finance Japanese foreign trade, in particular the American-Japanese trade, was the shipment of specie from the United States to Japan. In turn, Japan exported most of this specie to the countries from which her imports amounted to more than her exports. But even this method ceased to operate with America's proclamation of an embargo on gold exports, which took place soon after her entrance into the war. Following the American example, Japan also at once placed an embargo on gold exports in order to protect her reserves. Japanese importers, in particular those who dealt in raw cotton from

India, were hard hit by the embargoes, while her export merchants were deprived of the means of obtaining the proceeds of their trade. These funds were left to accumulate in the city of New York without much prospect of being withdrawn. The exchange rate was left wholly to the natural demand and supply of bills, which was very adverse to the interest of Japanese exporters. The Japanese government was therefore forced to step in to adjust the strained exchange situation. Among the several methods of adjustment, the principal one undertaken by the government was the issue of bank notes through the Bank of Japan, based on Japanese funds which had been collected and accumulated in the city of New York. In order to encourage her export trade, and cherishing somewhat Mercantilistic ideas, the government issued these bank notes in large quantity. As there was no cooperation at the time between the domestic commercial banks and the exchange banks, the latter were constantly in dire need of funds to meet the ever-growing demand of the exporters, while the former suffered rather from a plethora of funds. The official bank rate was powerless to adjust the situation. The total result of these anomalous conditions was the well known social and economic evil of inflation. The acute tension of the economic situation was only relieved by the sudden cessation of the war in Europe.

In the course of events, there were numerous proposals for remedying financial and economic ills, both during and after the war. Few of them had scientific value. Thoughtful financial experts in the country, however, saw the fundamental weaknesses in Japan's financial structure, and after conferences and mature deliberations, finally introduced the bank acceptance and the discount market system into Japan as a permanent cure for her financial ills. In view of the fact that several difficulties lie in the way of

the growth of the new system, its development may take years; but its adoption put the Japanese financial organization upon the same footing with those of Europe and America.

Finally, as regards the problem of long term investment, it is a satisfaction to observe that there is lately a growing interest in American-Japanese mutual investment in the East, in order to bring about a closer economic tie between the United States and the Orient. Japan and the rest of Asia require a vast capital, while they afford one of the best investment fields for the growing surplus capital of the United States. Since American-Japanese mutual investment is a very late development, the present amount of mutual investment is negligible and its course of development is not without certain difficulties. In many respects, there is certainly a lack of real understanding between the United States and Japan, and it becomes an impediment to the undertaking of any cooperation. Conditions in the Japanese investment market are practically unknown to the American public. The Asiatic nations are regarded as countries of more or less political instability, and therefore not as satisfactory places for sound investment. There is also a lack of American banking facilities, and the legal status in regard to foreign investment in both the United States and Japan is by no means encouraging. While closer financial and economic cooperation between the great Pacific nations can not be accomplished in a year or two, it is of the highest importance to endeavor to remove the obstacles and consciously promote the movement.

## CHAPTER I

### TRADE BETWEEN THE UNITED STATES AND JAPAN

#### I. GROWTH OF THE FOREIGN TRADE OF JAPAN

THE basis of international financing and foreign exchange is found in the commodity movements which take place. To care for these is the basic financial problem, and all problems concerning international loans, interest payments and payments for services, such as insurance and shipping, rendered by one nation to another, are derivatives of it. For an adequate understanding of American-Japanese financial relationships, we must, therefore, commence with an analysis of trade between the United States and Japan.

The history of the foreign trade of Japan is the history of her modern development. As Japan is a small mountainous island with poor soil, her economic development must depend in large part upon the growth of manufacturing and foreign trade. In both these respects she has shown rather remarkable progress.

In 1880 the total value of the imports and exports of Japan was only 65,000,000 yen.<sup>1</sup> In 1900 it had increased to 485,000,000 yen; in 1913 to 1,362,000,000 yen; in 1918 to 3,630,000,000 yen and in 1920 to 4,272,000,000 yen.<sup>2</sup> The total imports and exports of the United States likewise showed great increase. In 1900 they amounted to \$2,244,000,000; in 1913 to \$4,279,000,000; in 1918 to

<sup>1</sup>One Yen = \$40 $\frac{8}{5}$  (par).

<sup>2</sup>Appendices 1 and 2.

\$8,865,000,000; and in 1920 to \$13,506,000,000.<sup>1</sup> It can be seen from these figures that Japan's total volume of foreign trade is very small as compared with that of the United States, being only about one-tenth in 1900, one-sixth in 1913, one fifth in 1918 and again one-sixth in 1920; but its rate of expansion has been greater. In 1920 the total foreign trade of the United States was 5.53 times as large as in 1900, while that of Japan was 8.81 times as large.

A change has also occurred in the character of Japanese exports. While relatively recently they were confined to the surplus produce of the country, exports of manufactured goods have gradually increased until at the present time they greatly exceed the exports of raw materials. A gradual change in the distribution of Japanese foreign trade is also apparent. In 1914, 78 per cent was divided between the British Empire, the United States, and China. While Japan is a heavy purchaser of raw materials from the British colonies and dependencies, particularly India and Australia, her trade with the United Kingdom proper on the whole exhibits rather a declining tendency. On the other hand, her trade with China and the United States is of growing importance and exhibits a rapid increase. This increase is particularly marked since the Great War.

## 2. PLACE OF THE UNITED STATES IN THE FOREIGN TRADE OF JAPAN

During the present century, about 30 per cent of Japan's export trade has been with the United States, while the imports of Japan from the United States, which from 1900-1913 inclusive, amounted to 16.93 per cent of her total imports, have increased for the years 1914—1919 inclusive, to 26.92 per cent. During the period of the Great War, the average percentage of America's share in the total foreign

<sup>1</sup> Statistical Abstract of the U. S., 1920, p. 397.

trade of Japan had risen to 28.38 per cent. Roughly speaking, then, somewhat less than one-third of Japan's foreign trade is with the United States, and the latter enjoys first place with respect to volume of trade among the nations with whom Japan trades. China occupies second place, but she has enjoyed less than one-fifth of the total volume of Japan's foreign trade for the past nineteen years. The United States is the first customer of Japan as well as her greatest source of raw materials, with a still brighter prospect in this respect for the future.

### 3. PLACE OF JAPAN IN THE FOREIGN TRADE OF THE UNITED STATES

About one-third of the imports to the United States from Asia come from Japan, and of America's total exports to Asia more than two-fifths go to Japan. The average imports to the United States from Japan from 1900—1919 inclusive, were 5.90 per cent<sup>1</sup> of her total imports, while exports to Japan for the same period comprised 2.20 per cent of America's export trade. But Japan's relative position in the foreign trade of the United States is greater than these figures would indicate, and much growth has been shown during the war period. In the fiscal year ending June 30, 1914, Japan occupied sixth place<sup>2</sup> in respect to the total foreign trade of the United States, coming after Great Britain, Germany, Canada, France, and Cuba, in the order named. In 1918 Japan occupied fourth place in the total foreign trade of the United States, ranking after Great Britain, Canada and France; while she ranked third in the import and fifth in the export trade of the United States. In 1920 she occupied fifth place in the total foreign trade of the United States.

<sup>1</sup> Appendix 3.

<sup>2</sup> Appendix 4.

#### 4. PRINCIPAL COMMODITIES EXPORTED TO THE UNITED STATES FROM JAPAN

The varieties of Japanese merchandise exported to the United States number more than two hundred and fifty. The principal commodities are, however, seven in number—raw silk, tea, silk fabrics, straw braids for hat manufacture, copper, matting and porcelain. The total amount of exports of these seven articles in 1913 was 155,903,000 yen, comprising 84.51 per cent of Japan's total exports to the United States, while in 1918 it amounted to 367,132,000 yen, comprising 70 per cent of Japan's total exports to the United States. Among the seven commodities, raw silk accounted for 188,917,000 yen or 62.83 per cent of her exports to the United States in 1913, and 370,337,000 yen or 61.11 per cent in 1918. Exports of tea amounted to 8,847,000 yen or 4.79 per cent of total Japanese exports to the United States in 1913, and 23,056,000 yen or 3.64 per cent in 1918. The United States has long supplied the largest market for Japanese raw silk and tea. During the period 1900 to 1913 inclusive, 68.97 per cent of the total Japanese exports of raw silk were to the United States, while from 1914 to 1918 inclusive, 84.90 per cent was exported to the United States. During the fourteen years of the pre-war period, 87.14 per cent of Japanese exports of tea entered the United States, while during the war period, 1914 to 1918, the percentage was 84.64 per cent.

Let us turn now to the relative importance to the United States of the imports from Japan of these seven articles. During the pre-war period, 1900—1913 inclusive, Japan supplied 56.71 per cent of the total imports of raw silk into the United States. In the case of tea, Japan supplied 45.62 per cent during the same period; of mats and matting, 61.40 per cent; of porcelain, 10.57 per cent; of silk fabrics, 12.55 per cent; of braids for hat manufacture, 24.92; and of copper, 3.96 per cent.



For the war period, 1914 to 1918, these percentages have undergone a great increase. Japan supplied 76.73 per cent of the raw silk imported into the United States, and 41.37 per cent of the tea imported. Japanese mats and matting represented 75.01 per cent; copper 4.25 per cent; and porcelain wares 35.70 per cent of American imports of these articles. Japan supplied 24.74 per cent of United States imports of silk fabrics, and 56.99 per cent of the braids imported.

In 1913 Japanese commodities imported into the United States to a value of more than \$1,000,000 numbered nine. In 1918 the number had increased to twenty-seven or more. The principal Japanese products exported to the United States, aside from those just mentioned, are vegetable oils, waste silk, brushes, peanuts, peas and beans, rice, camphor, hats and caps, buttons, crab meat, cotton textiles, matches, manufactures of silk cloth, paper, starch and toys. In 1918 Japan supplied about 50 per cent of the antimony, 90 per cent of the brushes and 80 per cent of the buttons imported into the United States. Japan has the monopoly of the American market for camphor. She also supplied 62 per cent of the hats and caps; 27 per cent of the matches; 76 per cent of the peanuts, and 30 per cent of the vegetable oils imported.

Of commodities imported into the United States from Japan, straw matting, copper, and silk gowns have shown a gradual decrease, while imports of straw braids, porcelain, and bamboo wares have remained rather stationary. The volume of imports of tea is slowly increasing in absolute amount, but comprises a declining percentage of the total trade. A marked increase has taken place in imports of waste and raw silk, buttons, brushes, antimony, toys and cotton textiles.

## 5. PRINCIPAL COMMODITIES IMPORTED FROM THE UNITED STATES BY JAPAN

The principal commodities imported from the United States by Japan are cotton, kerosene oil, wheat and wheat flour, sole leather, locomotives, railway cars, steam boilers and engines, bridge and building materials, steel rails, iron nails and various kinds of iron and steel, such as iron bars and rods, iron and steel plates, sheets, pipes and tubes.

During the period 1900 — 1913 inclusive, the United States supplied 24.35 per cent of the total Japanese imports of cotton and 69.10 per cent of the kerosene oil imported. For wheat flour the percentage was 94.68 per cent; for sole leather 76.69 per cent; for steel rails 40.92 per cent; and for iron nails 47.09 per cent. The United States supplied 30.35 per cent of the locomotives, railway cars, steam boilers and engines; 44.30 per cent of the iron and steel pipes and tubes; 8 per cent of the iron and steel plates and sheets; and 3.41 per cent of the iron bars and rods imported into Japan.

During the war period 1914 — 1918 inclusive, there was a significant increase in iron and steel goods imported into Japan from the United States, but a less marked change was noticeable in the other principal commodities imported.

Turning to the composition of American exports to Japan, during 1900 — 1913 inclusive, cotton represented 17.14 per cent of total exports from the United States to Japan; kerosene oil 12.77 per cent; wheat and wheat flour 17.13 per cent; and sole leather, iron nails, iron and steel pipes, tubes and locomotives, engines and railway carriages together, 9.21 per cent. Thus these eight commodities accounted for 76.55 per cent of the export trade of the United States with Japan. After the outbreak of the war in 1914 and the consequent stoppage of iron and steel imports from England and Germany, there was an enormous increase in such imports from the United States. In the trade for

1917, iron and steel goods represented more than 50 per cent of all the American exports to Japan, while cotton represented 23.38 per cent. The other important commodities imported from the United States in 1917 were various kinds of machinery, bridge and building materials, and many chemicals such as carbolic acid, caustic soda, soda ash, aniline dyes and rosin.

Of commodities exported from the United States to Japan, kerosene oil, wheat and wheat flour and sole leather have shown a tendency to gradual decrease, while steel and iron of various kinds, from crude ore to manufactured goods, machinery of many descriptions, and cotton are of more rapidly growing importance.

#### 6. FUTURE OUTLOOK

From the foregoing analysis of the trade between the United States and Japan, it is seen that the trade between them has increased very rapidly, in particular during the war and since the armistice, and that the principal articles which the United States imports regularly from Japan are either commodities such as silk, tea and camphor which she does not produce herself because of conditions which make production unprofitable, or those commodities of which the domestic production is insufficient to meet the demand; for example, beans, peas, vegetable oils, peanuts, and straw braids for hats.

Heavy purchases by the United States enable Japan in turn to buy from the United States many raw, semimanufactured, and manufactured materials which the United States produces or can produce in excess of its domestic needs. Examples of such articles are raw cotton, iron and steel, machinery and engines, kerosene oil and chemicals. Japan will be a heavy purchaser of American cotton and of partly manufactured American products for years to come, especially of such articles as can be turned out most cheaply and efficiently because of the large scale operations and the

highly efficient machine methods employed in the United States. The vast smelters, steel mills, iron works, tanneries, and coal tar industries of the United States are so organized as to allow their products to be marketed in Japan. In other words, there is a sound economic basis for an exchange of commodities between the two countries to their mutual advantage. Moreover, the United States possesses ample purchasing power to enable her to buy Japanese goods, while Japan and the rest of the Orient give promise of potential purchasing power for American goods, with the gradual rise in their standards of living. In consequence, it is perhaps safe to say that the American-Japanese trade is likely to increase steadily year by year, and a part of "the habit, developed during the war, of trading with the United States, her neighbor across the Pacific, is likely to continue",<sup>1</sup> unless some obstacle such as a higher protective tariff impedes their trade relations. It is improbable, however, that the enormous expansion of American-Japanese trade during the war can be maintained undiminished just after the eventful period. The war-time expansion of American-Japanese trade was well sustained until the year 1920; but the trade in the first half of the present year has already shown a considerable shrinkage in physical volume as well as in value. This contraction is perhaps unavoidable in a period of deflation during which all business suffers from a dull market. Depressed trade relations will continue until the restoration of normal conditions, when trade and industry resume their onward movement.

This growing importance of American-Japanese trade and the change in the methods of financing the trade, due to the Great War, suggested the study of their financial relationships which is set forth in the following chapters.

<sup>1</sup>*Annalist*, July 19, 1920. Reprinted from the *Foreign Trade Record*, published by the National City Bank of New York.

## CHAPTER II

### CHANGES IN THE FINANCING OF JAPANESE TRADE WITH THE UNITED STATES

#### I. CHANGES IN FINANCING METHODS

HAVING analyzed the extent and character of the trade between the United States and Japan, we may now turn to a critical examination of the methods by which it has been financed. The rapid growth of American-Japanese trade, in particular during the war period, would alone have presented the problem of how to care for its financial needs. Added to this, however, was the dislocation, due to circumstances resulting from the war, of the machinery by which this trade had previously been financed. Prior to the war, the pound sterling was the currency used in making payments in this trade, and the financial methods employed afforded another instance of the well known three-cornered exchange, with balances settled through London. With the war, however, came a change in the position occupied by the pound sterling. It was no longer supreme, and London, with its depreciated currency, its absence of a free gold market, and its impediments to the free movement of goods, began to lose its former position. It neither could nor would finance trade as it once had. In consequence, direct exchange between the United States and Japan was an inevitable result.

But there were hindrances to the operation of direct exchange. Certain factors were lacking which are indispen-

sable to the successful employment of a currency in international trade financing, especially in connection with trade between two other nations, but also in no small degree applying to trade between another nation and itself. The currency chosen must be in demand. Auxiliary to such exchange is a large volume of foreign trade, a free market for gold, an open discount market, established banking relationships with other nations, and a large amount of long-term foreign investments. Yet these factors in great measure were lacking in both the United States and Japan.

## 2. FINANCING OF JAPANESE FOREIGN TRADE BEFORE THE WAR

### A. *General methods employed.*

The financing of Japanese export trade before the war was effected in several ways. In the case of small transactions, cash with order or cash on delivery was generally specified. Large commercial houses with branches abroad sold on open account to some extent. But the greater part of the trade, whether it was carried on by Japanese or by foreign firms in Japan,<sup>1</sup> had been financed by means of letters of credit, mostly revocable by the issuer and also unconfirmed by the adviser. Drafts were then drawn either calling for delivery of documents against payment (D/P), or against acceptance (D/A), the former being more frequently

<sup>1</sup>Owing to the inexperience of Japanese merchants, the greater part of her foreign trade has been carried on through the medium of foreign firms in Japan which stood as commission houses between Japanese and foreign manufacturers and merchants. But the practice is steadily declining as Japanese merchants become more acquainted with the methods of trade. In 1900 nearly 74 per cent of the entire foreign trade of the port of Yokohama was in the hands of foreign firms, the remaining 26 per cent being the share of the Japanese merchants. In 1909, however, the share of the foreign firms had diminished to 57 per cent. *The Japan Year Book*, 1914, p. 445; *Japan Financial and Economic Monthly*, April, 1916, p. 25.

employed. The maturity of the draft was generally not more than three months. The exporter who drew a draft, discounted it at a Japanese exchange bank (usually at the Yokohama Specie Bank) through the medium of a bill broker<sup>1</sup> who specialized on foreign trade bills, and obtained the proceeds.

The authority to purchase<sup>2</sup> was usually employed for imports. The shipper in most cases drew on the Japanese importer, the bill generally bearing interest. Such an interest-bearing import bill was known as an interest bill.<sup>3</sup> Its maturity in most cases was from two to three months. The pound sterling was the only currency used in financing this trade, and balances were settled through London.<sup>4</sup> Similarly, in

<sup>1</sup>The first bill-broking house in Japan was established in Tokyo in 1899, the second in Osaka in 1902. The number increased gradually to more than 30 houses, but the important firms before the war were less than a half dozen. N. Takizawa, *The Financial History of Japan* (Tokyo, 1912), p. 679.

<sup>2</sup>The authority to purchase employed in Japanese import trade is really nothing more than an authorization by a bank in Japan to its New York agent to purchase the documentary draft of the shipper up to such and such an amount when drawn under certain conditions and within a certain length of time. Thus it virtually amounts to nothing more than an advice to the New York bank from its Japanese correspondent, that the drawee is regarded as good for the amount and likely to honor such drafts. B. O. Hough, *Elementary Lessons in Exporting* (New York, 1909), p. 99; George W. Edwards, "The Authority to Purchase," *Federal Reserve Bulletin*, August, 1921, pp. 926-931.

<sup>3</sup>On December 31, 1913, interest bills held by the Yokohama Specie Bank amounted to 50,796,530 yen. *Reference Book for Financial Matters*, Department of Finance (Tokyo, 1917), p. 156.

The interest charge is in most cases a burden on the importer. Interest is charged at the current rate for the period to maturity of the draft, plus the time required for the delivery of the draft and remittance of the proceeds. Irving National Bank, *Trading with the Far East*, New York, 1919, p. 66. Cf. also W. F. Spalding, *Eastern Exchange; Currency and Finance* (London, 1917), p. 157.

<sup>4</sup>For an excellent description of financing through London see Franklin Escher, *Elements of Foreign Exchange* (New York, 1911), p. 146.

the case of Japanese imports of raw cotton from the East Indies and the United States, and of wool from Australia, the city of London acted as a clearing house for Japanese foreign trade. Likewise payments for Japanese merchandise exported to China, the South Sea Islands and the western hemisphere, as well as to other parts of the world, were settled through the British metropolis.

The Bank of Japan, in order to facilitate Japanese international payments, devised a plan for holding a considerable amount of funds<sup>1</sup> in London banks, the greater part of which was invested in liquid short-term notes, such as British treasury bills or exchequer bonds, while the remainder was kept in the form of demand deposits at the Bank of England.<sup>2</sup> But, as will be seen from the figures of Japanese foreign trade, her imports before the war always exceeded her exports, save in one or two fiscal years. Added to this unfavorable balance of trade were her payments of large sums for interest on her foreign debt. In consequence, the maintenance of the reserve in the London banks caused considerable difficulty. The only method of replenishment employed was by means of floating foreign loans and holding a part of them in London, which method,

The keeping of reserve funds of the Bank of Japan in London dates from the time of the Russo-Japanese War (1904), although the very first holding of Japanese funds in London began in 1895 with the keeping in London of the Chinese indemnity (£38,000,000) paid to Japan by China.

The chief purpose of the plan was to maintain the quotation of Japanese foreign loans at a satisfactory point, as well as to facilitate her international payments in London. Cf. N. Takizawa, *The Financial History of Japan* (Tokyo, 1912), pp. 378, 765.

<sup>1</sup>No statement was ever issued by the Bank of Japan as to the nature of its investment. Speaking of India's funds in London, Mr. H. Withers refers to Japanese funds by saying that "India ought to have confined itself, like the shrewd Japanese, to Treasury bills and other short dated securities." *Money Changing* (London, 1918), p. 11.



however, had been much criticised in Japan. The amount of reserve funds<sup>1</sup> kept in London by the Bank of Japan is shown in the following table:<sup>2</sup>

Date	Kept in Japan Yen	Kept in London Yen	Total Reserve Yen
Dec. 31, 1905 .....	36,764,979	442,411,056	479,176,035
" " 1907 .....	44,562,216	400,631,754	445,193,970
" " 1910 .....	135,126,467	336,872,818	471,999,285
" " 1911 .....	132,854,370	231,231,080	364,085,978
" " 1912 .....	136,035,701	214,714,786	350,750,487
" " 1913 .....	130,316,877	246,175,427	376,472,304
" " 1914 .....	128,503,546	212,609,523	341,119,069

### B. The Japanese exchange banks

In the early days, the financing of Japanese foreign trade had been attended by many risks and inconveniences, because of the great fluctuation in exchange rates which characterized all Eastern currencies. As the conduct of this business required much skill and experience, the ordinary commercial banks had not developed any considerable amount of such business, but it had been performed largely by foreign banks in Japan. This practice, however, caused much inconvenience to Japanese merchants.<sup>3</sup> Accordingly

<sup>1</sup>Strictly speaking, this reserve fund kept in London belongs partly to the Japanese government and partly to the Bank of Japan. The relative share of each is never made public.

<sup>2</sup>*Kisyo Jiko* (Financial Matters). This most exhaustive statistical report on Japanese financial matters is published annually by the Department of Finance. "The Oriental Economist," *Economic Year Book* (Tokyo, 1917-1920), p. 87.

<sup>3</sup>Man denke nur daran, dass die sämtlichen Ausländer unter dem Schutz des sog. Rechtes der Extraterritorialien, nämlich ausser dem Bereich des japanischen Rechtes standen, während die kaufmännischen Sitten, Gewohnheiten und Rechte des Auslandes den Japanern wohl unbekannt waren. Kanju Kiga, *Das Bankwesen Japans* (Leipzig, 1904), s. 116. N. Takizawa, *The Financial History of Japan* (Tokyo, 1912), pp. 133-135. *A History of Banking in all Leading Nations*, vol. iii (New York, 1896), pp. 452-461.

the Japanese government planned to establish a semi-governmental exchange bank, whose sole function was to be the financing of Japanese foreign trade. In 1880 the Yokohama Specie Bank<sup>1</sup> was established with a subscribed capital of 3,000,000 yen. For more than thirty years after its establishment, the bank was the only native exchange bank, besides several foreign exchange banks<sup>2</sup> in Japan, and these few exchange banks monopolized the financing of her foreign trade. After the outbreak of the war in 1914, several other Japanese banks,<sup>3</sup> both chartered and private, also began to engage in the exchange business. But the Yokohama Specie Bank still continues by far the largest exchange bank in Japan by virtue of its long existence, greater capital<sup>4</sup> and the special privileges granted by the government. Accordingly, the major part of Japanese foreign trade to-day is financed by this single institution.

### C. *Problems raised by this method of financing*

Certain difficulties were experienced under this system of trade financing. Consider the case of a bill of exchange drawn in pounds sterling by a foreign shipper on a Japanese

<sup>1</sup>T. Yokoi, *History of Japanese Commerce since the Restoration* (1868), (Tokyo, 1900), pp. 117, 208.

<sup>2</sup>Toward the end of the last century, there were four foreign banks which had branches in Kobe and Yokohama. *A History of Banking in all Leading Nations* (New York, 1896), vol. iii, p. 456.

In 1909 there were 15 branches of foreign banks in Japan. Their aggregate capital was 7,914,000 Yen. Their aggregate amount of incoming foreign bills of exchange was 244,835,000 yen and of outgoing 628,133,000 yen; while the total foreign bills of exchange handled by the Yokohama Specie Bank amounted to 85,298,000 yen, and bills discounted to 154,165,000 yen. *Ginko Benran*, (*Hand Book of Banks*), Department of Finance (Tokyo, 1911), pp. 153, 674, 677.

<sup>3</sup>Fuller treatment in Chapter IV.

<sup>4</sup>The present capital and surplus are 100,000,000 and 50,000,000 yen respectively, having been increased on several occasions since the establishment of the Specie Bank.

importer. In due time the bill, accompanied by the usual documents, reached the exchange bank in Japan which issued the authority to purchase. It was impossible for several reasons, however, for the exchange banks to re-discount the bill. A discount market was lacking. The import bill was stated in pounds sterling, for which currency there was no market in Japan, and it was usually drawn on the importer and accepted by him, while it usually called for "documents against payment" (D/P), and was usually an interest-bearing bill. The importer who accepted the bill also opposed its resale by the bank from fear of having business secrets disclosed to his competitors. The draft, therefore, was simply retained in the portfolio of the exchange bank until maturity. In the case of exports, the sterling bill was sent to London and rediscounted there by the Japanese exchange bank which discounted it for the exporter. Rates were usually high, and the exchange bank was under the necessity of holding the bill during the time required to send it to London. This system threw a considerable strain upon the exchange banks.<sup>1</sup> Moreover, only a few exchange banks in Japan issued the "authorities to purchase" required for import trade. The only method of relieving the tie-up of the funds of the exchange banks was by borrowing more funds from the Bank of Japan. The Yokohama Specie Bank possesses the special privilege of borrowing 20,000,000 yen from the Bank of Japan at the rate of two per cent. But this amount was far from sufficient to finance the ever-increasing Japanese foreign trade, and the bank, therefore, was forced to borrow additional funds from the Bank of Japan at the current rate of interest. This condition in Japan created a very peculiar relationship between the exchange banks and the Bank of

<sup>1</sup> "Bank Acceptance," *Tokyo Bankers Magazine*, published by the Bank of Japan, May, 1919.

Japan. At the end of the first half of 1914, the total amount of loans of the Bank of Japan was 78,799,000 yen,<sup>1</sup> while loans on foreign exchange, which were mostly to the Yokohama Specie Bank, amounted to 33,920,000 yen, or 45 percent of the total loans. A large part of the Bank of Japan's loans thus represented advances to a single institution. No effort had been made to reform these conditions but they were left as they existed, when the Great War broke out in 1914.

In short, the indictment which may be raised against the system relates in large part to lack of development of an adequate financial mechanism in Japan. Specifically, the points may be classified as follows: (1) the small number of banks participating in foreign trade financing; (2) the absence of use of the bank acceptance; (3) the lack of coordination between domestic and foreign trade financing; and (4) the consequent impossibility of making surplus domestic funds readily available for foreign trade financing.

### 3. FIRST PERIOD (AUGUST 1914 — SEPTEMBER 1917)

#### A. *Loss by London of its position as the financial center*

The history of the financing of trade between the United States and Japan during the war falls into three periods: (1) from the opening of the war to September 1917, at which time the American embargo on gold exports was instituted; (2) from the latter date until the signing of the armistice in the fall of 1918; and (3) since the armistice. The outstanding feature of the first period was the shifting of the financial center from London to New York, and the effecting of the financial settlement of Japanese foreign trade through the latter city. The characteristic feature of the second period was the American embargo on gold ex-

<sup>1</sup> *Semi-annual financial report of the Bank of Japan, 1914.*

ports which resulted in the accumulation of Japanese funds in New York, and the unsuccessful attempt by the Japanese government to adjust the exchange situation. The notable incident of the third period was the beginning of a discount market in Japan.

The immediate effect of the outbreak of the war upon Japan was a sudden depression of business activity throughout the country, as was the case also in the United States and other neutral countries. The stock exchange in Japan was not closed, but dullness reigned. The foreign trade of Japan began to decline, both in exports and imports, with the abnormal rise of marine insurance rates due to the increased peril at sea, and with the disturbance of foreign exchange rates. This state of business depression continued until the middle of 1915. From this time on, however, industry began to revive. Large orders for munitions were received from the Allied nations and orders for various other goods from Asiatic countries and the South Seas, where goods from Germany and other belligerents had ceased to come.<sup>1</sup> There was great activity in shipbuilding, and many industrial enterprises were launched. Japan thus soon began to enjoy unprecedented business prosperity, due primarily to the enormous expansion of her export trade.

As Japanese export trade advanced with rapid strides, her merchants began to experience increasing difficulty in effecting financial settlements through London. In spite of all the difficulties encountered, however, London maintained its financial position for nearly two years after the outbreak of the war, and in consequence financial settlement of the trade between the United States and Japan was

<sup>1</sup> *Japan Financial and Economic Monthly* (English), (Tokyo, 1914-1917); *The Financial and Economic Annual of Japan* (English), the Department of Finance, Tokyo, 1915-1918; *The Oriental Economist* (Tokyo, 1914-1917); *The Osaka Bankers Correspondence*, 1914-1918.

effected through London until toward the end of the year 1916. In the latter part of that year, however, the foreign exchange system between London and the East Indies broke down, and almost simultaneously that between London and Australia dissolved as well.<sup>1</sup> A financial barrier between England and Asia was, in effect, created. Exchange operations between the British metropolis and Japan came automatically to a standstill. It was no longer possible for Japan to purchase raw cotton from India and the United States, or wool from Australia, with funds held in London, nor was it possible to finance the American-Japanese trade through that center. The depreciated pound sterling could no longer maintain its former position of preeminence, and in consequence other financing methods were required.

The causes which contributed to the loss of its position by London are well known, and require only brief mention. First was the increase of imports in the face of the decrease of exports from the United Kingdom, as may be seen from the following figures:

EXPORTS AND IMPORTS OF THE UNITED KINGDOM <sup>2</sup>

(In million pounds, i. e., 000,000s omitted)

	1913	1914	1915	1916
Exports .....	525.2	430.7	384.9	506.5
Imports .....	768.7	696.6	851.9	949.2

Second was the decreased use of her merchant marine for trade purposes. The British merchant marine had been conscripted for war purposes; and furthermore it was threatened constantly by the German submarine peril.

J. Inouye (Ex-governor of the Yokohama Specie Bank), "The Japanese Money Market," *Japan Financial and Economic Monthly*, March, 1918, p. 6.

<sup>1</sup> *Statistical Abstract for the United Kingdom (1902-1916)*, London, 1918, p. 79; *Economist* (London), Jan. 15, 1916, p. 92; Jan. 20, 1917, p. 81.

Third was the efflux of specie from London banks, amounting to some £200,000,000 in all, from the opening of the war to the end of 1916. This reduced the gold reserve ratio of the Bank of England against note issues and deposits to 19 per cent in December 27, 1916.<sup>1</sup> A free market for gold practically ceased to exist in London. Aside from the loss of specie, there was, fourth, the inflation of currency, both notes and deposits.<sup>2</sup> The effect of all these causes upon the foreign exchanges is familiar, the pound sterling in New York being maintained at \$4.76 only by means of "pegging."<sup>3</sup>

Turning now to the immediate causes which tended to cut off London from financing Japanese foreign trade, the first was the limitation placed upon the sale of Indian council bills and telegraphic transfers by the British government in December 20, 1916.<sup>4</sup> Indian foreign trade, as is well known, is financed by the sale in London of Indian Council bills of exchange and telegraphic transfers (drawn on the government treasuries in India) by the Secretary of State for India in London.<sup>5</sup> The war, however, brought about a great demand in London for the right to rupees in

<sup>1</sup>The proportion of gold reserve to liabilities of the Bank of England was 52 per cent on July 22, 1914. *The Bankers' Magazine* (London, Sept., 1914), p. 421; Feb., 1917, p. 327.

<sup>2</sup>Index number of the (London) *Economist*, July 1, 1914, 115.9; October, 1916, 208.7; November, 1916, 217.2, etc. Cf. *The Bankers Magazine*, London, Jan.-June, pp. 559-560.

<sup>3</sup>*The Commercial and Financial Chronicle*, New York, Jan.-Mar., 1916, p. 935; Jan.-Mar., 1919, p. 1114.

<sup>4</sup>(London) *Economist*, Dec., 1916, p. 1166; Jan. 6, 1917, pp. 2, 35.

<sup>5</sup>India adopted the gold exchange standard in 1893-1898, and the government of India undertakes the supply of currency as well as exchange. E. W. Kemmerer, *Modern Currency Reforms* (New York, 1916), pp. 124-147; W. F. Spalding, *Eastern Exchange, Currency and Finance*, 2nd ed. (London, 1920), ch. iv.

India, owing to the increase of exports from and the decrease of imports to India, the impossibility of gold shipment and other causes. But the government of India put restrictions on the sale of the bills, as the rupee balances in India were limited. These sales in London of council drafts mean a corresponding demand for rupees in Calcutta, Bombay and Madras. There was thus a great strain on Indian rupee balances.<sup>1</sup> For this reason, Japan could no longer finance the importation of Indian cotton by the purchase of Indian Council bills in London.

Another direct cause which kept London from financing Japanese foreign trade was the strained exchange relations between London and Australia, in particular from the early part of 1916. The adverse trend of Australian foreign trade, due primarily to shipping impediments and the large borrowing, in one form or another, by the Commonwealth Government from the British Government for war purposes, brought about very unfavorable exchange quotations against Australia.<sup>2</sup> Added to this was the embargo on gold exports from Australia in January 24, 1916.<sup>3</sup> The strained exchange relations between London and Australia become worse toward the end of the year, and the financing of Japanese-Australian trade through London came automatically to a standstill. Thus an additional obstacle was placed in the way of financing Japanese foreign trade through London. Sterling exchange fell off markedly. During the year 1913 the highest quotation of sterling in Yokohama was 24.25 pence; and the lowest 24.625 to one yen.

<sup>1</sup>G. F. Shirras, *Indian Finance and Banking*, 2nd ed. (London, 1920), p. 56; (London) *Economist*, Dec., 1916, p. 1213; Jan., 1917, pp. 2, 35, 136.

<sup>2</sup>(London) *Economist*, Jan.-June, 1916, pp. 628, 748; July-Dec., 1916, p. 367; *The Official Year Book of the Commonwealth of Australia*, Nov. 11, 1918, pp. 560; 588.

<sup>3</sup>(London) *Economist*, Jan.-June, 1916, p. 585.



But in November 29, 1916, the yen was quoted at 25.625 pence.<sup>1</sup>

B. *Direct exchange between the United States and Japan*

Different methods of financing were thus sought. But the currency of no third country could be compared with the former position of the pound sterling. French, as well as other European currencies, had depreciated more than the pound sterling, and could not be considered as a substitute. On the other hand, inasmuch as the currencies of both the United States and Japan had maintained their international position, and did not have internal depreciation to lower their value, as in the case of other currencies, direct exchange between them was the most logical alternative. Dollar and yen bills of exchange were thus employed for the very first time in the history of finance for the financial settlement of American-Japanese trade. But, as stated briefly at the opening of the chapter, there were many hindrances to the development of this method. Certain factors were lacking in both countries, which are indispensable to the widespread use of a currency in international trade financing. While they relate more particularly to the use of a currency in financing trade between two other nations, they are none the less applicable also to the use of a currency in financing its own country's trade. The currency chosen must be in demand. This implies a large volume of foreign trade, a ready discount market with standardized commercial paper and relatively stable money rates, established banking relationships with other nations, the maintenance of a free gold market, and a large volume of long-term foreign investments. To these, there may be added the possession of a merchant

<sup>1</sup>One yen—24.58d. (par); *The Bankers' Magazine*, London, Jan., 1917, p. 139; *The Oriental Economist Year Book* (Tokyo, 1919), p. 72.

marine and insurance companies, the absence of a protective tariff, an efficient cable service, and freedom from panics or financial crises.<sup>1</sup> These factors, however, have been lacking in a greater or lesser measure in both the United States and Japan.

The bill market in both countries is relatively new. The bank acceptance has been permitted to national banks in the United States only since 1914, while in Japan it was not found at all until May, 1919. The American discount market is still in the early stage of its development. The more serious obstacle is the call money market, which is based on stock exchange loans and daily settlements.<sup>2</sup> The latter thus absorbs the funds available elsewhere for the acceptance market, and renders it very difficult for discount corporations and bill brokers to carry their portfolios. It should be added that the Federal Reserve Banks, in particular at New York and Boston, have endeavored to develop their markets by the purchase of bills, other Federal Reserve Banks participating in the purchases of the first named. Bankers acceptances bought by the Federal Reserve Banks in the open discount market increased from \$64,850,000 in 1915, to \$1,809,539,000 in 1918, and to \$3,143,737,000 in 1920.<sup>3</sup> Although Japan has been using trade acceptances in

<sup>1</sup>E. L. S. Patterson (of the Canadian Bank of Commerce), "London and New York as Financial Centers," in *The Annals*, Philadelphia, Nov., 1916; W. F. Spalding, "New York as a Monetary Center," *Bankers' Magazine*, London, Jan.-June, 1915, p. 198; F. A. Vanderlip, "New York as a Financial Center after the War," *The Bankers' Magazine*, New York, Nov., 1918, p. 508; Sir Edward H. Holden, "Maintaining London as the World Financial Center," *The Bankers' Magazine*, New York, Nov., 1918, p. 515.

<sup>2</sup>"Memorandum of Federal Reserve Agent at New York on Call Loan Rates," *Federal Reserve Bulletin*, April, 1920, p. 368; Pratt, *Work of Wall Street*; W. C. Van Antwerp, *The Stock Exchange from Within*, 1913, chs. iv, ix.

<sup>3</sup>*Seventh Annual Report of the Federal Reserve Board*, 1921, p. 52; *Fifth Annual Report of the Federal Reserve Board*, 1919, p. 19.

her domestic trade since 1882,<sup>1</sup> the use of bank acceptances in the financing of her foreign trade was first permitted to her banks in 1919. The regulations governing the practice with respect to trade acceptances are crude. According to the rules now in force,<sup>2</sup> the bill need not be based on an actual transaction, and may mature in one year. On December 31, 1913, the total volume of trade acceptances held by commercial banks in Japan amounted to 937,943,000 yen, and on December 31, 1920, the total held by commercial banks in Tokyo and Osaka amounted to 1,881,527,000 yen.<sup>3</sup>

The importance in this connection of established banking relationships with other countries is well illustrated in the case of London.<sup>4</sup> Likewise, Germany's commercial activities in South America were greatly aided by her bank-

<sup>1</sup>*The Regulation of Bills of Exchange and Promissory Notes*, 1882.

<sup>2</sup>Amendments of 1911.

<sup>3</sup>*The Oriental Economist Year Book*, 1917, p. 35; *Osaka Bankers' Magazine*, Feb., 1921.

One of the causes which stimulated the greater use of the trade acceptance in Japan, notwithstanding the reluctance of business men to have the bills which they have accepted appear in the market, is the imposition of a graduated stamp tax on the promissory note, while a flat stamp duty of three sen per bill, regardless of the face value of bill, is imposed on bills of exchange. The following is the graduated stamp tax for promissory notes:

	200 Yen	stamp tax	.03 sen (1½ cents)
300	1,000 "	" "	.05
1,000	5,000 "	" "	.10
5,000	10,000 "	" "	.20
10,000	20,000 "	" "	.50
20,000	30,000 "	" "	1.00
30,000	50,000 "	" "	2.00
50,000	100,000 "	" "	4.00
over	100,000 "	" "	7.00

<sup>4</sup>*Campus*, the monthly publication of the Mercantile Bank of the Americas, July, 1920.

ing relations with those countries.<sup>1</sup> But the decentralized banking system of the United States, with its general prohibition of branches, rendered it necessary for American banks to rely upon correspondents in their international banking operations. Moreover, the American banks are smaller than those in European countries,<sup>2</sup> and in consequence are less known acceptors. On the other hand, American state banking laws in general prohibit foreign banks from establishing branches in the United States, permitting merely agencies which can not receive deposits.

### C. *Development of direct exchange*

As a result of the difficulties mentioned above, the development of the new method of financing has been slow. The use of yen bills for Japanese imports has been very limited because of the entire absence heretofore of a discount market in Japan, and their employment was restricted to financing part of the cotton exported from the United States to Japan. On the other hand, the dollar bill of exchange came into wider use, not only in financing American-Japanese trade, but also in financing the trade of Japan with other countries, owing to the fact that the dollar bill of exchange has come to have a ready market in New York and elsewhere which was entirely absent prior to the Federal Reserve Act. In consequence, the city of New York assumed the former position of London with respect to the financing of Japanese foreign trade. In accordance with these changes, Japan in the first place adopted a new policy of drawing dollar bills on New York banks for Japanese exports to the United States. These dollar bills

<sup>1</sup> Georges Diouritch, *L'Expansion des Banques Allemandes à L'Étranger* (Paris, 1909); W. H. Lough, *Banking Opportunities in South America*.

<sup>2</sup>"Capital and Surplus, Deposits and Acceptances of Leading Banks in Europe," *Federal Reserve Bulletin*, vol. vi, 1920, p. 374.

were disposed of in New York in the open discount market after their acceptance. But on the other hand, the financing of Japanese imports was not as simple. While it was greatly desired to employ bills drawn in yen, the absence of a discount market in Japan caused the use of dollar bills instead and these bills after they reached Japan were kept in the bank's portfolios until maturity, as in the past. The second step taken by Japan as a result of the change in the financial center, was the adoption of a policy of collecting and keeping the proceeds from her export trade, not in London, but in New York, and settling her international balances at the latter center. This was accomplished by converting the bills representing Japan's exports to China, the South Seas and elsewhere, into dollar bills of exchange payable in New York.

## CHAPTER III

### FINANCING TRADE BETWEEN THE UNITED STATES AND JAPAN (CONTINUED)

#### I. SECOND PERIOD (SEPTEMBER, 1917—NOVEMBER, 1918)

##### A. *Gold movements and government operations during the first period.*

As a result of the heavy balance of payments owing to her during the first period, Japan imported considerable specie. In the fiscal year 1916, the trade balance alone in favor of Japan reached 371,000,000 yen; and for the first nine months of 1917, such excess of exports was 440,000,000 yen.<sup>1</sup> To offset this balance, more than 100,000,000 yen of specie was imported into Japan during the year 1916. The greater part of this sum was shipped from the United States.<sup>2</sup> In the first nine months of 1917, Japanese specie imports amounted to 384,324,000 yen, of which sum 338,479,000 yen, or 88 per cent, were imported from the United States.<sup>3</sup> Yet at the end of December, 1916, the Japanese funds accumulated abroad amounted to 486,-940,000 yen,<sup>4</sup> about half of which was held in New York, while the other half remained in London. The effects of this influx of specie upon Japanese economic conditions was

<sup>1</sup>*The Oriental Economist Year Book*, 1919, p. 206.

<sup>2</sup>*The Financial and Economic Annual of Japan*, 1918, p. 91.

<sup>3</sup>*The Oriental Economist Year Book*, 1919, pp. 206-210.

<sup>4</sup>*Ibid.*, p. 87.

easily discernible. The note issue increased 40 per cent during the calendar year 1916,<sup>1</sup> while the total bank deposits increased from 2,797,000,000 yen to 3,816,000,000 yen<sup>2</sup> during the same period. The Tokyo wholesale prices rose 21 per cent within the year, an increase since December 31, 1913, of nearly 50 per cent.<sup>3</sup>

In order to convert a current surplus at home into investment funds, as well as to disperse properly the funds abroad which still remained in great volume in spite of the specie imports, the government resorted to subscription to foreign loans, flotation of bonds for industrial undertakings, and redemption of government foreign loans. For the period under review, (i. e., from August, 1914, to September, 1917) Japan subscribed to Russian government loans 150,000,000 yen,<sup>4</sup> and to French government loans 67,510,000 yen;<sup>5</sup> while in January, 1917, 100,000,000 yen of British loans were subscribed in order to relieve the overstrained exchange relation between London and New York.<sup>6</sup> Japan floated many issues of industrial bonds which aggregated, in 1916, 95,000,000 yen.<sup>7</sup>

This method of financing Japanese foreign trade, primarily by the movement of specie, and secondarily by subscription to foreign loans, would have continued longer had the United States remained a free market for gold. But such freedom did not last beyond the month of September, 1917, when the United States instituted an embargo on gold exports.

<sup>1</sup> *The Financial and Economic Annual of Japan, 1918*, p. 135.

<sup>2</sup> *The Oriental Economist Year Book, 1918*, p. 20.

<sup>3</sup> *Ibid.*, p. 161.

<sup>4</sup> *Ibid.*, p. 85.

<sup>5</sup> *Ibid.*, p. 85.

<sup>6</sup> *The Japan Financial and Economic Monthly*, Tokyo, July, 1917.

<sup>7</sup> *The Financial and Economic Annual of Japan, 1917*, p. 5.

*B. The American and Japanese gold embargoes*

In September, 1917, the United States instituted an embargo on gold exports by presidential proclamation.<sup>1</sup> This was a real blow to Japan in that it prevented her from receiving the proceeds of her export trade in gold. No means remained of withdrawing funds collected and accumulated in New York. In consequence, new means of financing had to be devised, if she wished to continue her phenomenally expanded export trade; and the Japanese government actively considered the question. In September, immediately after the American embargo, the appointment of officials to be stationed at once in New York and London to attend to her financial affairs, was authorized.<sup>2</sup> In consequence, too, Japan herself proclaimed an embargo upon the export of gold.<sup>3</sup> She could remain a free market for gold only as long as the United States remained a free market, for it was from the latter that she obtained her principal supplies of gold. As a measure of self-defense, the embargo on gold exports was necessary in order to protect the specie reserve in the Bank of Japan.

The gold embargo resulted in the immediate discouragement of the Japanese-Indian trade.<sup>4</sup> Japan is a heavy purchaser from India, especially of raw cotton. In 1916, when the British authorities placed restrictions on the issue of Indian Council bills, Japan could no longer finance her Indian trade through London, nor was she able to finance it with Japanese funds kept in New York, due to the absence of established banking and financial relationships by American banks with those parts of the world. The only method of

<sup>1</sup> *The Commercial and Financial Chronicle*, Sept. 15, 1917, p. 146.

<sup>2</sup> *The Financial and Economic Annual of Japan*, 1918, appendix.

<sup>3</sup> *Ibid.*

<sup>4</sup> *Japan Financial and Economic Monthly*, Oct., 1917, p. 2; Nov., 1917, p. 30; Dec., 1917, p. 26.



financing that remained was by sending specie direct to India. The gold obtained from the United States by Japan had accordingly been shipped mostly to India to pay for Japanese imports from that country. The situation had already become acute toward the end of 1916. For the first eight months of 1917, Japan sent gold to India amounting to 102,949,000 yen.<sup>1</sup> The gold embargoes by the two countries automatically reduced Japanese-Indian trade, notwithstanding many attempts to maintain it at the former volume. In 1916, Japan imported 5,128,981 piculs<sup>2</sup> of cotton from India, in 1917, 4,495,140 piculs, and in 1918 only 2,903,000 piculs.<sup>3</sup> This decline was solely attributable to the new conditions created by the gold embargo. Henceforward, Japan had to purchase more cotton from the United States in spite of the higher cost of American cotton as compared with Indian cotton. In 1916, Japanese imports of American cotton were 1,614,661 piculs; in 1917, 1,704,972 piculs, and in 1918 they increased to 2,509,530 piculs,<sup>4</sup> whose value represented 40 per cent of the total Japanese imports of cotton. Similarly, it was now necessary to obtain other goods solely from the United States in order to relieve the abnormal exchange situation between the United States and Japan. These goods had not previously been obtained from the United States on account of the higher cost of the American produce.

But a more serious effect of the embargo was upon the financing of the Japanese export trade, which had shown a phenomenal expansion since the opening of the war. The excess of goods exported over these imported for the three years 1915 to 1917 inclusive, aggregated more than

<sup>1</sup> *The Oriental Economist Year Book*, 1919, p. 210.

<sup>2</sup> One picul = 133 pounds.

<sup>3</sup> *The Annual Report of the Foreign Trade of Japan*.

<sup>4</sup> *The Japan Financial and Economic Monthly*, Oct., 1917, p. 2.

1,100 million yen. To this amount must be added the freightage, insurance premiums and hire of shipping which yielded in all 751 million yen during the same period.<sup>1</sup> Thus Japan, during the three years in question, had a net balance of nearly two billion yen in her favor; and at the end of December, 1917, funds of the Bank of Japan held abroad (mostly in New York) amounted to 643,492,000 yen. Meanwhile there seemed no prospect of an early cessation of the war. The proceeds of Japan's export trade could only accumulate in New York, without any prospect of being withdrawn, while in Japan, the exchange banks were suffering from lack of funds with which to purchase the ever-increasing volume of export bills. The rate of exchange between Yokohama and New York had never been higher than \$49.95 for 100 yen<sup>2</sup> before the war, or even in the first year of the war; but in December 15, 1917, it rose to \$52.25 for 100 yen.<sup>3</sup> Government action was the only alternative to relieve the strained situation. In consequence the Japanese Government took the matter into its own hands.

The financing of Japanese foreign trade during the war played a very prominent part in her domestic financing and banking, as it is vitally interrelated to them, and the whole significance of it cannot be comprehended without careful consideration of her domestic finance side by side with the exchange problem. Consequently in the following pages all these financial and banking problems have been analyzed at some length and due prominence given to domestic conditions.

<sup>1</sup> *The Financial and Economic Annual*, 1918, appendix, p. 2.

<sup>2</sup> *The Oriental Economist Year Book*, 1917, p. 72; *Federal Reserve Bulletin*, Dec., 1919, p. 724.

<sup>3</sup> The figure is furnished by the Bank of Taiwan. See also appendix on yen exchange.

*C. Attempts to adjust exchange*

The principal methods employed by the Japanese government in its attempt to adjust the abnormal exchange situation were threefold: (1) subscription to foreign loans, as in the first period; (2) floating of special exchequer bonds; and (3) issue of notes.

The first attempt to adjust the situation was to invest the Japanese funds accumulated in New York in foreign loans or in the purchase of foreign loans of the Japanese government. This represented an attempt to fund short-term indebtedness to Japan into long term or to cancel Japanese debts previously incurred. Japanese bonds or debentures thus purchased or redeemed from the opening of the war to the end of 1918, amounted to 315,000,000 yen.<sup>1</sup> But the comparatively high prices of Japanese bonds and the relatively small amount appearing in foreign markets interfered with purchases. Bonds of other governments, therefore, were also purchased. Japan subscribed to British government loans of various descriptions to the amount of 180,000,000 yen during the period under review (i. e., from September, 1917 to November, 1918); 65,000,000 yen to Russian government loans, and 86,000,000 yen to French loans, while in 1918, she invested 100,000,000 yen in Chinese government treasury bills and exchequer bonds.<sup>2</sup> In addition to these, the government agreed to subscribe to more than 200 million yen of other bonds, if the same were issued.<sup>3</sup> Moreover, purchases made by private individuals and firms of bonds issued by the Allied countries, in particular the Anglo-French bonds, amounted

<sup>1</sup> *The Financial and Economic Annual of Japan*, appendix, p. 4.

<sup>2</sup> *The Oriental Economist Year Book*, 1919, p. 85. "Japan in the War Finance of the Allies," *The Commercial and Financial Chronicle*, New York, Aug., 1918, p. 550.

<sup>3</sup> *The Financial and Economic Annual of Japan*, 1919, appendix.

to some 290 million yen.<sup>1</sup> The entry of the United States into the war relieved the Entente powers of the necessity of obtaining funds from Japan.

The second method of adjusting exchange was the issue of special exchequer bonds. Their primary purpose was to procure funds with which to pay manufacturers for munitions exported to Russia and the other Allies, as well as to supply the exchange banks with funds for the purchase of bills without the danger of inflation. In consequence, in the early spring of 1917, the Diet passed a law authorizing the issue of such bonds to the maximum amount of 200,000,000 yen.<sup>2</sup> Before the end of the year, 150,000,000 yen of bonds had been issued, but the proceeds of the entire issue had been applied to the renewal of treasury bills of the Russian government and the payment of orders for munitions. Thus the exchange banks received no help in spite of the fact that they on December 31, 1917, held foreign bills amounting to 550 million yen, and sorely needed the funds. Early in 1918 the Diet authorized the raising of the maximum amount from 200,000,000 to 500,000,000 yen.<sup>3</sup> During the year 1918, special exchequer bonds had been floated to the amount of more than 300,000,000 yen,<sup>4</sup> but more than the half of this amount bore 2 per cent interest and the proceeds were applied to payment for war goods supplied to the Allied countries on credit. Consequently, the exchange banks were helped but slightly by the issue of these bonds, in spite of the fact that such aid was one of the two purposes for which the issue was designed.

<sup>1</sup> *The Financial and Economic Annual of Japan*, appendix, p. 4.

<sup>2</sup> *Ibid.*, 1918, appendix, p. 5.

<sup>3</sup> *Japan Financial and Economic Monthly*, April, 1918, p. 10.

<sup>4</sup> *The Financial and Economic Annual*, 1919, p. 5.

Had the government floated a great number of special exchequer bonds in order to provide a more adequate supply of funds for the exchange bonds, as well as to undertake foreign investments out of the proceeds thus raised through the government agency, from which the public expected much,<sup>1</sup> better results would have been obtained. But the government not only failed to assume the responsibility, but also failed to absorb funds from people of moderate means, for whom the floating of the bonds was obviously intended. The subscribers were mostly great banks and large commercial firms, and the bonds were freely utilized by them as collateral to secure current funds. They then enhanced inflation, instead of financing trade without the danger of inflation,<sup>2</sup> which was the intention of the government.

Neither the investment in foreign loans, nor the issue of special exchequer bonds at home, was adequate to procure sufficient funds for the exchange banks, and a third method was therefore employed; namely, the issue of bank notes based on the foreign bills held by the exchange banks, on the one hand, and on the accumulated funds in New York, on the other hand. The note issue of the Bank of Japan increased greatly after June 1917, as will be seen from the following table, which gives the amount of note issue, the gold reserve and the loans of the Bank of Japan at half yearly intervals since 1913:

<sup>1</sup> *Industrial Japan*, vol. xxi, no. 21, pp. 1-5, 33-40.

<sup>2</sup> *Japan Financial and Economic Monthly*, July, 1917, p. 15.

THE NOTE ISSUE, GOLD RESERVE, AND LOANS OF THE BANK OF JAPAN <sup>1</sup>  
(in thousands of yen, i. e., 000s omitted)

	Amount of Note Issue	Official Gold Reserve <sup>2</sup>	Actual Gold Reserve <sup>2</sup>	Total Loans	Loans on Foreign Bills
1913 Dec. 31..	426,388	224,365	130,316	121,623	44,834
1914 Dec. 31..	385,589	218,237	128,503	87,385	46,682
1915 June 30..	337,447	217,868	.....	.....	.....
Dec. 31..	430,138	247,417	136,785	50,360	20,787
1916 June 30..	429,330	257,560	170,000	41,586	24,280
Dec. 31..	601,224	410,519	227,504	188,582	120,543
1917 June 30..	605,918	439,752	324,000	177,105	120,309
Dec. 31..	831,371	649,618	461,346	272,192	199,119
1918 June 30..	809,468	645,398	457,000	309,491	232,271
Dec. 31..	1,144,739	712,925	453,000	576,657	444,225
1919 June 30..	1,080,314	705,372	443,000	526,388	374,051
Dec. 31..	1,555,100	951,976	702,000	716,068	358,113

Before discussing the issue of bank notes as a means of adjustment of exchange, it is, however, essential to have a clear understanding of the complicated method whereby notes are issued by the Bank of Japan.<sup>3</sup>

The method of note issue of the Bank of Japan differs from that of the Federal Reserve Banks.<sup>4</sup> The Bank of Japan is required to hold, as a conversion reserve against the issue of notes, gold and silver coins and bullion equivalent to the total amount of the notes issued. In addition to the notes so protected, the Bank of Japan is specially permitted to issue notes to an amount not exceeding 120 million yen, on the security of Government bonds, treasury

<sup>1</sup>"The Oriental Economist," *Economic Year Book, 1917-1920*, pp. 54-55, 57, 87; "The Financial Statement of the Bank of Japan," *The Reference Book for Financial Matters*, The Department of Finance.

<sup>2</sup>Difference between official and actual gold reserve represents funds held in New York.

<sup>3</sup>Hamaoka, *The Central Bank of Japan, 1902*, pp. 232-240; *The League of Nations, Currencies after the War* (London, 1920) p. 29.

<sup>4</sup>Federal Reserve Act, sec. 16.

bills and other high-grade securities or commercial bills. Further, should it be deemed necessary on account of the condition of the money market, additional bank notes, or what are called the emergency notes, may be issued against the deposit of like securities. The emergency issue, however, is controlled entirely by the Finance Minister, who fixes the legal amount of such an issue. A minimum tax rate on all emergency issues is fixed at five per cent by the statute; but the finance minister, if he deem it expedient, may increase the tax rate above five per cent.

Such are the legal requirements for the issue of notes. Examining the above table, we find that at the end of 1918, the amount of note issues was 1,144,339,000 yen. Against this issue, the official gold reserve is listed as 712,925,000 yen. The notes issued against their security,<sup>1</sup> therefore, amounted to 431,394,000 yen. Of this amount, 120,000,000 yen, the legal limit, was tax free. Attention should be directed, however, to the difference between the actual and the official gold reserves, amounting to 259,925,000 yen. The difference represented funds kept in New York, and invested in short term securities. While this method is similar to practice under the gold-exchange standard, there was no known legislation authorizing the Bank of Japan to issue notes on the security of the funds abroad, nor to count them as part of its gold reserve. The act, therefore, must be regarded as arbitrary. It is not without reason that the late Dr. Honda, the distinguished editor of the *Financial and Economic Review*, ex-Finance Minister Dr. Sakatani, Dr. Fukuda, the foremost economist in Japan, and many others repeatedly censured the government policy of note issue.<sup>2</sup>

<sup>1</sup>Of this, 53,000,000 yen represented commercial paper and the remainder government bonds.

<sup>2</sup>The practice of counting the funds abroad as a part of the specie

The indictment by these authorities may be summarized under the five following heads: (1) The specie reserve of the Bank of Japan should legally be kept in the principal office or branches of the Bank of Japan and not abroad; (2) the reserve kept abroad has not the same qualities as the specie reserve kept at home, for if the foreign country in which the funds are kept should institute an embargo on gold exports on the one hand, while at home a financial crisis or other abnormal condition should require gold redemption of the notes on the other hand, the Bank of Japan could not meet the demand; moreover, such practice is in reality an issue of notes based on security and not specie, for according to the official definition, the specie reserve held abroad is, "funds which are kept readily convertible into gold whenever desired;"<sup>1</sup> (3) the present inflation is, in no small degree, due to the irregular method of note issue, which is based on the funds kept abroad, and the abolition of which would automatically bring about contraction which, in turn, would result in lowering prices. Furthermore, if this policy of note issue were pursued, the Bank of Japan could expand the amount of its note issue to the extent that funds are kept in New York and London, without paying a cent of tax to the government. This is in complete defiance of the statutory regulations and removes the check on the amount of note issue which the tax is designed to afford; (4) the Bank of Japan should be free from the interference of the Finance Minister in its proper

reserve of the Bank of Japan began during the Russo-Japanese War (1904-1905) as an emergency measure to fill up the depleted reserve of the Bank of Japan. Dr. Sakatani was at that time a vice minister of finance, and he criticises the continuance of the practice. N. Takizawa, *The Financial History of Japan*, 1912, p. 765; *Daikan* (Outlook), (Tokyo), vol. ii, no. 11, p. 79.

<sup>1</sup>Quoted from Dr. Fukuda, "What is the Remedy? Not Price Fixing, but Currency Contraction," *Taiyo*, Oct., 1918, p. 24.



business, such as note issue or discount policy; and (5) the Bank of Japan, which is owned privately, is wilfully permitted to evade taxes of not less than 10,000,000 yen a year, while small incomes of farmers and wage earners are rigorously scrutinized and levied upon.<sup>1</sup>

From an economic standpoint, whether the reserve of the Bank of Japan be kept at home or abroad is of small importance. Broadly speaking, the practice of keeping reserves at the leading financial center of the world may, in some respects, be an advanced financial method and near the economic ideal.<sup>2</sup> Again, the mere prohibition of note issue based on the funds kept abroad, would not accomplish contraction of the note issues, for, if this were prohibited, the government might bring the funds back to Japan in the form of specie or of securities and continue the issues based on them.<sup>3</sup> At any rate, expansion of the domestic note circulation to correspond to the balance of commodity exports is of doubtful wisdom, while total prohibition is uneconomic. More positive regulations, therefore, must be imposed upon the method of note issue than the mere prohibition of issue based on the funds kept abroad.

The relation between the central banks and the Treasury Department is a vexing question, in particular in Japan. The apparent reason for the demand that the Bank of Japan be rendered independent of the Treasury Department is to free the bank from the influence of the financial policy

<sup>1</sup> *The Financial and Economic Review*, Tokyo. In particular Feb., 1918, p. 3.

<sup>2</sup> H. Parker Willis, "An International Gold Fund," *The Annals*, vol. lxxxiii, Philadelphia, pp. 169-197. Cf. the recommendation by the Federal Reserve Board, *The Annual Report of the Federal Reserve Board*, 1918.

<sup>3</sup> It should be noted that before the war of 1914 the funds kept abroad had been replenished from loans floated abroad, but since the war they result from the balance of trade.

of the Finance Minister, who is, it is said, more or less influenced by political considerations. The question is thus more concerned with personalities than with alterations of practice. Speaking strictly, from a technical point of view, however, the function of the Treasury Department is the efficient management of the revenues and expenditures of the State, while the business of the central bank is efficiently to control the financial mechanism of the nation,—the life blood of the whole industry and commerce of the country. The national revenue and expenditure have a close relation to national industry and commerce, but they are a part of the industrial organization. To a casual observer, the function of the central bank may appear to be the simple management of a single bank, but in reality, its task is vast and far surpasses that of the Treasury Department. The entire isolation of the Treasury Department from the central bank may not be a wise arrangement, however, and mutual cooperation is required. The real relationship between them should be one in which the policy of the central bank always prevails over the Treasury Department, instead of the reverse as has been the case.

We may examine finally the advances made to the exchange bank in relation to this note issue. At the end of June, 1917, the total loans of the Bank of Japan were 177,105,000 yen, of which 120,309,000 yen, or 67 per cent. represented loans in foreign bills, mostly an accommodation to one institution, namely, the Yokohama Specie Bank.<sup>1</sup> In December, the loans had increased to nearly 200,000,000 yen, or 73 per cent. of the total loans of the central bank. At the close of the first half of the year 1918, there was a

<sup>1</sup> Among the liabilities shown in the statement of the Yokohama Specie Bank, there is an item called "funds borrowed." These loans are mostly from the Bank of Japan. At the close of 1918 the item "funds borrowed" amounted to 530,104,000 yen.

little increase to 232,371,000 yen, but during the second half of the year, such loans increased greatly, reaching their highest level toward the end of the year. At the close of December, 1918, the figure stood at 444,225,000 yen or 77 per cent of the total loans of the Bank of Japan. Yet the exchange banks were still in need of funds to purchase export bills.

#### *D. Call loan operations of the exchange banks*

The governmental attempts to assist the exchange banks to obtain adequate funds were thus unsuccessful, and the situation became particularly acute in the middle of 1918. It was then necessary for the exchange banks themselves to take measures. In consequence, they resorted to the previously unaccustomed method of absorbing comparatively long term call loans<sup>1</sup> from the general money market, and issued certificates of deposit for these call

<sup>1</sup>I. Miki, "Call Money in Japan," *The Street*, New York, Jan. 21, 1920. In Japan, the term "call loan," is extensively used for loans which are to be paid upon notice (usually given on the preceding business day). In practice it includes call money as well as time money, as they are understood in the United States money market. The expression "call money" is used when speaking from the side of the borrower and "call loan" from the side of the lender. There are five kinds of call loans:

1. Over-night call loans (loans for one day, and callable at any time thereafter).
2. Unconditional over-week money (callable after one week).
3. Over-month money (negotiated on any day of the month on condition that the money can be called only on the corresponding business day of the next month).
4. Sight money after a fixed date, or a specified number of days. ("Sight money after a fixed date" is arranged mutually to satisfy parties; for instance, after Feb. 14, 1921. Sometimes this date is placed more than a year in advance. "Sight after specified date" customarily negotiated as of after 30, 60 or 90 days.)
5. Over-year money (dealt in on any day of December [sometimes even in November] and callable on any business day after January 4th of the next year.)

loans. They were thus brought, in the spring of 1918, into direct contact with the commercial banks which concentrated their attention upon the domestic field.

The exchange banks absorbed call loans, not only from the central money markets at Tokyo and Osaka, but also directly from local commercial banks through the branches of the exchange banks. The interest rate on call loans quickly advanced. The local commercial banks thought that it was more profitable for them to invest their funds in call loans than to keep them in the great commercial banks at the financial centers, and consequently began to withdraw their deposits. Sharp competition developed among bankers all over Japan for deposits, and banks endeavored to outbid each other by offering a higher rate of interest on deposits. This competition developed extreme forms. Some banks sent officers every morning to business houses and solicited deposits from door to door, while others gave elaborate dinners to present and prospective customers.<sup>1</sup> Conditions became intolerable. The commercial bankers accused the exchange banks of invading the field of the domestic commercial banks, and at once called a general conference of commercial bankers to discuss the matter. At the conference, it was agreed that call loans made to banks which were not members of the syndicate of the commercial banks must be secured by some tangible security, and not by mere certificates of deposit. The Yokohama Specie Bank and a few other exchange banks, which did not belong to the syndicate, could no longer obtain call loans either from local banks or from the great commercial banks, by the mere issue of certificates of deposit. This measure was equivalent to the prohibition, by the commercial banks, of call loans to the exchange banks; while

<sup>1</sup>M. Uchida, "Evils of Competition for Deposits, and the Remedy," *Osaka Bankers' Magazine*, Osaka, December, 1918, pp. 18-25.

the commercial banks also placed a uniform rate of interest on deposits.<sup>1</sup>

#### E. *Effect of the failure to adjust exchange*

In the latter half of 1918, the situation of the exchange banks was aggravated by the continued heavy balance of payments in favor of Japan. Foreign exchange bills held by the two exchange banks at the close of the years were in excess of 700,000,000 yen. The balance of trade in favor of Japan in 1918 was estimated at over 500,000,000 yen, to which must be added the invisible balance covering shipping, freightage and insurance premiums aggregating several hundred million yen. The note issues of the Bank of Japan at the close of May, stood at 689,000,000 yen; at the close of August, they had increased to 848,903,613; at the close of October, to 905,978,000 yen, and at the close of December, to 1,144,739,000 yen. In August and September, special exchequer bonds to the amount of 200,000,000 yen had been floated. Meanwhile, exchange rates had also risen. In September 30, 1917, immediately after the gold embargo, they were already \$51.25 for 100 yen; but in September 1918, they had risen to \$54.875 for 100 yen.<sup>2</sup> The delicate mechanism of the gold points was completely upset, and thereafter fluctuations in exchange became much wider and more violent, being governed wholly by the conditions of supply and demand for bills, without the possibility of relief from gold movements.

The seriousness of the exchange problem and its effects on the money market and general economic conditions in Japan cannot be exaggerated. The wealth of the country increased; but the lower classes of the people suffered

<sup>1</sup>*The Japan Financial and Economic Monthly*, Dec., 1918, p. 3.

<sup>2</sup>*Cf.* appendix for detailed figures.

greatly from the increased cost of living. The popular discontent resulted in the so-called "Rice Riot," which was started by a few score women in a fishing village, but spread very rapidly and caused trouble over the entire country.<sup>1</sup> There was a strike even among the employees of the Treasury Department for an increase in wages. Government officials were alarmed, and at once called conferences<sup>2</sup> to consider the grave economic conditions. At the conference on August 13, 1918, they at once authorized the expenditure of 10,000,000 yen to adjust the price of rice.<sup>3</sup> On the same day the emperor donated 3,000,000 yen toward the relief funds. But they could not immediately formulate further practicable relief measures, and the conference ended with a mere recommendation for the appointment of commissions to investigate the problems. A series of special ordinances were promulgated. The most important were on September 16, 1918, for the organization of a National Economic Commission to investigate economic questions relating to the adjustment of prices and other urgent matters concerning the cost of living.<sup>4</sup> But public sentiment against the economic and financial policies of the government became so intense that the Terauchi ministry finally fell in the latter part of September, 1918. The Special War Time Exchange Commission continued its work, regardless of the fall of the ministry, but it could not institute a practical program to relieve the situation because of the undue importance attached to export trade by the members, and their belief that contraction of currency would necessarily

<sup>1</sup> *Japan Advertiser*, Tokyo, August 4-15, 1918; *Osaka Osaki Shinbun*, Osaka, August 4-15, 1918.

<sup>2</sup> *Tokyo Asahi Shinbun*, August 11, 1918.

<sup>3</sup> *Tokyo Jiji Shinbun*, August 14, 1918.

<sup>4</sup> *The Financial and Economic Annual of Japan*, 1919, appendix, p. 7; *Japan Year Book*, 1919.

result in the decline of Japan's export trade.<sup>1</sup> The bad conditions continued and the tension was relieved only by the sudden news of the Armistice and the subsequent decline of exports in 1919. The immediate effect of the armistice on the exchange problem, however, was psychological. The problem of adjustment continued well into the year 1919.

## 2. REASONS UNDERLYING THE INABILITY TO ADJUST EXCHANGE

At this stage in our study, we may pause to consider the reasons why the attempts to adjust exchange were not attended with success. Having seen them, we may then turn to the third, or post-armistice period.

### *A. Policy of the government*

The defects in the policy pursued by the government lie largely in two directions: (1) undue encouragement of exports, and (2) reckless issue of bank notes. The fundamental theories held by the government officials were at fault, as well as the practice which was pursued. The two ministers of finance who held the portfolio since 1916, may, in effect, be said to have held views approximating those of the mercantilists of the 17th century, as expressed by Mun,<sup>2</sup> "The ordinary means, therefore, to encourage our wealth and treasure is by foreign trade, wherein we must ever

<sup>1</sup>O. Ichirai (a member of the commission and the vice minister of finance) said: "If currency is contracted, we must expect the decrease of exports and the decline of industry in Japan." *Osaka Osaki Shinbun*, August 16, 1918.

It should be noted that the Japanese government selected members of the commission chiefly from official circles, thus including those who were responsible for the past financial policy. Most of the twenty-six members of the commission were officials of the department of finance and the chartered banks. No university professors or prominent financial writers were appointed.

<sup>2</sup>Thomas Mun, *England's Treasure by Foreign Trade*, 1664, ch. ii, p. 7.

observe this rule, to sell more to strangers yearly than we consume of theirs in value."

Their price theories were likewise mistaken. It was held that the amount of currency in circulation has little to do with prices; that prices do not fall or rise as the result of changes in the amount of currency, for the change in the volume of currency is the effect of, and not the cause of price changes.<sup>1</sup> It was thus held that industrial expansion necessarily brings in its train a proportionate increase in the volume of currency, and that even if this natural expansion of currency were checked by artificial means, circulating credit automatically takes its place, and the same end is achieved. It will be observed that this theory approximates in some respects those expounded by J. L. Laughlin, John A. Hobson and B. M. Anderson, Jr.<sup>2</sup> There has been considerable criticism of the theory in Japan,<sup>3</sup> one

"... in the war time economy, such as exists to-day, the expansion of currency does not become a great contributory cause of rising prices, as it does in times of peace. It is more proper, therefore, to conclude that the more important causes of high prices are rather lack of supply of commodities, inadequacy of transportation facilities, and arbitrary manipulation of speculative merchants. . . . The present expansion of note issues is mostly due to the development of our industry and the expansion of foreign trade. . . . In this sense the government will not impede the *healthy* [author's italics] development of industry and trade which the contraction of currency inevitably brings about." Excerpt from the address made by Finance Minister Hon. K. Shoda before the Osaka Bankers' Convention May 1, 1918. See also *Rising Prices and Their Prevention*, July, 1918 (a pamphlet issued by the Department of Finance in defense of the government's financial policy).

<sup>1</sup>Compare also reply of Governor W. P. G. Harding of the Federal Reserve Board to Senator McLean, Chairman, Committee on Banking and Currency, U. S. Senate, *Federal Reserve Bulletin*, August, 1919, pp. 699-702.

<sup>2</sup>Dr. T. Fukuda, "What is the Remedy? Not Price Fixing, but Currency Contraction," *Taiyo*, October, 1918; *Jitsugyo no Nippon*, May 15, 1918; *Osaka Asahi Shinbun*, Editorial of May 3, 1918; *Tokyo Jiji*, May 3, 1918; *Japan Advertiser*, May 4, 1918; *Daikan (Outlook)*, Tokyo, Japan, vol. ii, no. 11, p. 89; *Journal of Economics*, May, 1920, p. 432.



group of critics remarking that the minister of finance wished to establish his own theory of currency, whether right or wrong. Another group of critics held that the view of the minister of finance was entertained for the sake of expediency, inasmuch as certain classes of the populace always favor inflation. Turning from the theory, one should observe that a corollary was the feeling that contraction of currency would hinder the natural growth of business activity, and that rising prices reflected economic prosperity. The hesitancy of the minister of finance to authorize an increase in the official rate of the Bank of Japan may be noted in this connection.<sup>1</sup> It is no wonder that, guided by such principles, the financial policies of the government inevitably met with disaster, culminating finally in the financial crisis of May, 1920, which was exactly two years after the memorable speech<sup>2</sup> made by the Finance Minister.

Turning to the encouragement of export trade, the Government instructed<sup>3</sup> the Japanese exchange banks to purchase export dollar bills at a much lower rate than the current rate of exchange. In 1918 New York exchange went to a new high level. For some time previous, the rate had been \$54.75 for 100 yen, but the Japanese exchange banks had bought export bills at a lower rate, while foreign banks in Japan quoted the current rate. There was thus a spread of nearly 4 yen (\$2.00) between

<sup>1</sup>The rates of the Bank are made only with the sanction of the Finance Minister. Dr. Hamaoka strongly advocated that this power should rest in the governors and the directors of the Bank. *The Bank of Japan*, 1902, pp. 108-114.

<sup>2</sup>He said, among other things: "Our industry is developing on a sound basis, and the outlook for further increase in foreign trade is brighter." Cf. *Osaka Asahi Shinbun*, May 3, 1918.

<sup>3</sup>*Industrial Japan*, Tokyo, November 15, 1918, p. 36.

the rates of the two sets of institutions. The result was that importers took their bills to foreign banks, while exporters took their bills to Japanese exchange banks. Another effect of the excessive expansion of export trade was the increased foreign demand for commodities, with the result that a decreased amount was available for home consumption, and that there was increased demand and higher prices, with consequent discontent among the populace in Japan. It also tended to place a strain upon the exchange banks.

In order to enable the exchange banks to purchase the export bills which were offered, the government resorted to the issue of bank notes secured by export bills and funds which had accumulated in New York. Bills of this description lack one of the fundamental requisites, namely: elasticity. The general theory with respect to the matter has been well expressed as follows: "As long as reserve balances are created and circulation is issued only against self-liquidating paper, which represents things in course of production, and as long as this process is kept within a safe relation to gold, there may be more or less acute banking expansion, but there would not be any cause to call it inflation. It is when bank loans, reserve balances or circulation are being created against things that do not represent any tangible value, and gold reserves are disregarded that we face inflation in its classic form."<sup>1</sup>

Further efforts should have been made instead to fund the floating debt owing by foreign nations to Japan as a result of Japanese export trade, into a long term debt, using the surplus Japanese funds for this purpose. In short, this balance in favor of Japan should have been converted from

<sup>1</sup>P. M. Warburg, "Inflation and High Prices," *Proceedings of the Academy of Political Science in the City of New York*, vol. ix, no. 1, p. 119.

commercial financing obligations into investment obligations, and have been removed from the sphere of possible effects upon the domestic financial and price situation.

#### B. *Lack of a discount market*

The situation was aggravated by the lack of a well developed discount market in Japan. In particular, there was absolute lack of coordination between the exchange banks and the commercial banks. Thus there was no utilization, for the purpose of foreign trade financing, of the surplus current funds of the community. The peculiar position occupied by the Bank of Japan also played its part. Instead of serving in actual fact as a central bank, it served rather as a means of support of the exchange banks alone, and did not serve as a tie whereby domestic and foreign trade financing were coordinated. It should be noted that only a minor part of the Bank of Japan's deposits are derived from the ordinary commercial banks. Thus there was a plethora of funds in the commercial banks at the same time that the exchange banks were sorely pressed for funds. During the year 1918, the total deposits of the commercial banks increased 1,400,000,000 yen, or 43 per cent, and the ratio of loans to deposits declined from 93 per cent at the close of 1917, to 89 per cent at the close of 1918.

In view of the peculiar position occupied by the Bank of Japan, the official rate lost its significance. It did not lead the market,—in fact could not. Thus we find that while the rate tended upward in the United States and Great Britain as the war progressed, in Japan the rate actually decreased instead, from 7.3 per cent in 1914 to 5.1 per cent. It thus followed the domestic market rates. The lowering occurred twice during the year 1916, commencing in May, as the market rate was too far below the official rate.

“These repeated lowerings had the effect simply of reducing the margin that had separated the rate of the central bank and the current market rate, which had been at a low level from the preceding year.”<sup>1</sup> In March, 1917, the official rate was further lowered to 5.1 per cent. It continued at this level until September, 1918, in spite of the facts that during this period the financial needs of the exchange banks reached their highest peak. Similarly, in the early months of 1920, prior to the panic in May, the general market rate rose as money became tight, and a spread of from 1.82 to 2.92 per cent developed between the official and market rates. The discount rate policy of the Bank of Japan has been characterized in the following words: “the raising or lowering of the discount rate of the central bank was not effected in relation to market conditions, but more or less on the Bank of Japan’s own account, to float its own bonds<sup>2</sup> on favorable terms.”<sup>3</sup> As long as the official rate is lower, it should be noted, the exchange banks can certainly obtain funds from the central bank on easy terms. It would appear, however, that, aside from the reluctance of the minister of finance to raise the official rate, the official rate did follow the market rate, although with a considerable lag.

It will be evident from the above that the financing situation with respect to foreign trade is part and parcel of the wider problem of the general financial situation.

### *C. Remedies proposed*

In order to remedy the financial conditions, many proposals have been made. The prices of commodities

<sup>1</sup> *The Seventeenth Financial and Economic Annual of Japan*, p. 5.

<sup>2</sup> Special exchequer bonds, government railway notes and other industrial bonds for government enterprises.

<sup>3</sup> *Japan Financial and Economic Monthly*, Feb., 1918, p. 33.

continued to rise even after the armistice, only to be arrested in the financial panic of May, 1920, due primarily to the continuance of the mistaken financial policy by the government.<sup>1</sup> As a result pages of current publications, from the second half of 1918 until toward the end of the following year, were much devoted to discussions of the price problem, particularly of its social effects. As a rule, the government officials and some writers who, in the main, supported the financial policy of the government, emphasized the commodity side of the cause of high prices, and insisted that it was a world-wide phenomenon against which human effort could hardly fight without causing injury to many peoples.<sup>2</sup> The leading economists<sup>3</sup> and publicists, especially the professors in the private universities, while not neglecting the usefulness of the abolition of the tariff imposed upon foreign rice, the prohibition of exports of certain food products, and the regulation of speculation, as remedies for high prices, were unanimous in their opinion that inflation was by far the major cause of high prices.

These economists first directed their attention to refutation of the arguments expounded by the government offi-

<sup>1</sup>Will Goettling, "Japan's Business World in Reaction," *The Trans-Pacific*, vol. iii, July, 1920.

<sup>2</sup>"The Economic Thought of Finance Minister K. Shoda," in *Jūshūgyō no Nippon*, Tokyo, May 5, 1918; "Speeches of Finance Minister K. Takahashi," *Osaka Bankers' Magazine*, August, 1919; *Japan Financial and Economic Monthly*, November, 1918, August, 1919; cf. "Premier Hara's Economic Ideas," *Taiyō*, vol. xxv, no. 13, p. 22.

<sup>3</sup>Dr. T. Fukuda, of Tokyo Commercial College, *Taiyō*, Oct., 1918; Dr. K. Horie, of Keio University, *Taiyō*, 1918-1919; Dr. U. Kobayashi, "High Prices and Currency Contraction," *Taiyō*, September, 1919, p. 2, *Daikan*, October, 1919; Dr. B. Hattori, of Waseda University, "High Prices, Cause and Remedy," *Taiyō*, September, 1919, p. 54; Dr. K. Toda, of Kyoto Imperial University, *Keisai Ronso*, vol. ix, no. 4; Dr. M. Kambe, of Kyoto Imperial University; Dr. S. Kawazu, "The Remedy for High Prices," *Taiyō*, October, 1918.

cial. One<sup>1</sup> of the economists argued that to attribute high prices to a world-wide movement presupposed an existence of certain relationships between Japan and the other countries; and to attribute high prices to them without tracing their cause and effect, was too vague. China's rise in prices during the war, for instance, was only 20 per cent. If high prices in Japan were attributable to the so-called "world-wide phenomenon," its relationships may be traced in the following manner: the lack of supply of commodities and the rise of prices due to inflation in the belligerent countries increased Japanese exports to those countries and others; and this, in turn, brought about lack of commodities in Japan for home consumption and raised the prices thereof. If this is the case, it may explain the high price of a particular commodity; but it is insufficient to explain the general rise in the price level. The weakness of this line of argument is the omission of interdependent forces in price making. An increasing prosperity in one trade pushes up prices in remoter branches of trade, and the rise of prices is carried over other industries.<sup>2</sup>

The second mode of refutation was directed against the theory that high prices are the result of industrial prosperity, and that the lowering of prices could not be accomplished without restraining the industrial expansion. So-called prosperity, argued one of the economists, was nothing but an increase in the purchasing power of the public, and prices rose as a result of this increase; the enormous increase of Japanese exports and the consequent issue of notes based on gold imported and funds accumulated in New York, increased the purchasing power of the community, and caused the general level of prices to rise; in consequence, industrial prosperity was a cause of high prices and was nothing but

<sup>1</sup>U. Kobayashi.

<sup>2</sup>W. C. Mitchell, *Business Cycles*, 1913, p. 15.

inflation of the currency. Here again, the economist missed one of the links in price causation. It is more correct to say that prosperity in Japan was first ushered in by the rise of prices caused by growing demand. But the rise of prices was accelerated doubly or trebly by the rather reckless issue of notes by the Japanese government.

The third line of refutation was directed against the theory that high prices are due to the lack of supply on the one hand and the increase of demand on the other. The economist contended that they were emphasized to the point of absurdity. The increase of demand for rice, for instance, was only 20 per cent., while the supply of rice was about normal, yet the price of rice rose 220 per cent. He fell into the same error as in the first case cited.

Finally, against the contention that artificial restriction upon the natural expansion of currency is rendered ineffective by an automatic increase of the use of circulating credit, the economists were unanimous in their argument that the inflation of currency brings in its train the increase of circulating credit; and, vice versa, the contraction of currency results also in the contraction of circulating credit. Furthermore, they contended also that the use of bank checks in Japan is still confined largely to remittances, and in consequence it may not have the great influence upon prices, which it does in England and the United States.

From these reasons, the economists concluded that high prices in Japan are from six to seven parts out of ten, due to inflation of the currency; and they sought the effective remedy in contraction of the currency. The principal proposals they made were: (1) the curtailment of credit by raising the official bank rate, and by imposing a high tax on note issues; (2) absorption of surplus capital by increasing the rate of interest for postal savings, receiving interest-bearing deposits at the Bank of Japan, and floating bonds;

and (3) the use of capital thus raised, aside from advances to the exchange banks, in foreign investment.<sup>1</sup>

They contended that the raising of the bank rate would react immediately upon the market rate and curb speculation. The economists warned the Finance Minister, who was reluctant to raise the official rate, that if the present inflation was continued, sooner or later a financial panic would be inevitable, and a greater calamity would befall Japan. Against the contention of the Finance Minister that five-sixths of the populace of Japan were benefited by high prices, and in consequence were not in favor of raising the bank rate, the economists maintained that the situation was just the opposite, five-sixths being the sufferers. Sarcastically, Baron Sakatani remarked that if the contention of the government officials was true, the Department of Finance itself would not have a strike of its own subordinate officials because of the high cost of living.<sup>2</sup>

The economists were unanimous in their condemnation of the government method of floating bonds. They charged that the government did not float bonds for the purpose of contraction, but for its own financial needs; that the greater part of the bonds were appropriated for either war expenditures, or for the payment of munitions shipped to the Allies. In consequence, the floating of bonds not only failed to absorb the inflated purchasing power of the community, but, in fact, such bond issues contributed materially to further the inflation by loans on them by the Bank of Japan. On the other hand, they urged the prime importance of foreign investment. Dr. Toda<sup>3</sup> argued that

<sup>1</sup> The author himself classifies these proposals arbitrarily into three groups above outlined.

<sup>2</sup> *Daikan*, vol. ii, no. 11, p. 76, Dr. M. Kambe, "First Do away with the False Notion," *Jitsugyo no Nippon*, Oct. 15, 1918, p. 27.

<sup>3</sup> "Urgency of Currency Contraction," *Keisai Ronso*, The Kyoto Imperial University, vol. ix, no. 4, p. 568.



it was not a time to consider a contingent loss from the difference in the rate of interest or from the depreciation of the invested principal.

The discussions of these economists are, in the main, correct, although the arguments, as a whole, were rather abstract, particularly in their constructive program. In consequence, they failed to point out precisely what the Finance Minister was desirous of knowing, as may be seen from his speech, in which he said in part that, "serious consideration is needed to ascertain precisely what degree of expansion of note issues causes inflation and becomes a real cause of high prices or, in other words, within what degree the expansion of note issues should properly be kept in order not to cause inflation."<sup>1</sup> So far as the present writer is aware, the economists did not discuss in detail the complex relationships concerned in price causation, and seem to have overlooked the importance of "alternative cost" in this connection. They did not explain in detail the nature of circulating credit and its relation to money. They failed to consider the real function of the commercial banking.<sup>2</sup> Furthermore, while they emphasized the importance of raising the official rate as an effective method of contraction, they did not make clear the influence of the facts that nearly three-fourths of the loans of the Bank of Japan are loans to one single exchange bank; and that Japan lacks a discount market. The market rate is therefore more independent than might at first be supposed, and the leadership assumed by the central bank in the money market with respect to currency contraction, lies more largely in indirect

<sup>1</sup>K. Shoda, *Address before the Osaka Bankers' Convention*, May 1, 1918.

<sup>2</sup>W. H. Steiner, *Some Aspects of Banking Theory*, New York, 1920, chs. iii and iv; H. G. Moulton, "Commercial Banking and Capital Formation," *The Journal of Political Economy*, 1918, pp. 484, 638.

means, than is its power to issue bonds bearing a sufficiently high rate of interest, etc. The thesis of Dr. Fukuda<sup>1</sup> was particularly faulty in this respect, being too abstract in its treatment. In consequence, it met undeserved attacks from a supporter of the government policy who fortified his argument with elaborate statistics.<sup>2</sup>

In spite of the faults of the economists' arguments, the explanation of the failure of the government officials to heed these useful recommendations of the economists must be sought elsewhere. It should be noted that public opinion in Japan has no influence over the policy of the government as it does in the United States. The fact was well expressed by the late ex-premier Terauchi who, speaking of his own cabinet, said that it "is the choice of the emperor, and any person among his subjects venturing to criticise his ministry is acting against the wish of the emperor."<sup>3</sup> Furthermore, the Japanese public seemed less critical. A writer in an economic journal expressed the opinion that whether the expansion of note issues or of industry was the cause or effect of high prices was beyond the scope of his inquiry.<sup>4</sup> The same perplexity was observed among other members of the intellectual class;<sup>5</sup> while the economists in general were more or less regarded as mere theorists, notwithstanding the fact that what they expressed was nearer to the truth.

<sup>1</sup>Dr. T. Fukuda, "What is the Remedy? Not Price Fixing but Currency Contraction," *Taiyo*, Oct., 1918.

<sup>2</sup>*Keisai Ronso (Economic Discussion)*, vol. viii, no. 3.

<sup>3</sup>*The New York Times*, October 22, 1919, editorial.

<sup>4</sup>*Kokumin Keisai Zasshi (National Economic Magazine)*, vol. xxvi, no. 4, p. 125.

<sup>5</sup>*Taiyo*, September, 1918, p. 70; November, 1919, p. 19.

## 3 THIRD PERIOD (NOVEMBER, 1918—JUNE, 1919)

We may now turn our attention to the third of the three periods into which we have divided Japanese foreign trade financing since 1914. Our previous survey indicated that, by the signing of the armistice, no effective means of grappling with these financial problems had been devised. Since the armistice, however, there has been a new development. This is the introduction of the bankers' acceptance in Japan, which constitutes the outstanding feature of the period. This event is exceedingly important in that it has laid the foundation for the beginning of a real discount market in Japan, which will serve to put the methods in use there on a parity with those employed in foreign trade financing in other leading nations.

*A. Introduction of bankers' acceptances*

As a result of the armistice in November, 1918, Japanese exports during the first half of 1919 declined somewhat in physical volume, but had a high valuation, so that the total measured in yen did not differ greatly from the figure for the first six months of 1918. Imports, however, exceeded exports fully 200 million yen. The intangible factors in the balance of payments, however, such as interest on foreign investments, shipping charges, etc., in favor of Japan were more than sufficient to offset the adverse position of the balance of trade. In consequence, little relief was afforded to the exchange banks. In June 30, 1919, loans to them by the Bank of Japan were as high as 350 million yen. On the other hand, the commercial banks began to realize the weakness of the Japanese banking system, with the lack of coordination and co-operation between their own institutions and the exchange banks and the Bank of Japan. This was urged also by Mr. J. Inouye,<sup>1</sup> who was then pre-

<sup>1</sup> *Collection of Speeches by J. Inouye, Bank of Japan, 1920.*

sident of the Yokohama Specie Bank. Many conferences of leading bankers and financiers were held in an effort to consider the relations which should exist between the commercial banks and the exchange banks. These conferences developed the idea that the principal need was the introduction of a discount system in Japan. Accordingly, investigations of the discount system were made by the Bank of Japan and others, and the experience of the United States and leading European countries was accordingly considered. Finally in May 22, 1919, the Bank of Japan announced that it would commence to rediscount bankers' acceptances. The declaration of the Bank of Japan was as follows: "In order to improve the financing of foreign trade, the Bank of Japan will rediscount bankers' acceptances based on actual commercial transactions in foreign trade, and will grant to such bills the same preferential discount rate as is granted to trade acceptances, which is the lowest of the official discount rates." This declaration was followed by a long explanation of the benefits resulting from the use of bankers' acceptances.<sup>1</sup> The rate at that time was 6.57 per cent, as compared with 6.94 per cent on ordinary bills. While no maturity was stated, owing to the customary foreign trade practices, the maturity of drafts in most cases did not exceed three months.

In addition, the Bank of Japan recommended that commercial banks should invest their funds in short term bankers' acceptances, which would serve the twofold purpose of building up secondary reserves at the same time that they were aiding in foreign trade financing. In an effort to further the development of the use of yen bills, their use for payments in China or other adjacent Asiatic countries for goods imported was insisted upon, and Japan-

<sup>1</sup>*Tokyo Bankers' Magazine*, June, 1919; *Osaka Bankers' Magazine*, June, 1919.

ese merchants and bank agencies in the United States were also instructed to endeavor to employ yen drafts for payment of Japanese imports.

The drawing of yen acceptances in connection with Japanese exports, however, was not so favorable as it was in the case of imports. Consequently the Bank of Japan, on August 4, 1919, announced another method of relieving the situation.<sup>1</sup> The Japanese exchange bank which purchased a bill of exchange, usually in dollars on a New York bank for exports to the United States, and which sent the documentary bill to New York for acceptance and collection, was to be permitted to draw a finance bill on the Bank of Japan in yen, not to exceed the exchange value of the documentary draft, and to have a maturity of not more than 30 to 90 days. The deposit of another copy of the draft in the Bank of Japan was also required. The exchange bank could then sell the finance bill in the open market if it needed funds. The finance bill, when purchased by commercial banks, brokers, or other buyers, was eligible for rediscount at the Bank of Japan, and if the buyer so desired, it was stamped on the face by the Bank of Japan as notice of its eligibility for rediscount and was called a "Bank of Japan stamped bill."<sup>2</sup> It is to be noted that this device has within it several elements of danger. Thus the Federal Reserve Board has ruled that while a national bank may accept a draft drawn upon it which is secured by a documentary draft drawn by the same drawer upon a foreign buyer, no bank which has purchased a foreign documentary draft may refinance itself by drawing a draft on a member bank secured by the documentary draft.<sup>3</sup>

<sup>1</sup> *Osaka Bankers' Magazine*, September, 1919, p. 253.

<sup>2</sup> *Federal Reserve Bulletin*, June, 1920, p. 610.

*B. Bankers acceptance market in Japan*

The bank acceptance market in Japan consists at present of a few bill broking banks and commercial banks which both accept and discount. There are neither acceptance houses nor discount corporations as they are found in London, although they may eventually be established in Japan. Although it is more than two years since the bankers acceptance was introduced into Japan, our knowledge of the progress that has been made is very meager. The only figures available at present are contained in a statement made by the president of the Bank of Japan in the course of an address, in which he said that the amount of bank acceptance bills purchased in the open market by the commercial banks and bill-broking firms and actually held by them at the end of January, 1920, was roughly 44 million yen, excluding the Bank of Japan's stamped bills.<sup>1</sup>

As to the cause of the apparent lack of any campaign for the greater use of bankers' acceptances in Japan, a well known Japanese banker told the author personally that certain officials in the Bank of Japan do not favor the introduction of bank acceptances for many reasons. One is that Japanese financial conditions, with the poor accounting system and the consequent difficulty in obtaining credit information, are not well fitted for such an introduction. Be that as it may, the Bank of Japan never made any statement in regard to the progress of the bankers' acceptance in Japan, either in its own financial statements or in any other publications, while the financial statements of commercial banks do not show the bankers' acceptances as a separate item, but include them under the item called "payments guaranteed", which consists of a guaranty of payment of certain checks, letters of credit and other liabilities besides

<sup>1</sup>*Tokyo Bankers' Magazine*, February, 1920, p. 189.

bankers' acceptances. In consequence, it is impossible to obtain any definite information as to the progress of bankers' acceptances in Japan.

Some years ago, the president of one of the government commercial colleges expressed the view that Japan should not hastily introduce bankers' acceptances.<sup>1</sup> Against this view, it should be said that the introduction of the system and a vigorous campaign for its use would certainly aid in bringing about conditions favorable to the adoption of bankers' acceptances. It is not too much to say that without having standardized commercial paper in the form of bankers' acceptances, efficient financing of Japanese foreign trade is well nigh impossible.

### *C. Problems in the development of the market*

There is a natural tendency on the part of an importer to favor the use of his own currency in connection with the financing of the goods which he imports. That is to say, he prefers to make an arrangement with his local bank to open the credit, and have this credit in terms of his own currency. This will be the case except when the currency of the importer's country is at a heavy discount in the exporter's country, in which case, either the exporter's currency or the currency of some other country may be employed. There will thus be a tendency toward the use of yen bills for Japanese imports from the United States and for the use of dollar bills for Japanese exports to the United States. The reasons for this method of financing are obvious. By purchasing foreign goods in foreign currencies the element of the risk of exchange would be added, and this would involve the necessity of adding to the margin of profit another item which would cover this risk. The more uncertain the foreign exchanges, the larger must be the

<sup>1</sup> Z. Sano and T. Takaraki, *Banking*, Tokyo, 1926, p. 298.

insurance premium. Again, the importer must pay an extra commission to the foreign bankers, all of which adds to the cost of the goods. Finally, after the bill had been accepted by the credit-issuing bank, if the import bill of exchange was stated in a foreign currency it could not be sold in the domestic open discount market as readily as if stated in the home currency.

The factor which hinders the use of yen and dollar bills of exchange in the financing of American-Japanese trade in the past is primarily the inadequate financial organization in both the United States and Japan and the deficient banking relationships between them and with other countries. There is even at the present time no well developed yen exchange market in New York, nor a market for dollar bills in Tokyo, both of which are a necessary foundation for the development of direct exchange operations. The lack of these financial structures in the past in both America and in Japan, made it necessary to finance much of the trade in terms of the pound sterling.

The strength of sterling, which has been through many storms, but has weathered them all, and still today enjoys first place as a world currency in international finance, is largely attributable to the efficient British financial organization at home and the superior facilities afforded by her banking connections throughout the world. The crucial point, therefore, in the problem of developing the market for yen and dollar drafts in the financing of both American-Japanese trade and trade between them and other countries, is to organize an efficient financial system in both and to establish closer banking relationships between them and other countries along the lines of the British system. That is to say, there must be an open discount market in both Japan and in America, with sufficient facilities for handling and disposing of any amount of such paper that may be



offered. There must be also close banking relationships between them and other countries in order to increase the marketability of bills drawn in yen or dollars.

This raises, at once, many important financial and banking problems on both sides of the Pacific. Institutions which make up the component factors of the discount market such as the accepting banks, various purchasers and sellers of acceptances, the central rediscounting bank, discount corporations and brokers, etc. have to be developed. Again, the American and Japanese banking systems in reference to international finance must be brought into more close relationship, as well as their respective banking connections with other countries. That is to say, there should be Japanese bank agencies or branches in New York and similarly American branch banks in Japan and also joint American-Japanese banking institutions to facilitate the disposition of yen and dollar bills of exchange. Moreover, the new financial order to be constructive must be well adjusted to the existing system. All this requires a great deal of labor, time and foresight.

The establishment of the discount market in the United States and Japan, during and after the Great War, as has been already stated, survived the initial difficulties. The next step is to develop it. Many obstacles lie in the way of its growth and development, and the removal of these obstacles requires the fullest measure of cooperation from every one concerned. The first requisite for the development of the market is well under way. The remaining problem is then to improve banking relationships between the two countries. To this phase we shall now direct our attention.

## CHAPTER IV

### BANKING RELATIONS BETWEEN THE UNITED STATES AND JAPAN

#### I. PRESENT STATUS OF BANKING RELATIONS

IN the preceding chapter, the importance of established banking relations in international finance has been emphasized; it has been shown that the full development of the discount market on both sides of the Pacific and the consequent operation of direct exchange between them can not be had without closer banking relations between the United States and Japan, and incidentally the present rather unsatisfactory condition has been mentioned. In this chapter we shall make a critical inquiry into the existing status of banking relations and obstacles to possible improvement.

The usual methods of extending banking facilities into a foreign field are: (1) the opening of correspondence relations, (2) the creation of agencies, (3) the direct establishment of branches by a great bank with its own resources, and (4) the creation of a special bank which has a more or less independent existence. Which method of representation is preferable depends upon the commercial relations between the two nations and the political and economic conditions of the place in which the bank is to be established. "Chercher à bien connaître la situation politique et économique du pays, et à tâcher d'approprier par des procédés ad hoc le commerce de banque à cette situation."<sup>1</sup>

<sup>1</sup> Georges Diouritch, *L'Expansion des Banques Allemandes à L'Étranger*, Paris (1909), p. 252.

Representation by correspondents is chiefly employed where business relations are not close, although a distinguished British banker<sup>1</sup> advocated greater representation by this means as an after-war-measure, in order to eliminate the potential international banking competition which the establishment of branches is likely to cause. It is the easiest and most inexpensive mode of banking representation, and usually is employed wherever it is deemed necessary. In many cases it precedes instead of follows the business. Many American banks are represented in Japan by correspondents. Several Japanese banks are also represented in the United States by correspondents. The Bank of Taiwan alone has more than fifteen American correspondents,<sup>2</sup> although it has its own agency in New York City. In 1917 the Federal Reserve Bank of New York entered into an agreement with the Bank of Japan. No positive step, however, has so far been taken to promote mutual banking relationships, except a regular telegraphic exchange of certain financial data.

Representation by agency is, as a rule, most commonly employed when trade and financial relations are not so great as to call for a branch, on the one hand, and when the place in which the correspondent is to be established has a fairly well developed banking system, on the other hand. Most of the Japanese banks' representatives in New York, San Francisco and Seattle have the status of agencies. There are the agencies of the Yokohama Specie Bank, the Bank of Taiwan, the Bank of Chosen, the Sumitomo Bank and the Mitsubishi Bank. Of these, the agency of the Yokohama Specie Bank in New York City is the oldest, having

<sup>1</sup> Sir Edward Holden, "Maintaining London as the World's Financial Center," *The Bankers' Magazine*, New York, Nov., 1918.

<sup>2</sup> *History of the Bank of Taiwan* (1919), p. 376.

been established in 1880,<sup>1</sup> while the agencies of the other banks were established either during or after the Great War.

Representation by the establishment of direct branches is, in general, more common in a country where political and social conditions are stable, where the economic status is well advanced and where the commercial and economic relations between such countries and others are especially close. The agency and the branch are more or less similar, the difference being in the legal status of the two. Two American banks each have two branches in Japan. One is the International Banking Corporation, which established its branches in September, 1902, at Yokohama, and in October, 1904, at Kobe.<sup>2</sup> The other bank is the Park Union Foreign Banking Corporation,<sup>3</sup> which established its branches in 1919 at Tokyo and Yokohama. The International Banking Corporation has also several branches in China and India. It is empowered to transact a variety of business besides commercial banking proper; it may engage in investment banking and trust business, and may become a partner in industrial enterprises. It is the strongest American bank in the Orient, its entire stock being controlled by the National City Bank of New York. Besides these two American banks there are two other American banks which have branches in China, but not in Japan. These are the Asia Banking Cor-

<sup>1</sup>T. Yokoi, *Commercial History of Japan since 1868*, Tokyo (1900), p. 208.

<sup>2</sup>*Ginko Binran (Handbook of Banks)*, Finance Department, Tokyo, 1911.

<sup>3</sup>The capital of the corporation is \$4,000,000. It was established in 1919 under the control of the National Park Bank of New York and the Union Bank of Canada.

poration<sup>1</sup> and the Equitable Eastern Banking Corporation,<sup>2</sup> both of which were established since the armistice.

The only Japanese branch in the United States is the branch bank of the Yokohama Specie Bank in San Francisco, which was established in June, 1886,<sup>3</sup> before the present banking law of the State of California, which prohibits the establishment of branches of foreign banks, was enacted.

Representation by the creation of special banks is more adaptable to a less advanced country where freedom of action in banking business is required, rather than specialization. Thus, the characteristic feature of special banks is the manifold function of such banks. They mostly combine ordinary commercial banking, long term investment, and, in not a few cases, note issue. The bank itself undertakes industrial enterprises. The special bank may be organized either under the laws of the home country, or of the country in which the bank is to be represented. The shareholders may be a group of individuals or of banking firms, and again the group may consist of men of the same or of different nationalities, with a growing tendency towards the latter. There is no special bank established by either Japanese in America or Americans in Japan nor any under joint auspices.

In 1919, the Sumitomo Bank of Seattle was incorporated under the laws of the State of Washington, with three Americans among its five directors. This bank, however, would be more correctly called a branch of the Sumitomo Bank of Osaka than a joint enterprise, for the reason that

<sup>1</sup>The Asia Banking Corporation was established in 1918 with a capital of \$4,000,000 by the Guaranty Trust Company of New York.

<sup>2</sup>The Equitable Eastern Banking Corporation was established in January, 1921, with a capital of \$2,000,000 by the Equitable Trust Company of New York and other American banks.

<sup>3</sup>T. Yokoi, *Commercial History of Japan*, Tokyo, 1900.

Americans were included in its directorate merely to comply with the rigid banking laws of the State of Washington.

## 2. CRITICAL ESTIMATE OF PRESENT METHODS

### *A. The war and its effect on banking relations*

From the foregoing survey of banking relations between the United States and Japan, it is seen that their banking connections are of very recent development. Before the Great War, the only Japanese bank which had direct representation in the United States was the Yokohama Specie Bank, having one branch in San Francisco and one agency in New York City; while the only American banks in Japan were the two branches of the International Banking Corporation at Yokohama and Kobé. Since the war, four more Japanese banks have opened agencies in the city of New York, while one American bank has established branches in Yokohama and Tokyo.

Banking institutions are a product of commerce and general economic conditions, and, as a rule, follow their development, unless artificially encouraged by the government with special grants of privileges. The principal causes underlying the hitherto small banking facilities between the United States and Japan need but little explanation. They were: (1) the relative unimportance to the United States of her foreign trade in comparison with her large domestic trade; (2) the absence of exports of American capital before the war; (3) the decentralized banking system of the United States, with its absence of bankers' acceptances and a discount market until the passage of the Federal Reserve Act in 1913; and (4) the restrictive state and federal banking laws of the United States, which virtually prohibited the establishment of foreign banks in the United States. A more or less similar condition prevailed in Japan with the possible exception of (4). Japan was a debtor country with

no natural resources to develop; she had no open discount market until the summer of 1919; and her foreign trade was insignificant in comparison with that of the United States and the leading European nations.

But the Great War brought about entirely new economic and financial relations between the United States and Japan. The change that has been brought about in the financial position of the city of New York needs no explanation. The Federal Reserve Banking System has replaced the former disorganized system. A discount market has been created, with bankers' acceptances, and an effort made to develop the dollar exchange. More than fifteen billions of dollars have also been loaned by the United States, principally to Europe, while bankers and financiers in Japan are evidently aspiring to make the city of Tokyo the central money market in the Orient<sup>1</sup> and to establish a discount market on a modern basis. Japan's economic position has also been vastly strengthened since the opening of the war. Added to this is the recent development of American-Japanese financial rapprochement in reference to the industrialization of China, which requires billions of American capital.

### B. *Present defects*

Banking relations between the United States and Japan must be adapted to these changed economic and commercial relations. The agency of the Yokohama Specie Bank in New York was established fully forty years ago, yet it remains on the same basis today. The direct representatives established by Japanese banks in the city of New York and elsewhere since the war, are also all of the status

<sup>1</sup>J. Inouye (President of the Bank of Japan), "Japan as the Financial Center of the Orient," *Japan Financial and Economic Monthly*, March, 1928.

of agencies. This state of affairs does not prove that the American-Japanese banking relations are best served by agencies. On the contrary, it is largely due to the restrictive nature of the state banking laws of the United States against foreign banks. The obvious drawback of the agency meeting the growing financial relations, is its inability to discount ordinary commercial paper and to receive deposits subject to check, thus limiting the resources as well as the business transacted. In order to overcome these disadvantages and to meet the new requirements, the Sumitomo Bank of Seattle was established in 1919, after much difficulty, under the laws of the State of Washington.

The development of the discount market in Japan involves many factors, such as acceptance houses or discount corporations; but no positive step is being taken to establish those institutions to foster the development of the dollar market in Japan or the yen market in the United States. Among the many causes which deterred the development of the discount market in Japan, the most important was lack of capital. The war resulted in apparent prosperity in Japan, but the need of capital for growing industries is still great. Added to this was the panic of May, 1920, which wiped out the greater part of Japanese war profits. The following statement, made by an English authority on Eastern finance, is still true: "The extent to which the resources of Japanese domestic banks are drawn on for the financing of the internal trade of the country is such that several important European and American branch banks find ample scope for financial operations in connection with the foreign trade of Japan."<sup>1</sup> The establishment of more American banks in Japan, particularly in cooperation with the Japanese, will certainly hasten better banking relationships.

<sup>1</sup> W. F. Spalding, *Eastern Exchange, Currency and Finance*, London (1917), p. 154.



The Oriental countries, especially the Chinese Republic, require a vast amount of American capital to modernize them by means of railroads and telegraphs. Yet there are practically no American banks in the Orient established for this particular purpose, either jointly by American bankers, or under American-Japanese auspices. It would be advantageous to Americans to avail themselves of the knowledge and experience of Japanese who are more or less familiar with Oriental matters and who are, above all, anxious to cooperate with American bankers.

Japanese merchants and farmers in the State of California are in pressing need of some sort of better financial facilities. These Japanese residents have great difficulty in obtaining financial accommodation from American state or national banks because of the constant protests of anti-Japanese organizations against the extension of accommodation to Japanese residents by American banks. There are one or two small Japanese commercial banks in California organized under State laws, but they are wholly inadequate to meet the growing needs of the Japanese merchants and farmers. The value of the annual product of Japanese farmers alone in the State of California reaches over one hundred million dollars, and not a few Japanese farmers in the seeding or harvesting season borrow funds from the banks ranging from \$100,000 to \$200,000 in one transaction. One of the suggestions of Mr. Chiba, the chairman of the Japanese Agricultural Association in California, for meeting the needs of Japanese residents, is that the agencies of Japanese banks in San Francisco should make special loans to the Japanese until there is established a banking institution sufficiently large to finance adequately the business of Japanese residents in the State of California.<sup>1</sup>

<sup>1</sup>T. Chiba, *The Anti-Japanese Movement in California and the Financial Problems of Japanese Residents in the State* (a pamphlet), San Francisco, 1920.

One of the most obvious barriers to the accomplishment of this and other ends, and to the improvement of banking relations between the United States and Japan, is the rather restrictive banking legislation in the United States. Early in 1918 there was a project among Japanese and American bankers to establish a jointly capitalized bank under the laws of the State of California. The purpose of this joint undertaking was to promote the financing of American-Japanese trade as well as to assist the financing of domestic trade, in particular that of Japanese residents in California. The promoters, however, instantly met legislative difficulty in the way of such an undertaking. The banking laws of the State of California require that bank directors be citizens of the United States and the majority of them residents of the state; they also prohibit interlocking directorates, as do most of the state banking laws in the United States. The promoters of the American-Japanese joint bank then appealed to the State Legislature to amend the restrictive laws. Happily the objectionable part of the laws was removed in the Amendment of May, 1919.<sup>1</sup> But on the other hand, owing to some difficulties among the Japanese bankers, the promoters failed to carry out the plan. While nothing can be accomplished in a day, and it is necessary to wait for the slow process of development, it is foolish to allow the matter to drift. Conscious effort will certainly facilitate growth and improvement. Consequently, it is the purpose of this analysis to examine the banking laws of Japan and of the United States and to promote cooperation between these countries.

<sup>1</sup>*Osaka Bankers' Magazine*, Osaka, June, 1919, p. 81; *California Banking Law*, 1919; *The Japanese American* (Daily paper), San Francisco, June 3, 1919.

## 3. BANKING LEGISLATION

A. *Japanese banking laws*

Inherited human nature is constant. Yet human personality or behavior, which is the product of nurture, is susceptible to modification.<sup>1</sup> All human institutions—political, social or economic—through all the ages are the collective expression of this dynamic nurture of the human race.<sup>2</sup> The organic conception of the state<sup>3</sup> of Japanese polity is but an aggregate reflection of her nurture, and this political philosophy, which is absolute in dealing with socio-economic affairs, was a no less important factor in moulding her general economic institutions, one of which is banking legislation. According to this theory, the state is primarily a unit and only secondarily an aggregate. In consequence, the characteristic feature of the Japanese banking laws is the liberality of the act. The Japanese do not regard banking as a quasipublic business. Instead, the banking corporation is treated as a kind of ordinary business corporation. Hence there is no clear-cut distinction between the moneyed and other business corporations, as one finds in most of the state laws of the United States. The second marked feature is the brevity of provisions. These are expressed laconically in short crisp sentences; and the whole act does not extend through many sections, as do American banking laws. The Japanese banking laws have neither formal provisions in regard to requirement of a specified capital<sup>4</sup> for the incorporation of a bank, accumu-

<sup>1</sup> E. L. Thorndike, *The Original Nature of Man* (1913), p. 172; W. C. Mitchell, "Human behavior and economics," *The Quarterly Journal of Economics*, vol. xxix, p. 1.

<sup>2</sup> T. B. Veblen, "Why is Economics Not An Evolutionary Science," *The Quarterly Journal of Economics*, vol. xx, p. 373.

<sup>3</sup> Albion Small, *The Camerists*, chap. xxii.

<sup>4</sup> J. Sano and T. Takagaki, *The Theory of Banking*, Tokyo (1916), p. 59.

lation of a surplus, par value of shares, number and qualifications of incorporators, liability of the stockholders, reserve ratio to deposits, etc. Whenever the Japanese banking laws fail to mention specifically all these and other matters, the Japanese commercial laws are referred to. This situation is somewhat similar to that in Great Britain.<sup>1</sup> The freedom of action afforded the experienced British bankers is the source of the efficient management of their banks; while the rather too loose banking regulation, coupled with the relative inexperience of Japanese bankers, was one of the causes of bank failures, (as may be seen in considering the portfolio of the 74th Bank of Yokohama and others which failed in May, 1920.)

A foreign banking corporation, too, may easily establish a branch in Japan after proper application with the same standing as a banking corporation organized under the laws of Japan. The foreign branch bank is permitted to conduct all the classes of business which a domestic bank undertakes. It can, of course, sue and be sued in its own name and enter into a contract in its own name. It pays the same registration fee,<sup>2</sup> license tax and business and income taxes on the amount of business done in Japan as do Japanese banks. The foreign branch bank may not have a capital of its own.

The liberality of Japanese banking laws is not confined to the establishment of foreign branch banks in Japan. An individual foreigner has as much right and privilege as a Japanese citizen in matters relating to the establishment of a bank under the laws of Japan. Not less than seven persons,<sup>3</sup> whether they are all foreigners or all Japanese, may

<sup>1</sup> For instance, there is no statutory regulation for the requirement of reserve nor minute regulation of the character of loans.

<sup>2</sup> Registration fee of 15 yen (\$7.50) for establishing one branch. *Registration Tax Law*, sec. 6, clause 12.

<sup>3</sup> *Japanese Commercial Code*, ch. iv, sec. 119.

organize a banking corporation; and a bank thus incorporated by foreigners enjoys equal rights, privileges and protection with banks organized by Japanese citizens. It may possess and dispose of real estate, a right which is withheld from a foreign corporation. The liabilities of the stockholders of a banking corporation thus created are the same as in other commercial companies. They are liable, under Japanese commercial law, only to the amount of shares which they hold.<sup>1</sup>

This liberality is also seen in the provisions permitting banks to establish branches at home or abroad, or to control the stock of other banks. Any bank in Japan, whether chartered under special government regulations or as an ordinary commercial bank, may establish branches or agencies abroad after filing a proper application. Japanese banks may also invest in the stock of one or more banks chartered or incorporated under the laws of Japan or of foreign countries. There are no trust laws in Japan prohibiting interlocking directorates. Two of the five Japanese banks which have agencies in the United States are the central banks for the Island of Formosa and of Korea respectively, and their activities are widespread and many fold. There is considerable criticism in Japan of the confusion of functions, but it is not the sphere of this monograph to discuss this matter.

### B. *American banking laws*

American banking laws are built upon quite a different political philosophy from that of the Japanese. Americans have regarded the state as primarily an aggregate and only secondarily as a unit, and at the same time are staunch upholders of individualism. The two apparently conflicting political theories, however, are, in fact, complementary.

<sup>1</sup> *Japanese Commercial Law*, sec. 144.

The one is a centripetal force; the other, a centrifugal. The perfect state is nothing but the complete harmony of these two forces—individual and social well-being. American history, however, indicates at various stages the evils of over-individualism.<sup>1</sup> The history of American banking legislation has not been immune from the same evils. In the endeavor to protect the individual, in the United States, the banking business is regarded as quasi-public and is rigidly regulated by minute laws.

A foreign bank which registers a branch or agency in the United States is under the jurisdiction of the state banking law; for each is a sovereign state and each state in the Union has its own banking laws. These state laws almost uniformly throw restrictive measures around branches of foreign banks established in the United States. Take, for instance, the banking laws of the State of New York, which has the most important relations with foreign countries because of the location of the city of New York within the State. In defining the kind of business permitted to agencies of foreign banks, the New York Banking Law says: "When the superintendent shall have issued a license to any such banking corporation, it may engage in the business specified in the immediately preceding section of this article."<sup>2</sup> Referring to the preceding section, it is found that the business specified in the law consists of ". . . the business of buying, selling or collecting bills of exchange, or of issuing letters of credit or of receiving

<sup>1</sup>Horace White commenting on the silver question in the United States had the following to say: "Anybody who seeks a financial reason will be disappointed. It is part and parcel of our scheme of government that the multitude must decide intricate questions of finance which they do not understand, and where a mistake may produce appalling consequences. There are few statesmen bold enough to confront popular errors squarely." *Money and Banking* (1896), 1st ed., p. 203.

<sup>2</sup>*New York Banking Law*, sec. 146.

money for transmission or transmitting the same by draft, check, cable or otherwise, or by making sterling or other loans or transacting any part of such business."<sup>1</sup> It will be seen that the powers permitted in this section do not include the two leading banking functions—the receiving of deposits and the granting of discounts—but section 140 of the New York Banking Laws expressly prohibits the exercise of these functions by declaring that “no corporation, domestic or foreign, other than a national bank or a Federal Reserve Bank, unless expressly authorized by the laws of this State, shall employ any part of its property or be in any way interested in any fund which shall be employed for the purpose of receiving deposits, making discounts, or issuing notes or other evidence of debts to be loaned or put into circulation as money.”<sup>2</sup>

Moreover, the foreign banking corporation is forbidden to transact savings bank,<sup>3</sup> loan company or trust company business in the State of New York. The license issued to the foreign bank is limited to a period of one year, and at each time of renewal the bank has to pay the sum of \$250 as a license fee.<sup>4</sup>

The restrictive character of the legislation is still further seen in the fact that it prohibits a person not a citizen of the United States from organizing a bank under the laws of New York or becoming a director of such a bank. Each incorporator or director must be a citizen of the United States and at least three-fourths of them must be residents of the State of New York.<sup>5</sup> Under these provisions no

<sup>1</sup> *New York Banking Law*, sec. 145.

<sup>2</sup> *Ibid.*, sec. 140.

<sup>3</sup> *Ibid.*, sec. 420.

<sup>4</sup> *Ibid.*, sec. 146.

<sup>5</sup> *Ibid.*, sec. 100 and sec. 123.

foreigners may organize a moneyed corporation in the State of New York, either independently or in cooperation with American people.

The banking laws of other states such as California, Oregon and Washington, which have closer relations with Japan, have more or less similar legislation directed against foreign banks. Receiving of deposits and discounting of commercial paper are also prohibited to foreign banks.<sup>1</sup> A minor difference is that in the States of California and Washington a banking corporation may be organized by any three or more natural persons, provided that the majority are residents of these respective states.<sup>2</sup>

While this is the situation with respect to branches of foreign banks, American laws permit establishment of branches of American banks abroad. Under the Federal Reserve Act, national banks having a capital and surplus of one million dollars or more and principally engaged in international banking, are permitted to establish branches in foreign countries and also to invest in the stock of banks or corporations incorporated under the laws of the United States, or of any state thereof.

The Edge Act of December, 1919, further authorized the forming of corporations for the purpose of engaging exclusively in international trade banking and financing operations. The corporation may be formed by not less than five natural persons; a majority of the shares of the capital stock of such corporation must, however, be owned by citizens of the United States.

Most of the state banking laws have provisions similar to those of the Federal Reserve Act, with respect to their own state banks and trust companies.<sup>3</sup>

<sup>1</sup> *Banking Laws of California, sec. 1; Banking Laws of the State of Washington, sec. 52.*

<sup>2</sup> *Banking Laws of California, sec. 3; Banking Laws of the State of Washington, sec. 52.*

<sup>3</sup> *New York Banking Law, secs. 110 and 195.*



### C. Summary

From the foregoing survey of Japanese and American banking laws concerning the establishment of foreign branch banks or the establishment of banks with joint capitalization by both natives and foreigners, or by foreigners alone, it will be seen that the Japanese laws are perhaps too liberal. They put foreign branch banks on an equal footing with branches of domestic banks, and permit them to engage in all branches of the banking business, receiving deposits, making loans and discounts and exchange as well as to engage in trust company business. Foreign banks can establish branches in Japan, either with or without capital stock, and have to pay taxes only on their earnings. Foreigners may also organize banks without the cooperation of natives under the laws of Japan. On the other hand, American laws, in particular the banking laws of the State of New York, are far more stringent against foreign banks and foreigners. Foreign banks in New York merely have the status of agencies, which can neither receive deposits subject to check, nor discount commercial paper. Foreigners are ineligible by law to become directors of banks organized under the laws of New York. These rigid restrictions were imposed in order to prevent the establishment of irresponsible banks dealing with immigrants, who had newly arrived suffered much in the past.<sup>1</sup> But these laws should not be applied to other cases also. The city of New York has now a full-fledged open discount market, challenging even that of London. If the American people wish the city of New York to be the leading financial center of the world, they should enact more liberal laws, in order to permit foreign bankers either to establish their own branches or banks jointly with Americans.

<sup>1</sup>The *U. S. Investor*, Boston and New York, no. 47, p. 1818; Nov. 23, 1918.

Certain countries adopted a retaliatory policy against the foreign branches of American banks as a protest,<sup>1</sup> while others began to control American banks<sup>2</sup> as a *modus operandi*. It is well for American bankers to take note of British liberality towards foreign banks.<sup>3</sup> In July, 1914, no less than one hundred and fifty foreign banking institutions maintained branches or agencies in London,<sup>4</sup> in addition to the home offices of many British banks doing business in all parts of the world. Yet a British authority in finance said: "It is certain that the more they open here, the greater will be the advantages to the trade and finance of the country, internal as well as external."<sup>5</sup> It is not without reason that leading American financiers<sup>6</sup> and officials are advocating early modification of state banking laws in regard to the status of foreign banks. The Pan-American

<sup>1</sup>*The Bankers' Magazine*, New York, Nov., 1919, p. 596; October, 1920, p. 540.

<sup>2</sup>*Fifth Annual Report of the Federal Reserve Board*, 1918, p. 341.

<sup>3</sup>W. F. Spalding, "Foreign Branch Banks as an Aid to British Commerce," *The Bankers' Magazine*, London, July-Dec., 1912, pp. 774-6; Jan.-June, 1917, pp. 56-61; Ellis T. Powell, "The Evolution of the Money Market," 1915, p. 495.

<sup>4</sup>*Fifth Annual Report of the Federal Reserve Board*, 1918, p. 341.

<sup>5</sup>W. F. Spalding. "The Establishment and Growth of Foreign Branch Banks in London, and the Effect, Immediate and Ultimate, upon the Banking and Commercial Development of this Country" (The First Prize Essay, 1911), *Journal of the Institute of Bankers*, London (1911), p. 461.

<sup>6</sup>George E. Roberts, *Dollar Currency in International Trade and Credit*. "To make dollar exchange the peer of sterling exchange in carrying on the world's business requires first of all the establishment of an open discount market in New York with large enough facilities to absorb instantly any amount of paper that may be offered."

"The first step in the establishment of such a market will have to be the removal of the restrictions which now bar foreign banks from operating in a broad way in the New York market or from establishing branches here." The American Acceptance Council's *Acceptance Bulletin*, June, 1921. Reprinted in the *Commercial and Financial Chronicle*, New York, July 9, 1921, p. 132.

financial conference held in Washington, D. C., in January, 1920, already advocated more liberal state banking laws for foreign banks in the United States. Official recognition is given to the parochial character of the New York law in a report presented to the legislature of the State by Hon. G. I. Skinner, Superintendent of Banking, who recommended more liberal legislation.<sup>1</sup> The monthly organ of one of the largest banking institutions in New York, commenting upon the failure of the General Assembly at Albany to pass the bill permitting foreign banking institutions to operate branches in the State of New York, has the following to say: "Its failure to become a law puts the State in the light of pursuing a narrow and inhospitable policy, . . . Foreign banking institutions would bring new business to New York. The more banks there are in this city, and the more countries they represent, the more deposits there will be here and the greater New York will be as a world financial center to the advantage of the whole country, the banking business included."<sup>2</sup>

<sup>1</sup> *The Annual Report of the Superintendent of Banking of the State of New York, 1920.*

<sup>2</sup> *The National City Bank of New York, Economic Conditions, Government Finance and United States Securities, June, 1921.*

## CHAPTER V

### AMERICAN-JAPANESE INVESTMENT

HAVING discussed in previous chapters the various aspects of short term financing, we may turn now to a consideration of long-term financing. The growing importance of the problem is attested by the recent movement for American-Japanese joint enterprise, in particular in connection with operations in Japan. This phenomenon is welcomed by both Americans and Japanese in view of the fact that Japan and the rest of the Orient requires a vast amount of capital to develop its resources, while the United States needs a field of investment for the disposition of her growing surplus of capital, as well as in order to have a more active share in international finance. This course is a good initial step for American investment in the Orient. The United States today is probably the only country in the world where there is sufficient surplus capital available for foreign investment.

At present there is still but little American investment in Japan and also only a trifling amount of Japanese capital invested in industrial enterprises in the United States. In late years, however, a number of American Japanese joint industrial enterprises have been under way in Japan, and in all probability, the number will be rapidly increased as the years go by. Opportunities have increased as a result of the war. American investment in Japan and in the rest of the Orient is eagerly welcomed by Japan, a fact which Viscount Shibusawa's efforts, and the speeches and messages<sup>1</sup> of prominent Japanese financial leaders, have clearly

<sup>1</sup> Japan would make it a fundamental principle of her international

shown. Americans, on the other hand, will be equally interested in such enterprises, as they afford a very promising field of investment for surplus American capital. Another reason for such investment is the fact that the imports of the United States from the Oriental countries exceed her exports into those countries.

It is the purpose of the present chapter to inquire into the present status of mutual investment, the companies organized under joint auspices, and the laws governing foreign investment in both countries. In this chapter it is assumed that mutual investment is desirable as a means of trade promotion and closer economic relations (as has been exemplified in British trade and financial relations with Australia,<sup>1</sup> the Argentine<sup>2</sup> and, to a less extent, with Japan) and there is no discussion of the political aspects of foreign investment which, in not a few cases, has resulted in unpleasant consequences for newer and weaker countries.<sup>3</sup>

#### I. JAPANESE CAPITAL INVESTED IN THE UNITED STATES

Investment of capital may be divided into two classes, namely, investment in securities and investment direct in industrial enterprises. The important item among Japanese investments in American securities is the fund of the Bank

policy to enter into bonds of closer economic relations with the United States and establish the basis of cooperation with her." K. Shoda (Ex-Minister of Finance). *The Bankers' Magazine*, N. Y., Nov., 1918, p. 490.

<sup>1</sup>"Great Britain would not be able to maintain itself so successfully in spite of American and German competitors were it not for the large sum invested in Australia." *U. S. Commerce Reports*, August, 1905, p. 45.

<sup>2</sup>C. K. Hobson, *Export of Capital*, London (1913).

<sup>3</sup>H. N. Brailsford, *The War of Steel and Gold*, 16th edition, London (1918); Hartley Withers, *International Finance*; T. W. Overlack, *Foreign Financial Control in China*, New York, 1919.

of Japan, which is kept at London and New York and invested in short term bonds, notes and bills. In October, 1918, the reserve kept at these two cities amounted to 1,050,000,000 yen,<sup>1</sup> and was about equally divided between New York and London. Hence the fund held in New York City is roughly 500,000,000 yen or \$250,000,000. The greater part of this sum was invested in short term paper, such as the United States Treasury certificates or Anglo-French bonds floated in New York, and in April 1919 amounted to \$150,000,000.<sup>2</sup>

The second item among security investments is the holding of United States Liberty Bonds by Japanese who reside in the United States. The total subscription by the Japanese was \$6,710,950,<sup>3</sup> which is classified as follows:

First Liberty Loan .....	\$56,200
Second Liberty Loan .....	133,100
Third Liberty Loan .....	185,800
Fourth Liberty Loan .....	4,746,050
Fifth Liberty Loan .....	1,589,800
	<hr/>
Total .....	\$6,710,950

The Japanese Year Book of 1917 states that "between \$30,000,000 and \$40,000,000 of American railway and industrial debenture bonds were purchased by Japanese merchants."<sup>4</sup> It is also the opinion of Japanese bankers in

<sup>1</sup>On November 30, 1919, the specie reserve kept abroad was 1,340,000,000 yen; that which was kept at home was 616,000,000 yen. Of this total of 1,956,000,000 yen, 1,047,000,000 belongs to the Japanese Government and 909,000,000 yen to the Bank of Japan. *Osaka Bankers' Magazine*, Dec., 1919, p. 596.

<sup>2</sup>Information furnished by the Financial Commissioner of the Japanese Government in New York City.

<sup>3</sup>*Monthly Report of the Japanese Association in the United States*, July 15, 1919.

<sup>4</sup>*Japanese Year Book*, 1917, p. 618.

New York City that the Japanese in the home country bought more than \$40,000,000 worth of Anglo-French bonds. As Japanese investors are not familiar with the fluctuations of foreign exchange rates in relation to Anglo-French bonds, Japanese banks in New York City guaranteed an exchange rate of \$53 for 100 yen to Japanese investors. The steady decline of the exchange rate on Japanese yen<sup>1</sup> since 1918 must have resulted in a considerable profit to the Japanese banks which guaranteed this rate. These three items, aggregating about \$220,000,000 or \$230,000,000, represent the entire amount of Japanese capital invested in American securities.

The major part of the industrial investment of Japanese capital in the United States consists of Japanese investments in agricultural and other allied industries in California and other western states. The second item of investment is in connection with industries in the United States supplying raw materials, such as cotton or iron, which are the principal exports of the United States to Japan.

Japanese residents in California own 37,007 acres, while they cultivate 336,721 acres under lease.<sup>2</sup> In 1919 there were 104 Japanese corporations organized under the laws of the State of California and their aggregate capital amounted to \$2,348,000.<sup>3</sup> The total wealth of the Japanese in California has been estimated at \$25,000,000<sup>4</sup> including land, buildings, farm implements, machinery, houses and cattle. In 1905 about \$1,000,000 of Japanese capital was invested in rice fields in Texas,<sup>5</sup> but since that time it must

<sup>1</sup> See Appendix II.

<sup>2</sup> *American-Japanese Trade Year Book*, 1918, published by Japanese Chamber of Commerce, San Francisco.

<sup>3</sup> *San Francisco Examiner*, April 5, 1919.

<sup>4</sup> *American-Japanese Trade Year Book*, 1918.

<sup>5</sup> *U. S. Consular Report*, March 5, 1905, p. 224.

have increased to some extent, both in acreage and valuation. The Southern Products Company, which was incorporated under the laws of the State of Texas with a capitalization of \$12,500,000, is controlled exclusively by the Mitsui Company of Japan. The primary business of the corporation is to facilitate the export of raw cotton from the United States to Japan, although it also undertakes the export of raw cotton to European countries. Another small item of Japanese investment is \$500,000 of Japanese capital invested in iron mines in the State of Alabama.

To the above figures, however, may be added the working capital of Japanese companies in New York City and elsewhere. There are at present more than fifty Japanese concerns in the city of New York alone, and many of them represent the largest companies in Japan. Their aggregate working capital must be a considerable sum; at a moderate estimate it probably amounts to more than \$200,000,000.

## 2. INTRODUCTION OF FOREIGN CAPITAL INTO JAPAN

Introduction of foreign capital into Japan began after the Chinese-Japanese War (1894-1895).<sup>1</sup> In the earlier days, foreign investments in Japan had been more largely in the form of the purchase of bonds than in direct interest in industrial enterprises, which is generally true of the history of all foreign investments. Following the termination of the Chinese-Japanese war, the country's industries underwent a conspicuous expansion. In 1896, the number of commercial and industrial companies was 4595 and their paid-up capital 397,564,532 yen. In 1900 the number of companies increased to 8598 and their total capital to 779,251,306.<sup>2</sup>

<sup>1</sup> *Financial History of Japan, 1868-1909*, p. 101, published by the Oriental Economist Publishing Company, Tokyo.

<sup>2</sup> *Ibid.*, p. 95.



In 1900 the total amount of foreign capital invested in Japan was 140,880,000 yen (\$70,228,680). Of this amount, 97,630,000 yen represented government foreign loans floated abroad; 43,000,000 yen represented government internal loans sold abroad, and 250,000 yen represented provincial loans floated abroad. But the conspicuous increase in the import of foreign capital into Japan was after the Russo-Japanese War of 1904 and 1905. During the war, Japan had successfully floated foreign loans amounting to more than \$500,000,000, to meet her war expenditures. Before the Russo-Japanese War, the market for the floating of Japanese foreign loans was limited to London, but during and after the Russo-Japanese War, the money markets of New York, Paris and Berlin alike, sought the sale of Japanese Government bonds. It was during this period that foreigners began to invest in Japanese private securities. During the four years immediately following the war, nearly 200,000,000 yen of foreign capital were invested in Japanese private enterprises.

In 1910, the total amount of foreign investment in Japan reached 1,777,183,969 yen, which shows that foreign investment expanded to more than twelve times its original size during the first decade of the twentieth century. The classification of the investment was as follows:<sup>1</sup>

Government foreign loans floated abroad .....	Yen 1,447,217,669
"    internal loans sold abroad .....	"    93,000,000
"    internal loans purchased by foreigners .....	"    108,356,000
Provincial loans floated abroad .....	"    84,704,500
Debentures floated abroad .....	"    108,737,800
Foreign investment in banking and commercial companies (estimate) .....	"    28,168,000
	Yen 1,777,183,969

From 1910 to 1914, there was not much importation of

<sup>1</sup>See Appendix V.

foreign capital into Japan; and during the war it was practically nil.

### 3. AMERICAN INVESTMENT IN JAPAN

The investment of American capital in Japan began about the time of the Russo-Japanese War (1904-1905). The foremost item of American capital invested in Japanese securities is in Japanese government bonds. During the Japanese-Russian War, the Japanese government floated war loans in New York amounting to more than \$100,000,000. The amount outstanding now is \$102,552,000. Another investment in Japanese securities is the American capital invested in Tokyo municipal loans, which amounts, at present, to \$5,250,000.<sup>1</sup>

American capital investment in Japanese industrial enterprises is mostly by large American corporations in the electric, rubber and aluminum industries, whose aggregate capital investment amounts to eleven million dollars. The characteristic feature of these American investments in Japanese enterprises is the fact that they are undertaken in cooperation with Japanese, and much of the American capital thus invested, represents capital in the form of patent rights of these American corporations. In view of the fact that Japan and the rest of the Oriental countries are far behind the United States in industrial technique, export of American capital in the form of patent right will have a promising field in the Orient.

American capital invested in Japan by American individuals amounts to about three million dollars, of which the largest single investment is \$2,416,803 in the Osaka Gas Company by Mr. Anthony N. Brady, a New York investor. This investment began in 1920 with about half the present amount and Mr. Brady's was the very first

<sup>1</sup> *Federal Reserve Bulletin*, January, 1919.

American capital ever invested in a Japanese enterprise. There are American representatives in the Board of Directors of the company. It has increased its capital successively, the present capitalization being 10,000,000 yen, and for the past eleven years it has paid nine per cent. dividends.<sup>1</sup>

Mention may be made of American capital invested in Korean mines before Korea was consolidated with the Japanese Empire in 1910. There are four American mining companies. The aggregate capitalization of three of these four companies is \$6,500,000.<sup>2</sup>

In addition there are about fifty established American firms in Japan, besides a number of individual representatives and agents, employing a capital of about \$100,000,000.

The total amount of American capital invested in Japan may be tabulated as follows:

In securities, Japanese Government bonds....	\$102,550,000	
" " Tokyo Municipal loan .....	45,250,000	
		\$147,800,000
In enterprises, Osaka Gas Company .....	2,416,803	
" " Shibaura Engineering Works..	250,000	
" " Tokyo Electric (Lamp) Co. ..	2,000,000	
" " Nippon Electric Company ....	3,000,000	
" " Osaka Electric Lamp Co. ....	250,000	
" " Furukawa Rubber Co. ....	500,000	
" " Aluminum Company .....	5,000,000	
		13,416,803
" " Korean Mines .....		6,500,000
Working capital of American firms in Japan .....		100,000,000
Total .....		\$267,716,803

<sup>1</sup> Information obtained directly from the Osaka Gas Company.

<sup>2</sup> *U. S. Consular Report*, Oct. 28, 1910, p. 381; Oct. 27, 1911, p. 477; Nov. 24, 1911, p. 987.

## 4. COMPANIES OF JAPANESE-AMERICAN JOINT INTERPRISE :

It may be interesting to see how Japanese enterprises undertaken by American capital in cooperation with Japanese are managed, and what are their financial results, although American-Japanese joint enterprises are still in their pioneer stage and the real results are yet to be seen.

Among American-Japanese joint enterprises, the most important is in the electrical industry in Japan. Both the General Electric Company and the Western Electric Company of the United States are closely connected with the development of the Japanese electrical industry. The former is connected with three Japanese firms, the latter with the Nippon Electric Company. In 1905 the General Electric Company invested 100,000 yen in the stock of the Tokyo Electric Company which, at that time, was capitalized at 400,000 yen. Having successfully developed its business, the present capitalization of the company is 10,000,000 yen, of which 4,000,000 yen is owned by the General Electric Company. The General Electric Company also invested 500,000 yen in the stock of Osaka Electric Company. These investments represent both cash and the capitalized values of patent rights. In 1912 the General Electric Company participated in the Shibaura Engineering Works of Tokyo to the extent of twenty-five per cent of the two million yen represented by the shares. The 500,000 yen interest was paid for partly in cash and partly through the sale of certain patent rights for a period of years, as in the case of the other affiliated companies of the General Electric Company. These Japanese companies obtain all the benefits possible from the patents of the American company and also are privileged to send their engineers to any of the General Electric Company's American factories.<sup>1</sup> In these Japanese

<sup>1</sup>*Corporate Undertakings and their Management after the War, 1915, p. 52. Published by The Oriental Economist.*

companies, the General Electric is represented by having American members on the board of directors of these firms, but the general daily business of the companies is entirely managed by Japanese officials. Mr. J. R. Geary, the representative of the General Electric Company in Japan, speaking of this management, said: "Be it remembered that the entire staff of the company is Japanese from the office boy to the president; yet the results have been equally satisfactory . . . ." "The industrial capacity of the Japanese can attain as high a standard of industrial production as that of any people in the world under capable direction and emancipation from starvation wages."<sup>1</sup> Since 1912, the Tokyo Electric Company has been paying twenty per cent dividends. In 1913, the Shibaura Engineering Works paid a ten per cent dividend, while in 1918, they paid a thirty-five per cent dividend on their capital stock.<sup>2</sup> Again quoting Mr. Geary, "the partnership between Americans and Japanese in the electrical business is no mere experiment; it has been attended with unvarying success for the fifteen years of its existence and with marked financial benefit to both parties."<sup>3</sup>

Another important joint enterprise is in the rubber industry. The Furukawa firm of Tokyo established the Furukawa Rubber Company in cooperation with the Goodrich Rubber Company of the United States, for the purpose of building up a greater rubber industry in Japan, which procures the greater part of its supply of raw materials from the South Seas and the Malay peninsula. The initial capital of the corporation was 2,000,000 yen, of which the shares were equally divided between Furukawa and Goodrich. In this

<sup>1</sup> "Linked to Japan in Big Industry," Special Correspondence of *The New York Times*, July 29, 1920.

<sup>2</sup> *The Stock Year Book*, Nomura Company, Osaka.

<sup>3</sup> *The New York Times*, July 27, 1920.

joint interprise, it is understood that machinery from the United States covered by American patents is to be used, and while the profit is to be shared, the Japanese partners have to pay their American associates royalties on all American patents used.

The American-Japanese Aluminum Company, which has been organized very recently with a capitalization of \$10,000,000, is going to utilize Japan's hydro-electric power, which is relatively abundant, and her labor force in its operation, while raw materials are to be supplied from the United States.<sup>1</sup>

Another interesting American-Japanese joint enterprise is the American-Japanese Phonograph Company, although the enterprise is not a large one. The manufacturing plant of the company is located near Yokohama, and its capital is \$125,000. Eighty per cent of this amount is owned by Americans and the balance by Japanese. A selling company known as the Nipponophone Company (Limited) was incorporated in 1910 with a paid-in capital of \$175,000. This company is owned and controlled by the American-Japanese Phonograph Company, and its business is to dispose of the output of the manufacturing concern. One of the methods of the selling company was to make every dealer a stockholder. This will result in Japanese dealers ultimately owning nearly fifty per cent of the stock.<sup>2</sup>

Besides these joint enterprises there are still several others, and some are under negotiation. A well-known American automobile manufacturer is negotiating with a Japanese capitalist to establish a joint automobile factory in Japan. While the details of the contract are yet to be as-

<sup>1</sup>*The Japanese-American*, San Francisco, March 12, 1920.

<sup>2</sup>*U. S. Consular Reports*, Oct., 1910, p. 1049; Apr., 1913, p. 400; *U. S. Special Consular Report*, no. 55, "Foreign Trade in Musical Instruments."

certained, the obvious intention, it is understood, is to displace the unsightly jinrikisha and coolie-cart by the motor car and truck.

While all the foregoing joint enterprises are located in Japan, there are some American-Japanese enterprises undertaken in California. In the fall of 1919, Mr. C. B. Bills, formerly a senator of the State Legislature of California, visited Japan and persuaded the leading financiers of Japan to establish banks or companies under joint American and Japanese auspices. The first result of his efforts was the establishment of a canning company with a joint capitalization of \$4,000,000. The new company is to control and enlarge the existing Burten Canning Company in Sacramento by investing in it \$600,000.<sup>1</sup>

Although very little of the facts are known to both Japanese and Americans the agreement entered into between Bonbright and Company of New York and the Fujimoto Bill Broking Bank of Osaka,<sup>2</sup> as well as the establishment of an agency of the National City Company in Tokyo, was evidently aimed at the mutual introduction of bonds and stocks in the American and Japanese markets. Japan is rapidly developing her industrial enterprises,<sup>3</sup> and her stocks

<sup>1</sup>Mr. Bills's idea of cooperation is interesting. According to him the real cause of the anti-Japanese movement in California is the feeble financial strength of the Japanese and the lack of mutual economic cooperation between the Californians and the Japanese. The remedy must therefore be sought by establishing industrial and financial corporations of joint capitalization, with the special idea of giving financial assistance to Japanese residents in California. His idea was deeply appreciated by the Japanese, and Baron Shibusawa and other prominent Japanese, numbering 230, tendered a reception at the Bankers' Club in Tokyo to honor his departure. *The Osaka Mainichi Shimbun*, March 4, 1920.

<sup>2</sup>Agreement entered into in September, 1919.

<sup>3</sup>Total Japanese capital invested in Japanese industries in 1913 was about two billion yen, in Dec., 1918, seven and one-half billion yen.

and bonds are as actively bought and sold as in the United States. The listed stocks and bonds are as safe and marketable as any gilt-edged American securities. The chief inducement to invest in Japanese bonds and stocks is the relatively higher return of interest and dividends.

In 1912, the average dividends paid by seventy industrial companies on their capital were 18.15 per cent, and in 1913 they were 19.4 per cent. In 1918, the dividends paid by 79 companies were 26.85 per cent. Dividends paid by 33 companies,<sup>1</sup> which are selected at random, from 1907 to 1913 were 12.63 per cent; from 1914 to 1918, 16.35 per cent. Dividends paid by about 858 British companies from 1909 to 1918 were 8.07 per cent., and dividends paid by 1070 British companies during the war, (1914-1918), were 10.70 per cent.<sup>2</sup>

The chief cause of the payment of relatively high dividends is the scarcity of capital in Japan. As "Japanese industries, trade and production are still more or less in the expansion stage, there is an ever-growing demand for all forms of capital, and accommodation is, in consequence, somewhat expensive. High rates are given and charged for the use of money."<sup>3</sup> In 1913, the official discount rate of the Bank of Japan remained at 6.75 per cent throughout the year; and then in July, 1914, it was raised to 7.3 per cent, where it remained until April, 1916. In March, 1917, the rate went down to 5.11 per cent; but from the fall of 1918, it rose gradually until in November, 1919, it stood at 8.03 per cent, and this rate is still in force. In 1913, the mean market rate of discount in Tokyo was 8.4 per cent, while 5.1 per cent interest was paid by the banks

<sup>1</sup> See Appendix X.

<sup>2</sup> (London) *Economist*, April 19, 1919.

<sup>3</sup> W. F. Spalding, *Eastern Exchange, Currency and Finance*, London (1917), p. 154.



in Tokyo for time deposits (for not less than six months). In February, 1920, the Osaka Banker's Association established a rule that not more than 6.5 per cent should be paid for time deposits (for not less than six months); while interest paid by savings banks on deposits was 4.38 per cent.<sup>1</sup>

## 5. LEGAL STATUS OF FOREIGN INVESTMENT

### A. Japan

Having examined the existing conditions as to mutual investment between the United States and Japan, our remaining task is to inquire what are the main obstacles to such mutual investment and how they may be encouraged. Our inquiry has been limited to legislation in both countries relative to investments.

The Japanese laws regarding investment by foreigners in Japan are, as in the case of her banking laws, characterized by their liberal provisions. Foreigners and foreign corporations in Japan enjoy the same rights and privileges accorded to her native citizens and corporations. As to incorporations, any natural persons, not less than seven in number, may organize a corporation under the laws of Japan and the corporation thus incorporated has unconditional rights and privileges. An apparent restriction imposed upon the foreigner and the foreign corporation, however, is the fact that they are not allowed to engage in mining enterprises or to acquire land in Japan except for residential and office purposes, although they may lease land and own the building or trees on it for ninety-nine years.<sup>2</sup> While no foreigners

<sup>1</sup> *The Oriental Economist Year Book, 1920; The Financial and Economic Annual of Japan, 1919.*

<sup>2</sup> The history of prohibition of land holding by foreigners is rather pathetic. Having witnessed the exploitation of China by the Western nations, the frightened Japanese, in January, 1874, prohibited land

suffer from this restrictive legislation or object to it, it would be to the interest of Japan to repeal these rather time-worn restrictions. It is a self-imposed penalty upon the industrial development of Japan. Capital has no frontiers; it flows into industries, foreign or domestic, where the relatively higher return, the safety of principal and the marketability of the securities are assured. An older Japanese might have entertained the view that equal freedom and opportunity afforded to a foreign people in Japan, not excluding even Korea or Formosa or Japanese Saghalien, might result in the economic domination of foreigners in Japan. Such a view today is a mistake, and as a nation progresses, protectionism must give way to liberalism.

### B. *The United States*

As in the case of regulation of foreign banks, the status of foreigners in regard to the investment of capital in the United States is governed by the laws of each state, and these state laws, particularly the state corporation laws, differ very widely in the various states. Inasmuch as the greater part of the existing Japanese capital invested in American industries is located in the State of California, our inquiry has been centered upon the laws of that state and of a few others.

The laws of the State of California in regard to investment of foreign capital, in particular as to the agricultural industry, are unique, differing from those of all the other states. There are two kinds of laws which regulate two

owning by foreigners. They thought that so long as absolute ownership is not transferred to foreigners, the country would be safe from foreign intervention. They granted, however, ninety-nine year leases to foreigners, the longest term they could grant. *Foreign Land Ownership and Leasing in Japan*, published by the Japanese Association of America, San Francisco.

types of aliens, namely: European and Asiatic aliens. According to the Anti-Alien Land Law which had been in force since 1913, a foreigner who is eligible to citizenship in the United States by virtue of his white or black race, can acquire and lease land the same as a native citizen. Asiatic aliens, however, to which class the Japanese belong, as they are not eligible to American citizenship under the existing laws and customs of the United States, can not own real property nor hold land by lease for more than three years. In the same way, a corporation, whether it is organized under the laws of the State of California or of any other country or nation, in which the majority of the members or stockholders are ineligible aliens, can not acquire land nor lease it for more than three years.<sup>1</sup>

But in November, 1920, the law of 1913 was replaced by a still more drastic measure.<sup>2</sup> The new law of 1920 stated that all aliens not eligible to American citizenship under the laws of the United States, or corporations in which ineligible aliens hold an interest, can neither acquire nor lease real property including agricultural land. It states further that Japanese parents who are not American citizens by virtue of their birth on American soil cannot purchase land in the name and in behalf of their children who are American citizens.

To show the contrast between the laws of California and of other states, the laws of the State of New York may be cited. According to the existing laws of New York, foreigners and foreign companies are permitted to acquire real property. To form a business company, other than a moneyed corporation, however, it is required that two-thirds

<sup>1</sup>*Anti-Alien Land Law of the State of California*, approved May 19, 1913.

<sup>2</sup>*Alien Land Law of 1920. Report of State Board of Control of California to Governor W. D. Stephens*, June, 1920, p. 259.

of the incorporators must be citizens of the United States and one of them a resident of the state. The laws of the states of Oregon, Washington and Texas are more or less similar to those of New York.

The laws of California against the Japanese are singularly severe as well as discriminating. They differ essentially from the Japanese laws in that, by these no foreigners are affected, but the laws are rather a self-imposed penalty upon Japan as they hinder her economic development. On the other hand, the material effect of the laws of the State of California upon the investments of Japanese residents is great and immediate; but the still greater harm of such legislation to us is its moral as well as psychological effect upon American-Japanese financial relations. The Anti-Alien Laws of California, however, are less economic than they are political and racial in their fundamental nature. As this matter lies beyond the scope of the present work, our concluding remarks will be of a broad nature. In the words of James Bryce: "As the earth has been narrowed through the new force . . . the movement of politics, of economics and of thought, in each of its regions become more closely interwoven. World History is tending to become One History."<sup>1</sup> Indeed this is true. As a result of the rapid development of transportation and of conquest of space by human ingenuity, it is no longer possible at present, as in the past, for a country or nation to keep itself in isolation. Natural barriers, which formerly proved so potent, no longer exercise their old influence. The people of one country are necessarily bound to commingle with the people of other nations. The consciousness of kind<sup>2</sup> is ever widening toward infinite human per-

<sup>1</sup> *Presidential Address to the International Congress of Historical Studies*, April, 1913. Quoted in E. P. Powell's, *Evolution of the Money Market*, 1915, p. 704.

<sup>2</sup> F. H. Giddings, *The Principles of Sociology*, Preface.

fectibility.<sup>1</sup> But this increasingly intimate relationship among nations brings in its train many complicated problems, pleasant and unpleasant, apparently insoluble. Some nations erect legislative ramparts as well as build defences around their shores to shut out the intruders, while others, under cover of apparent friendliness, exploit the weak; all of which results in aggravating instead of solving the problems. The enlightened thoughtful man can easily perceive the fact that such visionless, time-worn methods are not the constructive way to deal with the new forces.

<sup>1</sup>"Qu'il n'a 'été marqué aucun terme' au perfectionnement des facultés humaines, que la perfectibilité de l'homme est réellement indéfinie," Marquis de Condorcet (1734-1794), *Esquisse d'un tableau historique des progrès de l'esprit humain*, p. 4.

## CHAPTER VI

### SUMMARY AND CONCLUSION

IN closing we may summarize briefly the chief points of the discussion and deduce therefrom conclusions in regard to the betterment of financial relationships between Japan and the United States. While the discussion at times may have appeared to run along divergent lines, in retrospect it will be seen to converge entirely on the financial side. All the subsidiary problems have their definite relation to the financial problem, and become integral parts of it. This financial problem, notwithstanding its essential unity, may, however, for convenience be divided into two phases,—short term and long term. Both of these problems are closely related at certain points, but at others important differences develop, and the situation with respect to both has by no means been parallel. The short term financing problem has, on the whole, been uppermost, but that with respect to long term financing, while occupying a minor position during the greater part of the war period, has recently again come into prominence.

The problem with respect to short term financing is a pressing one because of the rapid growth and present importance of American-Japanese trade. This trade is of such a nature as to lead us to believe that it is likely to increase rather than to diminish in the future. The reasons for this assertion are the fact that the leading Japanese imports from the United States are raw cotton, iron and steel, of which the United States is the chief producer in the world. These raw materials are worked into finished

goods in Japan, and large quantities of them are exported to other Asiatic countries. The extensive importation of these raw or semi-manufactured materials from the United States, however, is only possible as a return for large exports of Japanese raw silk, tea and many other indigenous Oriental goods to the United States.

The growth of this trade during the war period, together with the dislocation of existing agencies and means whereby it had been financed, raised serious problems. Attempts were made in various ways to meet these difficulties, which in their ramifications involved the entire Japanese financial structure. These problems may be summarized under the heads of foreign exchange, including currencies, rates, and gold movements; the discount market with its component factors; standardized types of paper; the internal banking structure, including the relation of the central bank to the market, and the relation of banks exclusively financing foreign trade to the ordinary commercial banks; the conditions of note issue; the relation of the government to the financial market; and financial relations with foreign countries. They, of course, are closely interwoven, and any one of them involves consideration of the others as well. As their development was, however, part of a continuous process, it is necessary to study them in their historical background, commencing with 1914.

Owing to the war, the inability of London to finance American-Japanese trade as it had formerly financed it, forced these countries to resort to direct financing as the only alternative. Direct financing by the use of dollar and yen exchange, however, depended upon the efficient utilization of an open discount market, which requires as its working factors standardized discountable paper, i. e., bankers' acceptances, a free gold market, a central banking system and well established banking relations with other countries.

These factors, which are indispensable to the successful operation of direct exchange, were in great measure lacking. Consequently financing has been effected by a series of makeshifts. In the first stage, gold movements were employed; but this method terminated with the proclamation of an embargo on gold exports by the United States and then also by the Japanese government. The serious effect of the embargoes on Japan's foreign trade was that they deprived her of the means of securing the proceeds of her export trade, as well as of the means of paying for her imports. As a result, new means were adopted during what may be termed the second stage. In order to relieve the situation, the Japanese government attempted to adjust the exchange situation by subscriptions to allied loans, by the issue of emergency exchequer bonds and by the issue of bank notes based on the funds left to accumulate in New York. These attempts were, however, unsuccessful, owing to the unwise financial policy of the government, coupled with the poor financial organization in Japan; and caused considerable social and financial disturbances in Japan. Difficulties thus experienced led the leading Japanese financiers to introduce in Japan an open-discount market during what may be termed the post-armistice period.

Banking relationships between the two countries during this entire period have been entirely inadequate. Only one American bank was represented in Japan prior to 1919, with two branches there, while there had been virtually but one Japanese bank represented in the United States with one branch and one agency. Similarly the other countries of Asia lack good American banking connections. The impossibility of financing Japanese-Indian trade through the city of New York afforded convincing proof of the inadequacy of American banking facilities in the East. During and after the armistice a few more banks in each of the two



countries established either agencies or branches in the other country, but present banking relationships still leave much to be desired.

Mutual long-term investment is still in its period of infancy. The prospect, however, seems bright, as may be seen from the recent movement for the incorporation of a number of American-Japanese joint industrial enterprises located in Japan. It is very likely that this initial undertaking may serve as a stepping-stone for further American investment in the Orient, particularly in cooperation with the Japanese. The advantage of investing capital in Japanese industry is the relatively high yield, which is attributable to the relative scarcity of capital in Japan as well as in the other countries of the East.

We may now consider the present situation and the future outlook, deducing from our study such suggestions as may be of value in improving the relations between the two countries.

1. In the case of Japan, the efficient financing of her foreign trade, in particular American-Japanese trade, requires first of all the full development of the open discount market in Japan. This involves the standardization of Japanese credit practice in which she is lamentably lacking. The present unsatisfactory condition of her credit system is largely attributable to the habitual use of unscientific business methods, in particular her disorganized accounting system. The reform of her business practices will be a hard task; but it will be amply repaid.

2. With the full development of the discount market, the central bank will discharge its real functions, for the central bank itself is one of the factors that go to make up the discount market. The official rate will have fuller control of market rates than in the past; the system of note issue will be put on a sound, elastic basis, and interest rates

will be made more uniform and steady than under existing conditions.

3. Again, under the new system, the relationship between the ordinary domestic commercial banks and the exchange banks which specialize in the financing of foreign trade will be more harmonious. The commercial banks will find it very profitable to invest their funds in short term discountable commercial paper in order to keep their reserves in a highly liquid condition. The increase of the exchange banks will necessarily broaden the field of desirable investment for the commercial banks. This principle holds true whether the exchange banks are domestic or foreign institutions.

4. The present system of note issue of the Bank of Japan which gives arbitrary power to the Minister of Finance must be modified in order to restrain him from indiscriminate note issue based on funds kept abroad. Lessen government control, and in time the basis of note issue will be strengthened.

5. One obstacle in Japan for American investors may be found in the denial to foreigners of the privilege of full ownership of land in Japan and of mining property other than on the mainland of Japan.

6. In the case of the United States, one of the unsatisfactory features of her financial system in reference to international finance is the hostile attitude of her state banking laws towards foreign banks in the United States. Many states, including the state of New York, prohibit the establishment of branches of foreign banks in the respective states. For the organization of a special bank by foreigners in the United States, these state laws require that two-thirds or more of the incorporators be citizens of the United States. Banking legislation of such parochial nature is not only detrimental to the efficient financing of American-Japanese

trade but is also injurious to the development of the city of New York as a financial center.

7. Although the United States is rapidly developing an open discount market, the higher rate for call loans on account of the daily settlement of transactions on the stock exchange is a factor which materially impedes the growth of the acceptance market. It is seriously open to question whether better coordination of the several markets in the United States is not desirable.

8. As this monograph has shown, American banking facilities in Asia are still inadequate. It will be impossible to build up America's over-seas banking system in a year or so. Conscious and long continued effort is required for success.

9. One impediment to Japanese investment in the United States is the existence of the unsatisfactory state corporation laws which require that two-thirds of the incorporators be American citizens.

10. Another hindrance to sound financial relations is the Anti-Alien Land Law in the State of California. As the major part of the present Japanese investment in the United States is in that state, the law has resulted in material detriment to present Japanese investments.

11. With respect to mutual long-term investments, while their development will be relatively slow and depends upon actual needs and opportunities, the way should be made as easy for it as possible.

APPENDIX I.

JAPANESE EXPORTS TO THE UNITED STATES, CHINA, AND THE UNITED KINGDOM OF GREAT BRITAIN AND IRELAND. AMOUNT, INDEX NUMBERS AND PERCENTAGES OF TOTAL EXPORTS OF JAPAN.

(In thousands of Yen, i. e., 000 omitted; 1900 = 100.)

Year.	Total Jap. exports.	Index number.	Jap. exp. to the U. S. A.	Index number.	Per cent of total exports.	Jap. exp. to China.	Index number.	Per cent of total exports.	Jap. exp. to the U. K.	Index number.	Per cent of total exports.
Average, 1900-1909		161	.....	195	29	.....	215	21	.....	163	6
1910....	458,428	224	143,702	278	31	90,037	280	20	25,781	228	6
1911....	447,433	219	142,725	271	32	88,153	276	20	23,824	211	5
1912....	526,951	258	168,708	320	32	114,824	360	22	29,792	264	6
1913....	632,460	309	184,473	350	29	154,660	485	24	32,870	291	5
Average, 1900-1913		187	.....	221	30	.....	254	21	.....	188	6
1914....	591,101	289	196,539	373	33	162,371	509	27	33,086	293	6
1915....	708,306	346	204,141	388	29	141,123	449	20	68,494	608	7
1916....	1,127,468	552	340,244	647	30	192,713	602	17	102,658	910	9
1917....	1,603,005	784	478,537	910	30	318,381	998	20	202,646	1799	13
1918....	1,962,100	960	530,129	1008	27	359,159	1126	18	142,866	1268	7
1919....	2,098,872	1027	828,097	1575	39	447,049	1403	21	111,453	989	5
1920....	1,948,395	953	565,017	1075	29	410,270	1281	21	97,797	865	5
Average, 1914-1920		660	.....	817	31	.....	848	21	.....	978	9

Sources (Appendix I and II):

*The Financial and Economic Annual of Japan, 1900-1920, the Dept. of Fin., Tokyo.*

*The Annual Return of the Foreign Trade of Japan, 1900-1920.*

*The Monthly Report of the Foreign Trade of Japan.*

*The Oriental Economist Year Book, 1917-1920, Tokyo.*

*Japan Year Book.*

APPENDIX II.

JAPANESE IMPORTS FROM THE UNITED STATES, CHINA, AND THE UNITED KINGDOM OF GREAT BRITAIN AND IRELAND. AMOUNT, INDEX NUMBERS AND PERCENTAGES OF TOTAL IMPORTS OF JAPAN.

(In thousands of Yen, i. e., 000 omitted; 1900 = 100.)

Year.	Total Jap. imports.	Index number.	Jap. imp. from the U. S. A.	Index number.	Per cent of total imports.	Jap. imp. from China.	Index number.	Per cent of total imports.	Jap. imp. from the U. K.	Index number.	Per cent of total imports.
Average, 1900-1909		130	.....	104	17	.....	155	13	.....	115	22
1910....	464,233	162	54,699	87	12	68,570	228	15	94,701	132	20
1911....	513,805	179	81,250	129	16	62,000	200	12	111,167	155	22
1912....	618,992	215	127,015	202	21	54,807	182	9	116,147	162	19
1913....	729,431	254	122,408	195	17	61,223	204	8	122,737	178	17
Average, 1900-1913		151	.....	118	17	.....	169	12	.....	126	21
1914....	595,735	207	96,771	58	16	58,306	194	10	92,302	128	15
1915....	532,449	185	102,534	163	19	85,848	286	16	58,084	81	11
1916....	756,427	263	204,078	325	27	108,639	362	14	81,732	114	11
1917....	1,035,811	361	359,705	573	35	133,271	444	13	63,304	88	6
1918....	1,662,143	581	626,205	999	37	281,709	940	17	66,067	92	4
1919....	2,173,459	757	766,387	1222	35	322,101	1075	15	127,541	178	6
1920....	2,336,175	814	837,177	1329	36	218,089	727	9	232,215	322	10
Average, 1914-1920		392	.....	572	28	.....	550	14	.....	124	9

**APPENDIX III**  
**DISTRIBUTION OF THE FOREIGN TRADE OF THE UNITED STATES WITH ASIA.**  
(In thousands of dollars, i. e., 000 omitted.)

Year.	Exports from the United States.						Imports into the United States.					
	Into Asia.	Per cent of total exports.	Into Japan.	Per cent of total exports.	Into China.	Per cent of total exports.	From Asia.	Per cent of total imports.	From Japan.	Per cent of total imports.	From China.	Per cent of total imports.
Average, 1900-1909		5	.....	1.96	.....	1.56	.....	14.82	.....	4.54	.....	2.48
1910....	60,861	3.49	21,959	1.25	16,320	.94	193,155	12.45	66,398	4.26	29,990	1.92
1911....	85,422	4.17	36,721	1.79	19,287	.94	213,449	13.98	78,527	5.14	34,227	2.24
1912....	117,461	5.33	53,478	2.42	24,361	1.10	225,468	13.64	80,607	4.87	29,573	1.79
1913....	115,056	4.66	57,741	2.34	21,326	.87	276,494	15.25	91,633	5.05	39,010	2.15
Average, 1900-1913		4.76	.....	1.95	.....	1.39	.....	15.33	.....	4.64	.....	2.35
1914....	113,425	4.80	51,205	2.44	24,698	1.04	286,952	15.15	107,355	5.66	39,382	2.08
1915....	114,470	4.13	41,517	1.50	16,402	.59	247,770	14.80	98,882	4.90	40,156	2.40
1916....	278,610	6.43	74,470	1.71	25,131	.57	437,181	19.89	147,644	6.71	71,655	3.26
1917....	380,249	6.05	130,427	2.07	37,195	.59	615,217	23.14	208,127	7.82	105,905	3.98
1918....	447,429	7.56	267,641	4.52	43,476	.73	826,193	28.05	284,945	9.67	116,644	3.96
1919 <sup>1</sup> ....	701,167	8.85	366,364	4.63	118,274 <sup>2</sup>	1.50	1,041,444	26.67	409,853	10.50	170,177	4.35
1920....	771,954	9.38	377,662	4.59	152,875	1.85	1,283,801	24.31	414,565	8.00	204,222	3.86
Average, 1914-1920		6.74	.....	3.07	.....	.98	.....	21.67	.....	7.61	.....	3.41

<sup>1</sup> Figures for the years 1919 and 1920 are for calendar years.

<sup>2</sup> American-Chinese trade for 1919 and 1920 includes trade with Kwantung-leased territory.

Sources (Appendix III and IV):

*Commerce and Navigation of the U. S. A., 1900-1919.*

*The Statistical Abstract of the U. S. A.*

*Monthly Summary of Foreign Commerce of the U. S. A.*

APPENDIX IV.

DISTRIBUTION OF THE FOREIGN TRADE OF THE U. S. A.

(In thousands of dollars. I. e., 000 omitted.)

Countries.	U. S. A. imports from	Per cent of total U. S. imp.	Rank.	U. S. exports into	Per cent of total U. S. exp.	Rank.	Total U. S. trade with	Per cent of total U. S. trade with	Rank.
July 1, 1913-June 30, 1914.									
United Kingdom.....	293,661	15.50	1	594,271	25.13	1	887,933	20.32	1
Germany .....	189,919	10.03	2	344,794	14.58	2	534,713	12.30	2
Canada .....	160,689	8.49	3	344,716	14.58	3	505,406	11.53	3
France .....	141,446	7.47	4	159,818	6.76	4	301,265	7.12	4
Cuba .....	131,303	6.93	5	68,884	2.91	7	200,188	4.92	5
Japan .....	107,355	5.67	7	51,205	2.17	9	158,561	3.92	6
Netherland .....	36,294	1.92	10	112,215	4.75	5	148,509	3.33	7
East Indies .....	111,903	5.91	6	15,625	.66	10	127,528	3.28	8
July 1, 1917-June 30, 1918.									
United Kingdom.....	190,082	6.45	5	1,995,863	33.72	1	2,185,945	20.09	1
Canada .....	434,254	14.74	1	778,490	13.15	3	1,212,744	13.95	2
France .....	75,638	2.57	7	883,739	14.93	2	959,372	8.75	3
Japan .....	284,945	9.67	3	267,641	4.52	5	552,586	7.10	4
Cuba .....	264,024	8.97	4	235,469	3.98	6	499,493	6.48	5
East Indies .....	206,606	10.07	2	52,292	.88	8	348,899	5.48	6
Italy .....	30,014	1.02	8	477,898	8.07	4	507,913	4.55	7
Mexico .....	140,659	4.78	6	107,077	1.81	7	247,736	3.30	8
1920, Calendar Year.									
United Kingdom.....	513,847	9.74	3	1,825,030	22.18	1	2,338,877	15.96	1
Canada .....	611,788	11.60	2	971,854	11.81	2	1,582,642	11.76	2
Cuba .....	721,696	13.67	1	515,083	6.26	4	1,236,779	9.96	3
France .....	165,655	3.84	5	676,193	8.22	3	841,848	5.68	4
Japan .....	415,656	7.87	4	377,963	4.29	5	793,617	6.23	5

APPENDIX V.

PRINCIPAL COMMODITIES IMPORTED INTO THE UNITED STATES FROM JAPAN. AMOUNT AND PERCENTAGES OF TOTAL IMPORTS.  
(In thousands of dollars, i. e., 000 omitted.)

Year.	Raw Silk.			Tea.			Manufactures of Silk.			Braids.		
	Total U. S. imp.	Imported from Jap.	Per cent.	Total U. S. imp.	Imported from Jap.	Per cent.	Total U. S. imp.	Imported from Jap.	Per cent.	Total U.S. imp.	Imported from Jap.	Per cent.
Average, 1900-1909 ..	.....	.....	52.8	.....	.....	44.2	.....	.....	13.5	....	....	22.5
1910 ....	67,424	40,103	61.	13,672	6,335	46.	32,635	2,858	9.	5,052	987	20.
1911 ....	72,714	47,248	65.	17,614	9,273	52.	32,138	3,011	9.	4,597	1,292	28.
1912 ....	67,173	47,316	70.	18,207	9,213	50.	27,204	2,912	11.	5,010	1,371	27.
1913 ....	82,147	57,192	70.	17,433	7,793	44.	27,590	3,044	11.	6,520	3,146	48.
Average, 1909-1913 ..	.....	.....	57.	.....	.....	46.	.....	.....	12.	....	....	25.
1914 ....	97,828	71,344	72.	16,735	7,771	43.	35,455	4,226	12.	6,337	3,589	57.
1915 ....	80,532	58,804	73.	17,512	7,983	44.	25,042	4,908	20.	5,002	3,581	72.
1916 ....	119,484	88,059	74.	20,600	8,976	44.	31,911	6,760	21.	6,097	3,315	54.
1917 ....	156,085	124,925	80.	19,265	8,825	46.	40,322	11,568	29.	7,739	4,342	56.
1918 ....	183,076	153,740	84.	30,890	9,511	31.	30,899	13,074	42.	8,822	4,081	46.
1919 ....	329,339	256,114	78.	20,146	10,219	50.	53,930	31,807	59.	14,103	....	..
Average, 1914-1919 .	.....	.....	77.	.....	.....	43.	.....	.....	31.	....	....	56.

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APPENDIX V.—*Continued.*

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Year.	Potteries.			Mats and Matting.			Copper.		
	Total U. S. imp.	Imported from Jap.	Per cent.	Total U. S. imp.	Imported from Jap.	Per cent.	Total U. S. imp.	Imported from Jap.	Per cent.
Average, 1900-1909 .....	.....	.....	9.4	.....	.....	64.20	.....	.....	2.60
1910.....	9,359	1,254	13.	2,423	1,443	60.	30,888	3,119	10.
1911.....	9,708	1,241	13.	1,947	1,104	56.	31,966	2,030	6.
1912.....	8,554	1,227	14.	1,819	920	51.	35,791	2,868	8.
1913.....	8,556	1,192	14.	1,651	807	49.	44,612	2,351	5.
Average, 1900-1913 .....	.....	.....	11.	.....	.....	61.	.....	.....	4
1914.....	7,863	1,267	16.	2,097	1,280	61.	39,551	1,759	4.
1915.....	5,286	1,103	21.	1,574	1,026	65.	19,744	1,638	8.
1916.....	3,545	1,093	31.	1,328	1,043	79.	49,559	2,844	6.
1917.....	3,152	1,549	49.	1,834	1,427	78.	86,769	2,086	2.
1918.....	3,593	2,211	62.	1,828	1,691	93.	83,746	300	..
1919.....	7,150	2,276	32.	3,598	3,257	91.	86,256	.....	..
Average, 1914-1919 .....	.....	.....	35.	.....	.....	78.	.....	.....	..

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## APPENDIX VI.

PRINCIPAL COMMODITIES IMPORTED INTO JAPAN FROM THE UNITED STATES. AMOUNT AND PERCENTAGES OF TOTAL IMPORTS.

(In thousands of yen, i. e., 000 omitted.)

Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.
Cotton.			Kerosene Oil.			Wheat flour.			Wheat.			Sole leather.					
1,900-1909	.....	25.	.....	.....	68.7	.....	.....	95.6	.....	.....	56.4	.....	.....	67.5			
159,222	17,193	11.	14,303	9,955	70.	1,739	1,614	93.	3,338	1,499	45.	1,065	1,047	98.			
146,783	29,259	20.	13,065	9,010	69.	1,703	1,626	95.	3,729	3,448	92.	1,502	1,500	100.			
200,824	64,601	32.	12,433	9,072	73.	1,722	1,566	91.	4,410	4,278	97.	1,242	1,235	99.			
233,599	64,222	27.	11,102	7,577	68.	1,780	1,601	90.	12,351	9,492	77.	803	799	99.			
1,900-1913	.....	24.	.....	.....	69.	.....	.....	95.	.....	.....	68.3	.....	.....	77.			
218,975	53,966	25.	8,657	6,402	74.	1,264	1,139	90.	8,489	5,573	66.	412	408	99.			
217,316	55,654	26.	8,464	6,695	79.	194	174	90.	1,639	224	14.	435	434	100.			
276,089	79,370	29.	5,571	4,983	89.	94	77	81.	1,356	19	..	425	425	100.			
330,976	84,085	25.	5,305	4,904	92.	59	6	11.	666	.....	..	184	165	90.			
515,559	205,108	40.	8,538	7,387	87.	1,286	.....	..	9,440	.....	..	593	576	97.			
667,806	286,112	43.	21,675	18,427	85.	7,758	21	..	38,530	.....	..	1,350	1,333	99.			
1,914-1919	.....	31.	.....	.....	82.	.....	.....	..	.....	.....	..	.....	.....	98.			

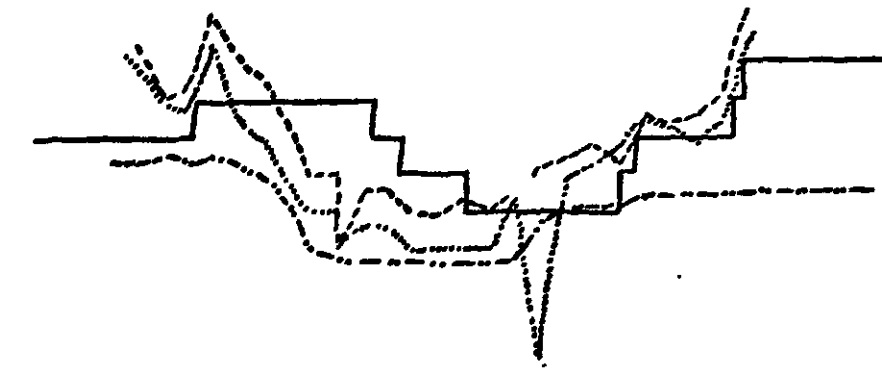
APPENDIX VI—Continued.

Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	Total Japanese imports.	Imported from the U. S. A.	Per cent.	
Rails.			Iron (Bars, T. Rods, etc.).			Iron and steel { Plates. Sheets.			Iron nails.			Iron and Steel { Pipes. Tubes.			Locomotives, R. R. Cars, Steam Boilers and Engines.			
Year, 1900-1809 .....			39.	.....	.....	2.8	.....	.....	5-4	.....	.....	41.5	.....	.....	43-4	.....	.....	31.
1,594	599	38.	7,727	91	1.	4,264	87	2.	2,780	1,559	56.	3,241	1,558	48.	1,917	421	22.	
5,504	3,220	59.	9,283	197	2.	5,664	730	13.	2,364	1,681	71.	4,268	1,582	37.	5,991	1,460	24.	
3,939	2,475	63.	15,392	1,726	11.	9,562	3,108	33.	3,449	2,715	79.	4,963	2,352	47.	5,469	1,456	27.	
4,086	1,922	47.	13,840	635	5.	8,697	1,436	19.	1,370	498	36.	6,934	3,053	53.	6,007	2,580	43.	
Year, 1900-1914 .....			40.	.....	.....	3.	.....	.....	9.	.....	.....	47.	.....	.....	44.	.....	.....	30.
1,879	1,115	59.	9,866	249	3.	7,007	1,325	19.	508	92	18.	4,130	2,564	62.	3,743	814	22.	
603	546	90.	5,612	3,508	63.	7,780	3,111	40.	538	410	76.	1,380	1,071	78.	1,472	471	32.	
440	407	92.	22,508	16,237	72.	22,742	12,092	53.	4,203	3,895	93.	3,435	2,725	79.	2,019	540	27.	
8,814	8,571	94.	46,369	39,476	85.	81,716	87,833	96.	2,530	2,482	98.	8,807	7,878	89.	5,442	3,776	69.	
14,941	14,583	98.	93,015	84,406	91.	79,540	78,229	98.	5,810	5,614	97.	13,776	12,924	94.	11,493	9,905	86.	
21,866	21,750	99.	57,711	50,223	89.	69,357	58,373	84.	5,125	4,898	96.	13,195	11,401	87.	16,065	13,166	82.	
Year, 1914-1919 .....			89.	.....	.....	67.	.....	.....	65.	.....	.....	80.	.....	.....	82.	.....	.....	53.

**.THE BANK RATE AND MARKET RATE IN JAPAN.**

1913 . 1914 . 1915 . 1916 . 1917 . 1918 . 1919 . 1920 . 1921 .

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  - ..... THE MARKET RATE FOR FIRST CLASS COMMERCIAL PAPER
  - - - " " " " ORDINARY " " " " " "
  - · - - THE INTEREST RATE FOR TIME DEPOSITS LEFT OVER 6 MONTHS
- } TOKYO RATES

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THE ORIENTAL ECONOMIST YEAR BOOK, 1917-1920  
THE OSAKA BANKERS MAGAZINE.



## APPENDIX IX.

## THE RATES OF DIVIDENDS PAID BY, AND THE PRICE OF STOCKS

	Par value of stock in Yen.	1907		1908		1909		1910		1911		
		Price.	Rate of dividend.	Price.	Rate of dividend.	Price.	Rate of dividend.	Price.	Rate of dividend.	Price.	Rate of dividend.	
Spinning Companies.	Amagasaki .....	25	137	50.	94	35.	99	30.	111	30.	....	30.
	Fuji Gas <sup>1</sup> .....	50	125	25.	81	16.	96	14.	95	9.	85	10.
	Fukushima .....	25	....	30.	26	14.	13	12.	45	12.	47	16.
	Imperial Hemp .....	50	64	12.	55	12.	68	12.	72	12.	72	10.
	Kanegafuchi .....	50	134	22.	85	15.	84	14.	108	13.	101	12.
	Nippon .....	25	49	18.5	33	14.	33	11.	32	9.	31	8.
	Osaka Godo .....	20	64	30.	38	20.	45	20.	48	20.	48	18.
Settsu .....	25	140	47.	61	20.	75	20.	83	20.	90	20.	
Electric Rail- way Com- panies ....				29.3		18.3		16.6		15.4		15.5
	Hanshin .....	50	159	12.	96	12.3	117	13.	123	13.	118	13.
	Keihan .....	50	34	5.	20	5.	42	5.	63	5.	61	5.
	Keihin .....	50	99	11.5	69	10.	65	6.	56	4.	44	4.3
	Kyoto .....	50	66	7.7	70	10.	80	10.	84	10.	76	8.2
Yokohama .....	50	67	6.5	43	6.	52	5.	54	5.	59	5.7	
Electric Light and Gas Companies.			8.5		8.7		7.8		7.4		7.3	
	Tokyo Electric .....	50	81	10.	68	10.5	93	12.	99	12.	73	10.5
	Osaka Electric .....	50	132	15.	117	16.	119	15.5	123	12.	105	12.
	Ujigawa .....	50	14	5.	8	5.	12	5.	30	5.	39	5.
	Osaka Gas .....	50	69	7.3	79	9.3	95	9.5	105	10.	107	10.
Tokyo Gas .....	50	109	15.	83	13.	97	13.	108	12.5	75	11.	
Railroads....			10.5		10.8		11.		10.3		9.7	
	Nankai R. R. ....	50	111	10.	79	9.	86	9.3	80	8.5	78	8.8
	Narita R. R. ....	50	33	5.3	27	5.5	32	5.	40	5.	46	5.9
Tobu .....	50	53	6.5	41	6.5	51	7.	61	6.1	60	8.4	
Exchanges ..			7.3		7.		7.3		6.5		7.7	
	Tokyo Produce ....	50	170	20.5	94	18.7	99	16.	128	13.5	110	14.
	Tokyo Stock Ex. ....	50	247	25.5	117	10.8	155	15.2	215	16.7	159	13.
	Osaka Stock .....	50	208	17.5	112	9.5	138	13.	154	11	127	8.4
Osaka Produce .....	50	99	13.8	76	10.7	91	13.	127	12.	114	11.5	
Miscellaneous Companies.			19.3		12.4		14.3		13.3		11.7	
	Fuji Paper Mill ....	50	54	10.	40	6.	34	6.	32	6.	37	6.
	Dai Nippon Brewing ..	50	113	15.	80	15.	76	12.	82	12.	80	12.5
	Ensui Sugar Ref. ....	35	17	20.	21	20.	36	20.	51	20.	56	20.
	Taiwan Sugar Ref. ..	50	62	10.	64	10.	75	14.	97	12.	82	12.
	Nippon Fertilizer ..	50	90	16.	58	11.	43	9.	50	7.5	53	10.
	Hoden Oil .....	50	160	36.	120	33.	97	17.5	70	11.	61	11.
	Nippon Oil .....	50	127	28.	105	24.	98	19.	86	14.	70	12.
Osaka Mercant. ....	50	23	6.	17	6.	18	6.	22	6.	23	7.	
Average rate of 33 companies .....			17.6		15.6		13.		11.6		11.3	
			15.4		12.1		11.6		10.8		10.5	

<sup>1</sup> This is not a Gas Company but a Spinning Company, in spite of its name.

OF REPRESENTATIVE JAPANESE INDUSTRIAL COMPANIES.

Price.	Rate of dividend.	Price.	Rate of dividend.	Price.	Rate of dividend.	Price.	Rate of dividend.	Price.	Rate of dividend.	Price.	Rate of dividend.	Price.	Rate of dividend.
1912		1913		1914		1915		1916		1917		1918	
111	30.	....	30.	....	30.	....	30.	....	40.	....	60.	....	60.
88	11.	78	12.	68	12.	85	12.	139	18.	150	31.5	....	55.
75	22.	78	26.	79	26.	101	28.	145	32.5	115	54.	123	80.
73	11.5	74	12.	68	12.	85	12.	110	18.	108	22.5	110	32.5
112	15.	108	16.	100	16.	118	17.	195	30.	247	45.	245	70.
40	13.	42	16.	34	10.	....	....	....	....	....	....	120	61.
51	16.	40	18.	37	18.	49	18.	83	25.	85	45.	125	50.
92	30.	90	30.	85	30.	....	30.	....	38.	....	60.	....	....
18.5		20.4		19.4		21.		28.8		45.4		58.	
114	13.	101	13.	96	12.5	....	13.	....	13.	....	14.	....	13.
63	6.5	60	6.5	52	5.5	48	5.	51	6.5	53	7.5	59	7.5
47	5.5	41	6.	31	6.	29	6.	39	5.5	43	6.	54	8.
60	6.	33	5.	23	4.	....	....	....	....	....	....	....	....
67	7.7	57	8.	54	8.	46	5.4	43	5.	45	6.	50	8.5
7.7		7.7		7.3		7.4		7.5		8.4		9.3	
70	10.	63	10.	56	9.5	53	8.	66	8.	67	9.	80	12.
108	12.	93	12.	75	12.	81	12.	100	12.	107	16.	104	12.
53	5.	48	5.5	48	7.5	56	7.8	67	8.	63	8.	62	8.
106	12.5	91	10.	65	9.3	62	8.6	71	9.	....	8.3	....	8.
71	10.	62	9.5	48	8.	45	7.	58	7.5	58	8.8	57	8.
9.9		9.4		9.7		8.7		8.9		10.		9.2	
77	8.5	67	8.5	61	7.4	64	9.	76	9.3	87	10.	....	10.
52	6.5	52	7.	....	7.	....	7.	....	7.	....	7.8	....	8.
78	10.	74	10.	65	8.5	67	7.4	67	7.7	68	8.	66	9.
8.3		8.5		8.1		7.8		8.		8.6		9.	
107	15.	99	12.7	81	10.	88	13.	144	19.	185	28.	164	22.5
156	12.4	143	11.2	132	9.	165	14.	316	25.4	239	17.	175	14.3
127	8.7	114	7.2	105	5.5	143	13.	325	22.5	267	20.5	201	10.
135	15.	141	21.5	100	11.7	127	15.	199	24.	219	32.	143	20.3
12.8		13.2		9.5		12.3		22.7		24.4		17.	
43	7.5	46	9.	45	9.	51	9.5	96	15.5	105	22.5	105	29.
86	13.	84	13.5	87	14.	102	14.5	132	18.	142	23.5	142	30.
63	20.	50	12.	45	14.	56	14.	87	17.	101	22.5	86	20.
79	12.	71	12.	62	12.	74	12.	109	16.	118	22.5	101	22.
65	11.	59	11.	51	10.	45	8.	71	7.	80	11.	76	16.
66	13.	96	16.5	77	13.5	72	12.	99	16.5	104	20.	108	25.
76	14.	107	20.	110	20.	113	20.	159	25.	143	22.5	111	25.
35	8.5	57	10.	52	10.	72	11.	160	24.	210	45.	205	60.
12.4		13.		12.8		12.4		17.4		23.7		22.4	
....	11.6	....	11.4	....	11.1	....	11.6	....	15.6	....	20.	....	23.5

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**THE WORKING FORCES IN JAPANESE  
POLITICS**



**STUDIES IN HISTORY, ECONOMICS AND PUBLIC LAW**

EDITED BY THE FACULTY OF POLITICAL SCIENCE  
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Volume XCVII]

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**THE WORKING FORCES IN  
JAPANESE POLITICS**

**A Brief Account of Political Conflicts**

**1867-1920**

BY

**UICHI IWASAKI, PH.D.**

*Member of the Japanese Bar*

*Professor of Sociology in Kwansai University, Osaka*



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## PREFACE

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THIS is an attempt to study Japanese political forces from the viewpoint of modern sociology; that is, to consider them as dynamic forces, not as static conditions. The writer has recognized from the outset that these forces are extremely complex, and that any attempt to separate them must be arbitrary. No systematic consideration of the Japanese state, whether the method be that of sociology or metaphysics or what not, can be free from the danger of artificiality.

The writer is fully aware of this natural shortcoming of his book. He feels, however, that a sociological study of the Japanese polity should be made on these lines. In attempting it he departs from the methods of other students of Japanese political institutions, who have been content merely to recite the facts of history or to discuss dialectically the Japanese constitution and its theory.

As a student of Japanese law in one of the Japanese universities the writer was taught to consider the institutions of his country only as they are described in the constitution and the statutes. He was not encouraged to examine the actual workings of those institutions. The scholars of that university never went beyond an abstract interpretation of the written codes. After the writer came to Columbia University and studied *The Responsible State*,<sup>1</sup> by Franklin H. Giddings, his con-

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ception of Japanese political institutions underwent a change. This small book of Professor Giddings gave him the hint for the present study.

Many books have been written on Japanese politics, and many of them are widely read in the West. Among the best are Dr. Uyehara's *The Political Development of Japan*, Dr. McLaren's *A Political History of Japan*, Dr. McGovern's *Modern Japan*, and Mr. Pooley's *Japan at the Crossroads*. Some of these books are historical, and some are analytical of laws only. None of them presents an entirely adequate analysis of actual political conditions, as they appear in a moving society.

The writer has no thought of deprecating these books. He wishes to supplement them. They are invaluable to anyone who wishes to gain a glimpse of Japanese politics, and no student of the subject should neglect them. Any differences which may appear between the conclusions of these authorities and of the present writer are due largely to a difference in viewpoint.

This small book is not intended to be an exhaustive treatise. Its purpose will be fulfilled if the reader gains from it a point of view and a suggestion for further study.

Special references to the authorities are infrequent in the following pages, but the accuracy of the historical statements made may be readily verified by the historical works listed in the bibliography.

The writer is particularly indebted to Professors Franklin H. Giddings and A. A. Tenney, of the Department of Sociology, Columbia University, for their instruction and guidance, which he will always remember with gratitude. Acknowledgment must be made to all members of the Department of Sociology, especially to

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UICHI IWASAKI.

COLUMBIA UNIVERSITY, NEW YORK CITY.  
December, 1920.

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## CHAPTER I

### INTRODUCTION

#### I

**SUPERFICIAL** observers of political and social events in Japan often marvel at what they call the "extraordinary adaptability" of the Japanese. In a few decades, they say, Japan, on her own initiative, transformed herself from a feudal state into a modern nation. Westerners are fond of this interpretation of modern Japanese history, and many natives of Japan agree with them.

Although this view is in harmony with the superficial facts, it is, the writer believes, essentially misleading. To be sure, Japan now has a constitution which in her feudal days would have been impossible. Her intercourse with the western world has, moreover, greatly modified many of the customs and institutions of her people. But to interpret these facts as indicative of an essential and a complete revolution is to exaggerate greatly.

No nation could, over night, effect a change as complete as the Japanese are said to have effected. Least of all could the Japanese, who have shown themselves to be socially static. For three centuries they remained supine under the feudalism of the Tokugawa shōgunate, with its rigid forms and iron-clad class distinctions. The early Tokugawas knew how to rule, and they established themselves firmly amid a network of laws and customs unbelievably intricate and intolerable, which impressed themselves

indelibly on the minds of the people. Above the shōgun of course, was the Emperor, enshrined in the holy city and worshipped by all, but he was powerless, and in his name the shōgun controlled the nation.

The time came, in the middle of the nineteenth century, when the power of the shōgun was doomed to end. Japan opened her doors to foreigners, and it was impossible for her to continue the feudal system. As a result of this situation came the readjustment called the Meiji Restoration. It is this Meiji Restoration that has given to casual observers the impression that Japan has undergone a complete revolution, and has won for the Japanese a reputation for extraordinary adaptability.

As a matter of fact, long established customs cannot be changed in a day. A new society is not to be begotten by the word or act of a group of statesmen. It can be won only after long and painful experience. When circumstances demand a change in the life of a people, as in the Meiji period they demanded a change in the life of Japan, the people, following the line of least resistance, will alter their manners, but they will make the smallest alteration that the exigencies of the moment permit.

Thus, when the Japanese feudal system was destroyed in 1867 there was set up in its stead a bureaucracy that retained the spirit of the shōgunate. It is not too much to say that the political and social institutions of the new Japan were only another expression of the Tokugawa system.

## II

Let us consider the Meiji Restoration, with a view to discovering the nature and extent of the change that it has brought to Japan.

In feudal Japan the rulers were as follows: first the

Emperor, his family and the court nobles, who lived secluded in Kyōto and took no active part in the affairs of the government; second, the shōgun, or feudal overlord, who ruled the entire nation; third, the daimyō or feudal lords, who ruled absolutely over parts of the country which they held as fiefs of the shōgun; and fourth, the samurai or knights, who formed the intellectual or fighting class and to whom the daimyō turned over most of the real administrative work. The heimin or common people had no power, and, of course, the capitalist class had not yet arisen. The stronger of the daimyō, who were at the head of powerful clans such as Choshū and Satsuma, were rivals of the shōgun, and were ready to seize control of the state at the slightest sign of weakness in the rulers.

In the days of his strength the shōgun was really terrible. But "if there is spring, there must be fall," says a Japanese proverb, and in the middle of the nineteenth century it was plain that the spring of the Tokugawas was over. Perry and the American fleet came to Japan in 1853, and the nation was faced with the peril of foreign invasion. A western civilization from which they could not hold aloof was shown to the Japanese, and it was apparent to all that something had to be done. The clans, led by the daimyō of Chōshū and Satsuma, arose in rebellion, and the shōgun failed in his attempt to subdue them. The result was the end of the Tokugawas.

On the face of it this was simply a struggle between the shōgun and the daimyō, but behind the daimyō were the samurai, men of real ability, who took advantage of this opportunity to increase their own power and to bring themselves into prominence. An examination of the names of those who played the most important part in the Meiji Restoration and in the conduct of the government that followed will easily show how remarkably the samurai of

Chōshū, Satsuma, Hizen and Tosa, the most powerful of the clans, succeeded in their purpose. The samurai knew the situation better than any others. They played the shōgun against the lords, and themselves came out on top.

The heimin—farmers, artisans and the merchants—took no part in this. It was a game played by the ruling classes.

This struggle, at the time of threatened foreign invasion, placed the nation in a precarious position. The confusion was great, and it was feared that the consequences would be serious. Each of the struggling classes saw the danger, and cast about for a leader who could unify the nation. The shōgun could not take the fore, because his power had been broken; no one of the lords would do, for his influence, however great, was merely local; and the samurai did not feel themselves strong enough openly to set themselves up as the ruling class. The obvious solution was—the Emperor.

In the history of Japan there is no record of revolt against the Imperial Dynasty which has ruled Japan since prehistoric times.<sup>1</sup> Because of this loyalty, and because it has been the policy of the Dynasty to espouse the cause of the more progressive parties, it has been an unbroken custom to look to the Imperial family in time of great disturbance. To the Emperor, then, the leaders of the Meiji Restoration turned. Each of the struggling factions sought his support, but, true to the policy of his line, he threw the

<sup>1</sup> This does not mean that there have been no revolts against ministers or shōguns of some Emperors, or even against certain Emperors themselves. But the revolutionists in no case have wished to overthrow the Imperial House. Many times one Emperor has been deposed and one of his relatives set up in his stead. For instance, in the early thirteenth century the Shōgun Hōjō Yoshitoki deposed the Emperor Chūkiō, and put upon the throne the Emperor's cousin, who then became known as Go-Horikawa-Tennō. But no one not of the old Imperial blood has ever attempted to usurp the throne.

weight of his tremendous prestige upon the side of the revolting daimyō. The samurai who were behind the daimyō took advantage of this to completely crush the shōgun and establish themselves in power.

Thus, the Meiji Restoration was accomplished with the Emperor as its center and the samurai, as the greatest force behind it. It was, as the writer has said, a struggle of the ruling classes in which the common people took no part. The revolution was more political than social. It was a transference of power from one ruling group to another, and the groups which emerged triumphant had been in the upper strata of society in the pre-revolutionary days. The whole movement was a small wave in the great still ocean of Japanese life, which continued to retain the traditional spirit of feudalism. In point of form only was the revolution great.

### III

Into the chaos which followed the overthrowing of the shōgun came the influence of European political philosophies. The Japanese soon saw that in reforming their government they must adopt western ideas. There were presented to them the French idea, the heritage of Rousseau and his philosophy of the social contract; the English idea, based upon the theories of John Stuart Mill, Adam Smith and the rest of the Utilitarians; and the American idea, based upon the Declaration of Independence, and involving the establishment of a democratic republic. The ruling classes rejected all of these as too democratic. Seeking further for a philosophy that would counteract these influences, they found in Germany the idea best fitted to their purposes. Accordingly, they took advantage of the natural conservatism of the Japanese people and their intense national patriotism, and gave them a constitutional mon-

archy on the German model, somewhat modified to suit the peculiar needs of Japan.<sup>1</sup>

The Emperor resumed his ancient position as the head of the state. A bicameral legislature, consisting of a House of Peers and a House of Representatives, was created. A cabinet was established, but it was not made responsible to the legislature. An independent judiciary was formed. Closest to the throne under the new constitution was the privy council, which, like the judiciary, was independent of all other governmental agencies except the Emperor, who exercised only a nominal control. Most influential of all was an extra-constitutional body, the council of Genrō or Elder Statesmen, which dominated all.

In this there is little of democracy. The class lines which had been established and made rigid under the Tokugawas was largely retained, and each of the ruling classes took a place of influence in the new order. The daimyō or lords of the clans were created peers. These, by way of compensation for voluntarily restoring their fiefs to the crown, sat in the upper house of the legislature.

The samurai, under the new regime, may be divided into two classes: those who were successful in the scramble for power and those who were unsuccessful. The former, for the most part, were of the Chōshū and Satsuma clans, and these took the important positions in the bureaucracy. Chōshū controlled the army and Satsuma the navy, and the samurai of these two clans formed the majority in the Genrō council. The samurai of the lesser clans found themselves left behind, and led by the men of Hizen and Tosa, formed political parties in opposition to the bureaucrats. Their stronghold was the lower house of the legislature.

<sup>1</sup> See Mr. K. Kawakami's *Political Ideas of Modern Japan*, The University of Iowa.

Thus was established the Meiji bureaucracy, a readjustment of the forces of feudalism under a constitution that was a compromise among the interests of the several ruling classes. The common people were left out. The Emperor, while theoretically at the head, in reality exercised his authority almost entirely according to the advice of the Genrō and the prime minister. The Genrō, samurai in origin, carried on the traditions of feudalism. Exercising great authority and taking advantage of their extra-constitutional status, they were the true power behind the throne. The bureaucrats, their protégés, fought under their protection against the political parties, allying themselves with their friends in the House of Peers, with the Privy Council and with the army and navy. This bureaucratic combination maintained its supremacy for thirty years, and not until the close of the Meiji Era (1868-1912) was it forced to recognize the power of the political parties and to compromise with them.

At first the political parties were idealistic, seeking to defeat the bureaucrats, the Genrō and the peers, and to establish a true parliamentary government on the Anglo-Saxon model. Later, in the bitterness of defeat at the hands of their rivals, they modified their demands and compromised. At the same time they gradually aligned themselves with the industrial capitalists who were becoming powerful in the meanwhile.

During the Meiji Era Japan was in a comparatively static condition. The ruling forces—Genrō, aristocrats, bureaucrats, militarists and political parties—were in a state of equilibrium.

## IV

The foregoing is, the writer thinks, a fair sketch of the conditions which followed the abolition of the shōgunate. But in order faithfully to picture the Japan of to-day we must add another stroke to the drawing: a description of the rise of industrialism in what is called the Taishō Era.

The industrial revolution reached Japan at the close of the nineteenth century. In feudal days the chief occupation of the nation was agriculture; but in modern times a nation of small area with insufficient natural resources must turn to manufacturing if it is to keep its place in the economic world. So it was with Japan, as with England and Germany before her.

The ruling military classes observed the tendency towards industrialism. Doubtless they saw the danger, but at the same time they realized that if they were to compete on the field of battle with the nations of the West they must not be afraid of the modernization of their own country. Therefore, as a part of their program of preparedness for war, they encouraged industry, particularly shipbuilding and the manufacture of steel.

Just at this time China was being opened as a world market and a source of raw materials. The western nations saw their opportunity and scrambled for concessions, and Japan saw that if she would retain her natural advantages in this field she must develop her industry. As a result of all these influences many of the agricultural workers of Japan flocked to the cities and became factory hands, and the economic status of the nation was transformed.

Parallel with the industrial revolution came the spread of education. The ruling classes saw the value of education, and they adopted a scheme of compulsory schooling which reduced illiteracy to an amazingly low figure. The control of the schools was an enormous power in the hands



of the bureaucrats, but they exercised that power in a way that left open a path for the growth of liberalism. On the one hand they emphasized the beauty of Japanese culture, with much flag waving and suggestions derogatory to all foreigners, and on the other they urged the necessity of embracing the material side of western civilization. The study of foreign languages, particularly English, was required, in order that the students might familiarize themselves with conditions in the rest of the world; but this rebounded to the disadvantage of the ruling classes, for it enabled the educated people to read about western thought as well as western business, and many of them began to realize that Japanese culture was not the only one on the market. Since English was a required language in the secondary schools, British and American ideas permeated the nation, and encouraged the growth of liberalism. The presence in Japan of more than 1000 American and British missionaries and teachers had a powerful influence in the same direction.

At the same time came an improvement in the means of transportation and communication. The Japanese railway system, under the encouragement of the bureaucracy, has reached an extraordinarily high development. While it is not as extensive as that of England or the United States, yet it is further advanced than the railway systems of such European countries as Italy or Spain. From Tōkyō a traveler can reach the remotest parts of Japan in a few days. At the same time the telephone, telegraph and postal systems have reached a high point of efficiency under a government monopoly. The bureaucracy encouraged this, impressed chiefly by the military advantage of good communications, and failing to observe the effect upon the growth of liberalism.

In this era newspapers began to appear in great numbers

throughout the nation, until every town of a population of ten thousand or more had at least one sheet. The papers were almost unanimous in their opposition to the bureaucracy.

As a climax came the World War, a greater revolutionary influence than any of these domestic developments. Participation in the struggle completed the opening of Japan which Perry had begun. Formerly the attention of the Japanese, after their isolation was broken, had been directed largely toward their oriental neighbors, China, Korea, Manchuria, Formosa, Siberia. Now this interest was definitely focussed upon Europe. The people could now make a comparison between the German and Anglo-Saxon civilizations, and the result of the war determined their decision on the relative merits of the two. Their tendency was to regard the war as a struggle between militarism and liberalism, in which liberalism came off victorious.<sup>1</sup>

The growth of radicalism in Europe after the war had its reflection in Japan. Labor unions arose and asserted their right to strike, and the socialist movement won a large measure of freedom from repression.

## V

All this resulted in the rise of two new classes to join the aristocrats, the buroaucrats, the Elder Statesmen, the militarists, and the parties in the struggle for political supremacy. One of them, the capitalist group, has climbed in a few years to a position of domination.

In feudal days, the merchant was despised. The daimyō and samurai often needed him to finance their undertakings, but the farmer and the artisan were considered more

<sup>1</sup> The conduct of the Allied nations since the armistice, and the anti-American propaganda of the Japanese militarists weakened this conviction to some extent.

essential to the life of the nation, and won far greater respect than the mere trader and money lender. In the Meiji era the common people, including the merchants, were formally released from serfdom and made theoretically free. The merchants in the cities then took advantage of the increase in trade to improve their situation.

The industrial revolution, in Japan as elsewhere, brought the heyday of merchants and manufacturers. The despised money lender became the captain of finance. The artisan and the trader became the manufacturer and merchant prince. Especially great became the influence of those who gained control of shipbuilding, the munitions trade, the merchant marine, mining and metal manufacturing. All the while the influence of the country landlord remained stationary.

In the Meiji Era the merchants sought to advance their influence by hobnobbing with the bureaucrats and militarists. Later the political parties grew stronger and to them the industrialists turned their attention. They found this more favorable to their interests, because the politicians of a province were easier of access than a bureaucratic governor. Moreover, a party always needs campaign funds, and who is better able to supply these than a growing captain of industry? Thus there came about a tremendously powerful alliance between capital and the political parties, which triumphantly rose to power with the present Hara ministry. The existence of this alliance is proved by the very names of the members of Premier Hara's cabinet. They are among the leaders of Japanese business and finance.

To understand this is to gain an insight into the foreign policies of present-day Japan. While Hara is loud in his disclaimers of territorial ambition in Shantung and Siberia, he is much interested in economic concessions in outlying territories, which are valuable, of course, to his capitalist

friends, and he has compromised with the militarists in order to capture these concessions.

## VI

Coincident with the rise of capital came, naturally, the development of a laboring class, the second great group developed by the industrial revolution. In the feudal days the workers were serfs. The Meiji Restoration freed them theoretically but actually left their position almost unchanged. The only advantage they won was the right to an education. With the industrial revolution the artisans came to the cities and began to develop into a class-conscious proletariat. With them came many of the farmers, driven into industry by the scarcity of land and the demand for industrial labor. These factory workers were open to the influence of propaganda, because most of them had now been taught to read. The newspapers they read did not increase their friendliness toward the government.

The laboring class was strengthened by the fact that the increasing cost of living forced into alliance with it those who would have preferred to remain petty bourgeois: namely, teachers, newspapermen, and small government officers, such as policemen, whose salaries were not advanced. These now joined with the factory workers, who had gained skill at their trades and whose prestige was increased by the demand for their labor. The workers shared to some extent the prosperity brought to Japan by the war. By their alliance with the lower middle class their group gained brains and learned ambition. Class consciousness had now arisen, and the Japanese proletariat of the present is considering whether it can best serve its interests by forming a political party and competing with the capitalists in the Diet, or by clinging to the trades-union principles of direct action, with frequent use of the strike and sabotage.

This, then, is the situation in Japan today: The aristocrats and the bureaucrats still exercise their traditional power through the House of Peers, the army and navy, and the Genro. Against them struggle the political parties, now powerful, which control the House of Representatives and are backed by the capitalists. The power of the capitalists in the Diet is not easily to be shaken, for they are protected by the election laws restricting the franchise to those who own property and pay direct taxes. Against them, however, the new laboring class is slowly rising, demanding universal suffrage for both sexes, the recognition of labor unions and the right to strike, and political freedom for democratic and socialist parties. It should now be apparent to the reader that Japan is to be regarded as a ~~whirlpool of conflicting~~ forces. Japanese politics can best be studied by scrutinizing these influences, these struggling classes. The future can best be judged by him who understands their positions and their relative strength. The forces to be considered in the subsequent chapters are eight:

The Emperor  
The Genrō, or the Elder Statesmen  
The Peers  
The Bureaucrats  
The Militarists  
The Political Parties  
The Capitalists  
The Workers

## CHAPTER II

### THE EMPEROR

#### I

OBSCURITY, born of a tradition as old as man, surrounds the relation between the Emperor of Japan and his people. Few westerners understand the true position of the Mikado in the actual world of politics. In this chapter the writer will attempt to expound it to them.

The writer does not agree with those Japanese patriots who see fit to interpret the position of the Imperial Dynasty by a mixture of Japanese mythology and pseudo-science. He prefers to consider this subject in the impartial light of history. In doing this he is, to some extent, risking the ire of some Japanese bureaucrats. But he believes it to be the duty of a scientific student to adhere to facts, not myths; and further, a careful study of the true position of the Emperor of Japan can reflect nothing but the utmost credit and honor upon the Imperial Dynasty. He writes, not as a hostile critic of Japanese traditions, but as a sincere admirer of the Imperial Japanese Dynasty.

#### II

Students of Japanese law hold two conflicting theories of the constitutional position of the Emperor.<sup>1</sup> The con-

<sup>1</sup> The conservative school of interpretation of the constitution was founded by Professor Yatsuka Hozumi, of the Imperial University of Tokio. In his book, *Kempō Teiyō (Outline of the Japanese Constitution)* his theories are expounded. When he died the leadership

servative group contends that the Emperor is an absolute ruler, wielding the powers of government without check, and considering nothing but his own Imperial will. The more progressive school declares that he rules not as an absolute monarch, but as the supreme representative of the nation, which is composed of the Emperor and the people. His power, they contend, is not absolute and personal, but constitutionally limited; and in exercising it he is bound to consider not his own Imperial will, but the ~~needs of his~~ nation.

Defendants of the conservative theory point out that the Emperor Meiji promulgated the constitution, in 1889, of his own free will, and not as concession to any popular demands. He made a set of rules for the guidance of his people and of his government as a schoolmaster makes rules for the control of his pupils; therefore it is not to be considered that the Emperor is restricted by a constitution of his own making.

The leading defender of this theory was Prince Itō, who had been sent abroad by the Emperor Meiji to study the political ideas of the West, and who, upon his return, was the chief draftsman of the constitution. His followers, including many professors of constitutional law in the Japanese universities, were passionate in their enthusiasm for the theory of Imperial absolutism, and some of them went so far as to denounce as traitors the scholars who agreed with the political parties in opposing this. Prince Itō, in his book *A Commentary upon the Constitution of the*

of this school fell to Professor Shinkichi Uyesugi, also of Tokio. The opposition is led by Professor Tatsukichi Minobe, of the same institution, who is the leader of the liberal school of interpretation. Professors Sasaki and Ichimura, of the Imperial University of Kyoto, are followers of Minobe. Space does not permit an elaborate statement of their positions here. They have all written textbooks, to which the interested reader is referred.

*Empire of Japan*, which has been translated into English, fully expressed his views on this subject.

The theory is based chiefly on Articles I and III of the constitution. Article I reads "The Empire of Japan shall be reigned over and governed by a line of Emperors unbroken for ages eternal." The substance of Article III is: "The Emperor is sacred and inviolable."

It is hardly scientific to interpret a document in the light of two or three articles only, and the writer is convinced that a consideration of the constitution in its entirety will refute Prince Itō and his followers. Let us examine the first chapter of the constitution, in which the powers of the Emperor are defined. To him is given legislative and executive authority in sanctioning and promulgating laws and ordinances, in convoking and dissolving the Imperial Diet, in determining the organization of the different branches of the administration and the salaries of civil and military officers, and in the appointment and dismissal of the officers; supreme command of the army and navy; the right to declare war and conclude treaties of peace and to confer titles of nobility and other ranks of honor; and the ordering of amnesty, pardons, commutation or punishments, and rehabilitation.

If the Emperor is an absolute monarch, why should his powers be thus minutely defined? Why should not the constitution say "The Emperor shall rule Japan" and be done with it? Clearly the true intention of the constitution, whatever the metaphysical interpretations may be, is to limit the Imperial powers. Furthermore, the constitution provides that the Emperor alone cannot make laws. This right is reserved to the Imperial Diet, and to the Emperor is reserved simply the right of veto, which he has always refused to exercise, showing that he himself does not uphold the theory of his absolutism.



Further proof is available. Let us examine Article LV. of the constitution, which reads in effect, "Respective ministers of state shall give their advice to the Emperor, and be responsible for it. All laws, Imperial Ordinances and Imperial Rescripts of whatever kind that relate to the affairs of state require the countersignature of a minister of state."

Very few of the Japanese commentators on constitutional law heretofore have called attention to this article and explained its true meaning. Article LV makes the ministers of state, not the Emperor, the actual administrators of the Imperial power. In the original Japanese this article is somewhat vague—intentionally so—but its actual application to Japanese government is clear. Under it the Emperor leaves the real powers of government to the ministers who are required to assist him.

The conflict between these two theories bitterly raged for many years. The bureaucrats supported the principle of absolutism, for it gave them a cloak for their undemocratic rule; and they sternly suppressed the party leaders and the progressive professors who opposed them. But with time, the progressive element gained the supremacy, and now it is generally recognized that the Emperor is not an absolute ruler, but the supreme representative and organ of the nation.

### III

Enough of legal disputation. Let us cease theorizing and turn to facts.

The incomplete records of Japanese history<sup>1</sup> in the ancient times indicate that the Emperor was then an absolute ruler.

<sup>1</sup> There is no reliable record of political and social conditions in ancient Japan. The *Nihon-shi* (720 A. D.) and *Kojiki* (712 A. D.), the titles of which may be roughly translated *Ancient Japanese*

Throughout this consideration the reader should bear in mind the fact that there has been only one Imperial Japanese Dynasty, and that the founder of that Dynasty is by tradition<sup>1</sup> the lineal ancestor of the entire Japanese nation.

The end of the absolute rule of the Emperor came with the establishment of the Kamakura shōgunate in 1192 A. D.<sup>2</sup> The General Minamoto Yoritomo, whose following was great, managed to dominate with his forces the entire nation. The Emperor thereupon appointed Minamoto the chief executive officer of the nation. The Minamoto family established its capital in Kamakura, and its chiefs were known as shōguns; and the Imperial Family confined itself in Kyōto, the holy city. The Emperors kept aloof from all matters of politics and government, and retained only the name of ruler. No one now disputes that the shōguns were the true rulers of the nation.

The shōgunate passed from one family to another, and finally in 1600 to the Tokugawas, who, as the writer has already explained, lost their power during the reign of the Emperor Meiji.

*Chronicles*, contain, for the most part, mythological matter similar to the myths of ancient Greece. Therefore, to get a true notion of the early periods historians must make a careful comparative study of the Chinese, Korean and Japanese histories.

<sup>1</sup> This tradition has been consistently promulgated by the ruling classes in order to preserve three important elements of Japanese culture: first, ancestor worship, second, the worship of the Imperial Family, and third, the rigid family system of the nation at large. Impartial historians agree, however, that the Japanese nation is composed of various tribes which came from many parts of the world, as conquerors or as refugees from shipwreck or other perils. They believe that the Imperial Family itself was founded by conquerors who came from some unknown land. But the old tradition, whatever its origin, has had tremendous influence, and he who understands it has made great progress toward an understanding of the Japanese people.

<sup>2</sup> Even before the Kamakura shōgunate there is no proof that the Emperor was an absolute ruler. Probably from the earliest times certain families of court nobles took to themselves the real power.

In the Meiji Restoration the Emperor was nominally restored to power, but as a matter of fact the whip hand was kept by the nobles and bureaucrats, who took advantage of the Emperor to establish themselves.<sup>1</sup> The Emperor Meiji then issued a series of edicts "emancipating the Japanese people,"<sup>2</sup> and placing himself once more at their head. But behind the edicts were the samurai, to whom the Emperor, seeing the requirements of the situation, was pleased to give the chief administrative power.

Under the constitution the Emperor remains aloof, while the bureaucrats and the parties struggle for control.

#### IV

It has ever been the principle of the Imperial Japanese Dynasty to rule according to the wishes of the people.

<sup>1</sup> The Emperor Meiji was really a man of unusual intelligence, courage and statesmanship. But when he ascended the throne he was only sixteen years old. Therefore it is not surprising that the restoration was initiated not by him but by forces outside of the Imperial Court—the daimyō and samurai.

<sup>2</sup> One of these edicts reads:

1. Assemblies shall be called into being in which all classes of the people shall be represented. All affairs of state shall be therein discussed and public opinion will thus find expression.

2. In future all distinction between the upper and lower classes of the people shall as far as possible be removed for the purpose of securing the order and peace of the Empire.

3. Every individual, the highest officer of the state as well as the most insignificant man of the people, shall strive to do his work well and not neglect his special calling.

4. Old-fashioned and useless manners and customs shall be banned, and efforts made to guide the people in right directions.

5. Knowledge from all parts of the world shall be made use of for rendering the state strong and secure.

Some observers believe that this "Imperial Oath" was promulgated merely to end the jealousies between the clans, and that it was written by some politician with that end in view. The progressive element in Japan places great faith in the document, considering it a sort of Bill of Rights.

The Emperor is not a representative of any class, but of the entire nation. He is the father of the people, and their natural protector. Those classes which in the past have ruled the state have thereby violated the sanctity of the Imperial line, and have taken advantage of the goodness of the Emperor to advance their own ends.

The idea of the Emperor as their well-wisher and protector is deeply impressed upon the minds of the Japanese people by tradition. They love to recite the poems of the Emperor Nintoku, in which the Mikado declares his love for his subjects and his desire to be one with them; and they often repeat the story of the Emperor Daigo, who, one winter night, is said to have taken off his clothing and slept in the open, so that he could realize the suffering of the poor. The Emperor Meiji, like the traditional Nintoku, was a popular poet.

Even the boldest of the shōguns, who usurped the political power of the Emperor, could not treat him with anything but the greatest respect, for they feared the anger of the people, who loved him. The ruling classes of Japan have never dared flagrantly to disregard the welfare of the people, as have the Czars of Russia, for instance. They have always been forced to realize that the Emperor was the friend of the masses, and to trim their sails accordingly.

Japan will never see a revolution against the Emperor. Rebellion is not necessary. The coming of democracy would be pleasing to the Mikado, for it would be according to the traditions of his line, and an emancipated people would continue to revere him forever.<sup>1</sup>

<sup>1</sup> Many careful foreign observers believe that the Emperor will sooner or later occupy a position similar to that of the King of England. Native political scientists recognize this tendency to some extent.

## CHAPTER III

### THE GENRŌ

#### I

At the helm of the Japanese state since the Meiji Restoration has been an extra-constitutional council, the Genrō,<sup>1</sup> or the Elder Statesmen. The Genrō are former samurai of Chōshū and Satsuma, who distinguished themselves in the Restoration movement and in the establishment of the new government. Their brilliancy and experience in statesmanship guided the new Japan through the perplexities of its first years. For decades their power was paramount, and only in the past few years has it been even slightly dimmed.

#### II

The influence of the Genrō is primarily political, rather than social or economic. They are not powerful in capitalistic circles, although some of them are as wealthy as the lesser of the new millionaires. Although they are now peers of high rank,<sup>2</sup> it should not be supposed that their pre-eminence is primarily social. They have nothing to do with the religion of the people, which in the new Japan has been divorced from the state; and they are not concerned in the affairs of the Imperial Family, which is governed by the law of the Imperial Family and the resolutions of the

<sup>1</sup> The word "Genrō" means "old and distinguished statesman." The word "genkun" is often used in the same sense.

<sup>2</sup> Yamagata, Prince; Ito, Prince; Matsukata, Marquis; Inouye, Marquis; Oyama, Prince; Okuma, Marquis; Saionji, Prince.

Privy Council. The great power of the Genrō is exercised in political channels only.

Thus we have the extraordinary spectacle of a purely political entity, the most powerful in the state, which has nevertheless no place whatever in the national constitution. Search the voluminous body of the Japanese fundamental law, and you will nowhere find mention of the Elder Statesmen. This very fact has doubled the power of the Genrō, for it has left them legally responsible to no one. This state of affairs is certainly inconsistent with any theory of constitutional government.

The Genrō derive their power from their peculiar relations with the Emperor. In every national crisis, such as the fall of a cabinet, the Emperor summons the Genrō to the palace and asks their advice, which he invariably accepts. In every time of political stress, the nation directs its attention toward the Elder Statesmen rather than to any other political leaders. Journalists then gather at the Palace gate, and base their articles on the political situation upon the facial expressions of the Elder Statesmen as they leave the council chamber to which they have been summoned by the Emperor.

### III

The Genrō, sitting thus as a council, are the most powerful of a group of four councils which, taken together, wield most of the power of the Japanese state. These four are the Genrō Council, the Privy Council, the Cabinet, and a newly created body, the Advisory Council on Foreign Affairs. The Imperial Family Council, composed of princes of the blood, might seem to a casual observer to be one of this group, but in accordance with tradition this body keeps itself strictly aloof from politics, and concerns itself only with matters directly concerning the Imperial Dynasty.

The Privy Council is a constitutional body<sup>1</sup> whose members are appointed by the Emperor for life. It is composed of men who have distinguished themselves in the national service as administrators, educators, admirals or generals. Its functions are advisory and it may be summoned by the Emperor for the consideration of any question he sees fit to put to it, dealing with, let us say for example, the ratification of a treaty or the issuance of an Imperial Ordinance. On paper the tasks of the Privy Council coincided very closely with the functions that have been exercised by the Genrō. In practice, however, the extra-constitutional council of the Elder Statesmen has drawn to it much more power than the strictly legal Privy Council.

The cabinet is composed of ministers of state, each of whom under the constitution is individually responsible to the throne.<sup>2</sup> There is no mention of the cabinet as a whole in the constitution, but its existence is legalized by an Imperial Ordinance known as the Cabinet Regulations,<sup>3</sup> in which its functions are rather generally and vaguely defined. The influence of the cabinet is far slighter than that of the Genrō for two reasons: first, the Genrō Council is irresponsible, but the cabinet can always be dissolved; second, the Genrō always recommend the prime minister, who in turn forms the cabinet, which is, therefore, in a very subordinate position.

The only political body in Japan which can effectively rival the Genrō in power is the Advisory Council on Foreign Affairs which was created in the third year of the World War. It was put under the direct control of the Emperor, and the Imperial Court was designated as its place of meet-

<sup>1</sup> The constitution, article LVI.

<sup>2</sup> The constitution, article LV.

<sup>3</sup> No. 135, 1889, amended by Imperial Ordinance No. 7, 1907.

ing. None below the rank of minister of state may be appointed to this council. Its members are now the premier, the present and former ministers of foreign affairs, the ministers of finance, army and navy, the most influential members of the Privy Council and of the House of Peers, and the leaders of the political parties in the House of Representatives. Like the council of Genrō, this body is extra-constitutional.<sup>1</sup> Its functions are broad and vague, and its power is great. In time, perhaps, it will supplant the council of Elder Statesmen as the paramount political body of the nation.

#### IV

At present, however, the Genrō are in control because they retain the power to recommend the prime minister. In nations with the two-party system of government, such as England, it is the tradition that upon the fall of a cabinet the leader of the legislative opposition succeeds the prime minister and forms the new government. In spite of the constant agitation of the political parties in Japan for the adoption of this system, it has not been established. Instead, the new premier is always chosen by the Emperor upon the advice of the Elder Statesmen, who are free to select whomever they choose. Until 1900 they always chose one of their own body, and every prime minister was also an Elder Statesman. Until the accession of the present premier, Mr. Hara, the Genrō always chose a member of the titled nobility. The statement of these facts epitomizes the power of the Genrō.

Likewise, in the determination of Japan's foreign policy, the Genrō in the past have been of paramount importance.

<sup>1</sup> This council was created by an Imperial Edict, not by an Imperial Ordinance. Students of the constitution had a hot controversy over the constitutionality of this Imperial Edict.



Under their wise and courageous diplomatic guidance, Japan has passed victoriously through three great wars. The Genrō planned the deadly blow which humbled China and won Japan a place among the nations, and they engineered the Russo-Japanese War and Japan's part in the World War, which have made their nation a first-class military power and a prime factor in world politics.

## V.

During the Meiji Restoration and immediately after its consummation the leading statesmen of Japan who might be called Genrō, although the title had not yet come into use, were Prince Sanjo, Prince Iwakura and Prince Tokudaiji, three court nobles, who were the immediate counsellors of the young emperor. They did not remain long without rivals, for the samurai of the influential clans were not to be kept down. Of these the following soon came into prominence: Kido representing the Chōshū clan; Okubo and Saigō, the latter a great and popular general, representing the Satsuma clan; Okuma and Soyejima, representing the Hizen clan; and Itagaki, representing the Tosa clan.

Death forbade that these statesmen remain in power. General Saigō became implicated in a plot of his clansman to overthrow the government, and he was denounced as a traitor and forced to commit *hara-kiri*. Okubo was assassinated. The three princes, Sanjo, Iwakura and Tokudaiji as well as all the others except Okuma and Itagaki, soon died. Itagaki fell into obscurity, and Okuma went into retirement that lasted for nearly twenty years.

The places of these men were taken by five young men, knights of Chōshū, and Satsuma, who had been recognized throughout the restoration period as "men with a future." There were the men who guided Japan through the greater part of the Meiji period, and to whom the title

of Genrō most properly belongs. They were (to give them the noble titles which they ultimately won by their services to the state) Prince Yamagata, Prince Itō, Marquis Inouye, Prince Oyama and Marquis Matsukata. The first three were of Chōshū; the two latter of Satsuma. In origin, they were all humble. Ito came from the lowest class of samurai, and only Yamagata came from the higher class of samurai that borders upon the rank of noble. The other three came of the middle classes of samurai.

## VI

Perhaps the outstanding figure is Prince Yamagata. He is the founder of Japanese militarism. Even today, in spite of his great age and physical feebleness, he is the leader of the military party and the fountain-head of Japanese conservatism.

Prince Yamagata's insight and organizing ability are responsible for the creation of the modern Japanese army. When the Meiji Restoration had been effected the chief military force of the nation was the palace guard, made up of the samurai of Chōshū, Satsuma and Tosa. Yamagata foresaw trouble if the military power were left in the hands of these samurai. He recalled the history of what is known as the Gen-Pei period, in the 12th Century A. D., when two rival military clans split the nation in two by their struggles for supremacy. Yamagata decided that Japan must have an army organized on western lines and based upon universal military service. He was strenuously opposed by most of the samurai of all clans, who in feudal days had monopolized the right to serve in the army, and particularly by General Saigō and his associates, who asserted that universal military service was impossible because the common people lacked the courage and the sense of honor which in the past had characterized the Japanese

soldier. To this Yamagata replied: "The modern army depends for success upon its organization, not upon the personality of the individual soldiers." He won his fight, and was authorized to organize the army.

His associate, Prince Itō, was the most brilliant intellectually of the five Genrō. He was a thorough student of western methods, and because of his knowledge he undertook the organization of the civil administration of new Japan. The drafting of the constitution was largely his work, and when the new governmental system was put into effect he became the first prime minister in 1885. The Emperor recognized his worth and held him in great esteem. When, in later years, Itō became resident general of Korea, the Emperor would make no important decision without his advice, and no great question of state could be settled until the Imperial messenger had gone from Tokyō to distant Seoul and brought back Itō's counsel. The people admired Itō because he had been instrumental in giving them their constitution, and also because in spite of his intimate association with the bureaucracy, he became in later life a supporter—at least in name—of the political parties, and was himself the founder of a party, the Seiyukai.

Marquis Inouye, a close friend of Itō, was a man of noble character. He did not seek nor win political advancement, but he always stood behind Itō. His specialty was finance and diplomacy, and he was largely instrumental in the unification of the metallic currency in Japan.

These three Chōshū men, Yamagata, Itō and Inouye, dominated the Genrō council and enhanced the position of their clan. In the struggle for domination Satsuma came out second best. Of the two Satsuma Genrō Marquis Matsukata was the most active. Like Inouye, he was a financial expert, and he put the nation on a gold basis in 1896. Prince Oyama, the other Elder Statesman, was a

man of great good-nature but comparatively little force. He usually supported the position taken by Prince Yamagata.

Admiral Kabayama, of the Satsuma clan, was a man of sufficient importance to be considered a sort of "vice-Genrō." He was influential in the establishment of the modern Japanese navy, and he won for the Satsuma clan a monopoly of most of the high naval offices, but unfortunately for his clan, he did not live long.

In time of peace there was considerable dissension among the Genrō, Satsuma clashing with Chōshū and, within the Chōshū ranks, Yamagata quarreling with Itō. But in time of war all internal conflicts ceased, and the Genrō acted as one man in defense of the nation. In the Russo-Japanese War Prince Yamagata was Chief of the General Staff. In the Manchurian Expeditionary Forces there were many generals of his own clan, but nevertheless he placed Prince Oyama, his rival of Satsuma, in command of the forces in the field.

In 1900 the title of Elder Statesmen was first applied to these men. Ostensibly they retired into the background, but as a matter of fact they retained their power. They still controlled the appointment of the premier, and the men they chose for that position were their heirs and remained under their direction. Katsura and Saionji, who alternated in the premiership between 1901 and 1912 were, respectively, the protégés of Yamagata and Itō. Admiral Yamamoto, once premier, was the protégé of the Satsuma Genro.

## VI

Of the five great Genrō, only Yamagata and Matsukata are living today.<sup>1</sup> Others, who may be called "New

<sup>1</sup> Prince Yamagata is President of the Privy Council. Marquis Matsukata is the Keeper of the Privy Seal and the Lord Chamberlain.

Genrō" sit with them on the Genrō Council. They are Marquis Okuma, in origin a samurai of Hizen, who was among the leaders in the days before the rise of the great five, and who came forward again after hovering in the background for twenty years; and Marquis Saionji, the protégé of Prince Itō and the son of Prince Tokudaiji, one of the three court nobles whose names appear as leaders in the very first days of the Meiji era. These two have brought a measure of liberalism into the Genrō council. Saionji, despite his noble birth, was a radical in his youth; and Okuma in the days of his retirement learned at least enough liberalism to become a supporter of the party system. The influence of Saionji is largely responsible for the selection of the present premier, Mr. Hara, the first commoner to hold the office. This choice was strongly opposed by Prince Yamagata.

## VIII

Despite the influence of Okuma and Saionji, the Genrō appear to the young minds among the Japanese as interfering parents appear to a newly married couple. The younger people realize that their elders mean well, but they think that they are dreadfully out of date. Therefore they think, "How can we get rid of the Genrō?"

They can wait until the conservative Elder Statesmen die, and they can encourage younger statesmen, who can be influenced by the power of public opinion or of the political parties, to take their places as Genrō.

With the strengthening of the political parties the power to choose the prime minister should naturally devolve upon the House of Representatives. If a two-party system, like that of England, could be established, the leader of the opposition party would always succeed a retiring prime minis-

ter, and one important function of the Genrō would be automatically disposed of.

In the Advisory Council on Foreign Affairs may be seen a successor to the Genrō in its second important function. Although this body was called into being by Count Terauchi, a creature of the Genrō, it is even now sufficiently powerful to be a rival of the council of the Elder Statesmen.

## CHAPTER IV

### THE PEERS

#### I

THE Meiji Restoration formally put an end to the picturesque feudal aristocracy of Japan, and erected in its place a peerage based upon a combination of the old Chinese and the modern European systems. The old titles were abolished, and in their places were adopted the appellations Prince, Marquis, Count, Viscount and Baron.

#### II

The new aristocrats are of three kinds.

First, there are those who were formerly daimyō, the great lords who held fiefs of the shōguns. In compensation for the return of their fiefs to the Crown, the Emperor Meiji gave them peerages in 1884. There are several hundred nobles of this class in Japan to-day.

Second, there are the heirs of the old court nobles.<sup>1</sup> For a thousand years, while the shōguns ruled Japan, these nobles had been confined in Kyōto with the Imperial Family, concerning themselves with court ceremonies and with religion. They had much honor but no money nor political power. Their opportunity came with the movement for the Restoration, and they rose to the occasion with a campaign (which was almost successful) to restore the Em-

<sup>1</sup> Detailed information about the most influential families of court nobles may be found in J. H. Longford, *Japan of the Japanese*, 1912, ch. iv, pp. 60-68. Cf. *ibid.*, ch. v, for information about the daimyō.

peror to actual political power. They pleaded that the Imperial Dynasty had the divine right to rule, and they appealed to the loyalty of the nation. Although the military power of the clans finally won the struggle, the court nobles were clever enough to be in a position of vantage at its culmination. As a result they won places in the new peerage.

Third, there are the descendants of samurai, (and, later, heimin or commoners) who won distinction in the service of the nation, and whom the Emperor, after the fashion of modern European monarchs, rewarded with titles. Some of these are great diplomats, others are military leaders who distinguished themselves in the Sino-Japanese or Russo-Japanese War, and still others are multi-millionaires who developed the industry of the nation. It is noteworthy that few men who distinguished themselves as educators or as civilian administrators of domestic affairs have been rewarded by elevation to the peerage. Thus, Premier Hara, although he has been five times a cabinet member, is still a commoner. It is therefore apparent that in Japan a title, or the lack of one, is not an index of a man's power or ability.

The aristocrats of the third class are alone entitled to the designation "protocracy," which is applied by Professor Giddings to those who have won distinction through their own ability, rather than through birth.<sup>1</sup> Of nine hundred and thirty three<sup>2</sup> members of the titled nobility the majority are aristocrats by birth.

Many of those who are descended from the feudal

<sup>1</sup> "Pluralistic Behavior" in the *American Journal of Sociology*, vol. xxv, pp. 539-540, March, 1920.

<sup>2</sup> Korean Peers are excluded from this number. Prince 17, Marquis 38, Count 100, Viscount 380, Baron 398 (1916), *The Japan Year Book* (1919-20), p. 44.



daimyo are wealthy. Although they returned their fiefs at the close of the shōgunate, they managed to keep a large part of the land and forests of their estates. The value of the property has increased with the course of time, and many of these nobles, notably Prince Shimadsu, daimyō of Satsuma, Prince Mayeda, daimyo or Yechizen, and Marquis Nabeshima, daimyō of Hizen, are now millionaires. Although they no longer have authority over the people of the lands they formerly ruled, they still maintain elaborate country castles, and the peasants, bound by tradition, still respect them.

In contrast with the nobles of this class are those descended from the court nobles, who are poor. Many of these live no better than small tradesmen or artisans. The Emperor, as the head of the group which formerly gathered at Kyōto, gives them presents and helps them as much as possible, and moreover, an Imperial Family Ordinance<sup>1</sup> protects them from the loss of whatever property they may possess; but in spite of this they have never prospered financially. Those of the aristocracy who in the past thirty years have showed tendencies toward progressivism have invariably been of this class; for instance, the Princes Konoye, father and son, have both been ardent democrats. To escape the burden of their position some of these nobles have sought to renounce their titles, and others have resorted to the practice of marrying the daughters of millionaires.

The nobles of the third class—the “protocracy”—are, of course, well off. They are bureaucrats, politicians and captains of industry. These are the most aggressive and active of the aristocrats; second to them in activity are the

<sup>1</sup> Kazoku-rei (an Ordinance of Peerage), Imperial Family Ordinance, No. 2, 1907.

poor descendants of the court nobles; and the third are the former daimyō whose tendency is to favor reaction.

The aristocrats are wont to declare themselves "kohitsu-no hampei"—"protectors of the Dynasty." They are not so fond of this phrase now as they have been in former years, for the people are beginning to show violent resentment. Hatred for the aristocracy among the young generations is increasing because the nobles continue to hold themselves higher than the commoners, although within the commoners the old class distinctions, such as that between samurai and heimin, have completely disappeared. The newspapers have scarcely a good word to say for the aristocrats. "Protectors of the Dynasty indeed!" write the editors, "If they are the protectors, we suppose that the people are the enemies! No, the dynasty does not need such protectors. If it is attacked, the people themselves are quite capable of defending it."

### III

Let us now consider the constitution of the House of Peers, the means whereby the aristocrats affect the politics of the nation. Article 43 of the Japanese constitution provides: "The House of Peers shall be composed of the members of the Imperial Family, of the orders of nobility, and of those persons thereto nominated by the Emperor." This is amplified in an Imperial Ordinance,<sup>1</sup> which provides that the House of Peers shall be made up of the following:

"First, princes of the blood; second, the princes and the marquises, all of whom shall sit by virtue of their rank when they shall have reached the age of twenty-five; third, counts, viscounts, and barons above the age of twenty-five who have been elected by the members of their respective orders, and

<sup>1</sup> Imperial Ordinance (Organization of the House of Peers) No. 11, 1889, amended by Imp. Ord. No. 58, 1905; No. 92, 1909, Art. 1-7.

whose number must not exceed one fifth of each order; fourth, persons above the age of thirty who have been nominated members by the Emperor for meritorious service to the state or for erudition; fifth, representatives of the fifteen highest taxpayers in each prefecture, to be nominated by the Emperor. The term of office of members of the third and fifth classes is seven years; of members of the first, second and fourth classes, life.

“The number of the non-titled members, consisting of persons directly nominated by the Emperor or nominated to represent prefectures shall not exceed the aggregate strength of the titled members.”

Princes of the blood, abiding by the tradition which forbids them to participate in politics, never avail themselves of their right to sit in the House of Peers. Certain commentators on Japanese affairs, being ignorant of this fact, have declared that the House of Peers gives the Imperial Family a grip upon the politics of the nation. Nothing could be farther from the truth.<sup>1</sup>

The bulk of those who actually sit are in the third class; elected by the lower orders of nobility. These are practically all conservative in spirit. Few of them show very great brilliance, and they rarely take the initiative in the solution of the problems that come before them.

Since the titled members show little ability, the true leaders of the House are those of group four, appointed for “national service.” The Emperor in making these appointments is invariably guided by the advice of the

<sup>1</sup>The princes of the blood must be carefully distinguished from the peers of the highest order, who are also known as princes. Most of the princes of the blood, by family tradition, become officers in the army or priests of important shrines. They often reach high rank in the army and the navy. Some of them have become chiefs of the general staff, but they never accept positions as minister of the army or the navy. Thus they keep out of politics.

prime minister, who makes the nominations for political reasons. The nominees are usually minor generals and admirals, university professors, under-secretaries of the government departments, and the like.<sup>1</sup> Whenever a cabinet is about to resign, the premier rewards his important underlings by recommending their appointment to the House of Peers. Since most of the cabinets of the past have been bureaucratic in tendency, this section of the House is now a stronghold of the bureaucracy. But the recent party and quasi-party cabinets have followed the example of their predecessors in making these appointments, and have therefore carried the conflict between parties and bureaucrats into the enemy's territory. The fourth group in the House of Peers does most of the work of the chamber.<sup>2</sup> The fifth group is made up of forty or more country landowners, and is small and of little influence.

#### IV

Considerable opposition has arisen among the people to the constitutional provision which makes hereditary the right of the titled few to sit in the upper house of the Diet. It is declared that the transmission of political power from father to son violates the declaration of the Emperor

<sup>1</sup> In Japan there are two asylums to which old statesmen may be retired: the Privy Council and the House of Peers (as appointed members). Men who have served several terms in the cabinet are often appointed to the Privy Council, so that they can draw comfortable salaries and live in peace for the rest of their lives. Under-secretaries, minor generals and college professors are often appointed to the House of Peers. In making such appointments a premier has two purposes: to retire the appointee, and to add to the bureaucratic (or party) strength in the upper house. Young and ambitious men usually decline these appointments. Messrs. Tokonami and Hamaguchi, rising statesmen, have done so.

<sup>2</sup> An observer in the gallery of the upper house would see that the debates are carried on almost entirely by members of group four. Most of the peers descended from daimyō are mere rubber stamps.

Meiji that no small group should be permitted to monopolize the functions of government. It is further argued that although the first generation of aristocrats may be made up of men qualified to rule, there is no guarantee that their children will maintain the standard. Moreover, it is said, the nobles who enter political life at the age of twenty-five are too young and too ill-educated perform to properly their official duties.<sup>1</sup>

## V

In all legislative matters the House of Peers has equal authority with the House of Representatives.<sup>2</sup> The only restriction on the powers of the upper house is the requirement that the government must first present its budget to the lower chamber.<sup>3</sup> The Peers have full power to amend a budget bill.<sup>4</sup>

As a matter of fact, the position of the House of Peers is much stronger than that of the lower house. A prime minister who quarrels with the House of Representatives can dissolve it and call a new election; but he can do no such thing with the House of Peers.<sup>5</sup> Every government must be extremely careful in handling the Peers, for without them no laws or budget bills can be passed. When a

<sup>1</sup> There is no legal minimum age for cabinet ministers but these positions have rarely fallen to men under forty, and never to men under thirty. Forty years is the minimum age for members of the Privy Council, and thirty for members of the House of Representatives and members of the House of Peers who are appointed by the Crown or elected by the taxpayers. Titled peers, however, may sit at the age of twenty-five. Theoretically, then, a peer of twenty-five is the intellectual equal of an ordinary man of thirty.

<sup>2</sup> The Constitution, Article 38.

<sup>3</sup> *Ibid.*, Article 65.

<sup>4</sup> *Ibid.*, Article 64.

<sup>5</sup> The Constitution, Articles 7 and 44.

minister makes an address in the upper house he always takes the attitude of a servant addressing his masters; when he appears in the other chamber he usually considers himself a master among servants.

It is always difficult to foresee what action the upper house will take on any political question.<sup>1</sup> It is not divided on factional lines except in group four, which is somewhat uncertainly split into bureaucrats on the one hand and party men on the other. The nobles waver until the last before they make any decision. There is, however, one guide to their action; if the measure before them is a proposal of a bureaucratic government, they will probably pass it; if it is sponsored by a government of party men, they may possibly defeat it.

In fact, the tendency of the House of Peers to oppose the political parties has been quite marked, and has caused the downfall of every party government that has ever held office before the present Hara cabinet. When Itō was premier in 1900 for the fourth time he held his office as the representative of the Seiyukai, which he had recently founded. He appointed Mr. Hoshi, the Seiyukai whip in the House of Representatives, to a place in the cabinet, thereby annoying the House of Peers, which retaliated by defeating some of Itō's measures. The premier went to the Emperor for help, and had an Imperial Edict sent to the Peers urging that they support the Government, but to no avail. The upper house continued its course of opposition, and Itō was forced to resign in May, 1901.

Several years later a cabinet was formed by Saionji, also a Seiyukai man. Upon him also the House of Peers turned

<sup>1</sup> The writer has studied the proceedings of the House of Peers for many years, but he is still unable to discover a division in it along consistent lines. Skilled Japanese journalists are in the same predicament.

its guns, for, following the example of Itō, he appointed to the ministry Mr. Hara, who had succeeded Hoshi as the Seiyukai whip. Hara attempted to abolish the system of local government by counties, a reform that was opposed by the bureaucrats. Saionji survived this immediate crisis, but was overthrown after one year.

The Okuma cabinet, in 1916, had similar troubles. This government was supported by the Kenseikai. Count Okuma was sufficiently strong to survive a dissolution of the House of Representatives, and to successfully ignore the Oura case,<sup>1</sup> which involved a charge of bribery against his government. But in these two matters his opponents were merely the lower house and the public opinion of the nation. When he aroused the enmity of the House of Peers on a minor matter in connection with the sinking fund, he was compelled to resign.

Admiral Yamamoto was another prime minister who was forced out by the Peers in 1914 because he associated himself with a political party. His cabinet represented an alliance of the Satsuma clan with the Seiyukai. Yamamoto survived a public scandal in which it was shown that several high officers of the navy had received commissions from an English firm of shipbuilders, but he fell when his naval policy happened to displease the House of Peers.

## VI

Because of these occurrences, it is asserted by some

<sup>1</sup> Viscount Kanetake Oura, Minister of Home Affairs in the Okuma cabinet, was discovered in an attempt to bribe, with cash, several members of the House of Representatives to vote for the bill to place two army divisions on garrison in Korea. The cabinet had made a political deal with Prince Yamagata, the militarist leader, previously binding itself to pass this bill. The bill was defeated, and an attempt was made to prosecute Oura, but his high position made it impossible to punish him. He was forced, however, to retire to private life.

students that the author of the constitution intended that the House of Peers exercise a veto power over legislation, for the benefit of the bureaucrats. The constitution apparently gives the veto power to the Emperor, say these students, but as a matter of fact it gives it to the Upper House. This view is slightly exaggerated, but it is to some extent justified by the facts, for in truth no bureaucratic government has ever been bothered by the House of Peers.

For these reasons the party system of government, unadulterated, is impossible under the Japanese constitution. The political parties might manage to fill group four in the upper house entirely with their men, but they still would be barred from power by the clause in the ordinances which provides that the non-titled members shall never exceed the titled members in number. Thus the success, so far, of the present Hara government is quite remarkable. Every member of the cabinet is a party man. Ten years ago this would have been impossible; it would have been necessary to include in the ministry at least three or four bureaucrats from the upper house. The fact that it can be done today shows that the upper house has become at least slightly more liberal. But the House of Peers may yet wreck the Hara cabinet. The premier has dared to dissolve the House of Representatives and defy the nation on the question of universal suffrage, but he trembles lest the nobles may overthrow him on some smaller issue.<sup>1</sup>

Such is the power of the aristocracy in Japan.

<sup>1</sup> In May, 1920, Mr. Hara selected Count Enkichi Oki from the upper house to fill a vacant position of his cabinet, minister of justice, and has fortified his position against possible attacks from the House of Peers.



## CHAPTER V

### THE BUREAUCRATS

#### I

DURING the entire Meiji Era (1868-1912), and part of the Taishō Era (1912- ), the government of Japan was a pure bureaucracy; that is, the power of government was in the hands of an official class, which held all the administrative offices. These bureaucrats were the ruling class, and all others were simply their tools. Even now the power of the bureaucrats has been broken only in part by the rise of the political parties. For years the government was the bureaucracy, and the bureaucracy was the government.

#### II

The modern class of bureaucrats is a continuation in time of a section of the feudal class of samurai. All the bureaucrats who leaped into power at the Meiji Restoration had been samurai of the powerful clans. They were able men, who built up the political fabric of the new Japan; and their continuance in power was due, first, to their ability, and second, to the fact that they had constructed a machine for their own perpetuation.

The Genrō, many of the present-day peers, the generals and the admirals are really part of the bureaucratic class. In this chapter we shall consider the bureaucratic class as a whole, avoiding, as far as possible, repetition of what has gone before.

The bureaucrats and the militarists were to the Japan of

the Meiji period what the two wings are to a bird. They were its support, and they co-operated in their great work. In times of peace they sometimes were out of harmony with each other, but in times of war they loyally preserved the national unity, and in their domestic conflicts with their common enemies, the political parties, they were united.

It is not fair to the bureaucrats to condemn them as destructive reactionaries. They did much good. In a period of transition someone must take the helm, and they were expert pilots. But the period of transition is now over.

### III

Several peculiarities of the Japanese state have afforded great aid to the bureaucrats in their struggle to remain in power. One of their greatest strongholds is the House of Peers. Upon the promulgation of the constitution it became necessary for the bureaucrats to seek a stronghold in the legislative branch of the government. They turned to the House of Peers rather than to the House of Representatives, not because they wished to form an alliance with their hereditary rivals, the *ex-daimyō* and the court nobles, but because the traditions which hung over from the feudal period made the upper house at that time more influential, in the popular estimation, than the lower. It is probable that Itō, in drawing the constitution, foresaw this and therefore gave the House of Peers more power than the House of Representatives.

The Privy Council, which, because of its direct connection with the Emperor, can act as a sort of overseer to the cabinet, is another fortress of the bureaucracy. Even now there are no party men in the Privy Council. All its members are bureaucrats, samurai of the great clans, who always bear in mind the welfare of the clans and of the bureaucracy through which they exercise their power.

Therefore the Privy Council, functioning as overseer, is kind to a bureaucratic cabinet and unkind to a cabinet based wholly or in part upon the support of political parties.

The solidarity of the Chōshū and Satsuma clans is a third source of strength to the bureaucrats. In the feudal days the clans gained a strength which will endure for years. They developed a philosophy of their own, a doctrine sufficiently marked to win a place in the language under the name of hanbatsu, or "clanism." The clan system is still an integral part of Japanese society. A traveler in the rural districts soon finds that the natives speak their own peculiar clan dialect, and in some cases even wear a peculiar dress, which serves as a clan uniform.<sup>1</sup> A baby born into one of the two great clans is fortunate; he is destined to hold high office.

Not satisfied with these advantages, the bureaucrats have framed a civil service system which preserves them from attacks upon their power. No government office lower than that of cabinet minister can be filled by any but those who have passed the civil service examinations in their youth, entered the service as subordinate clerks, and grown up in harness.<sup>2</sup> This rule was invented by Itō in 1885, not as a harmful restriction, but as a means of preserving equality of opportunity in the civil service, but the bureaucrats under Yamagata turned it to their own advantage. They made it serve as a means of excluding party men from participation in the administration, for in Japan a man is not considered an influential party man until he has been elected by some

<sup>1</sup> Satsuma, which occupies the southwestern part of Kyūshū, is so completely isolated from the rest of Japan that it speaks a dialect scarcely intelligible to visitors from the mainland. This has not prevented the clan from playing a highly important part in Japanese politics.

<sup>2</sup> Imperial Ordinance (Civil Officer Appointment Ordinance) No. 251 1913, amended by Imp. Ord. No. 10, 1918.

party to the House of Representatives, and men who have advanced so far in political life are hardly willing to take examinations and accept petty clerkships. In addition, the bureaucrats took advantage of this civil service system, to instil into the heart of every young clerk a feeling of loyalty to the bureaucracy of which he was a part.<sup>1</sup> As a result of this system any cabinet minister not a bureaucrat found difficulty in getting the co-operation of the members of his department. This solidarity among officials is the essence of bureaucracy as a system of government.

#### IV

Over a long period of years the bureaucrats found themselves struggling against a growing tendency toward democracy. It will be interesting to follow the evolution of their method of combat, for conditions have changed since the early Meiji period, and methods have changed also.

In the days of their first accession to power, just after the surrender of the shōgun and daimyō in 1867, the bureaucrats suppressed their enemies with military power. They were a military class, being samurai, and the use of extreme severity was natural to them. Okubo, the first great leader of the bureaucrats, fought with the sword against General Saigō in 1877, and led a military expedition against General Yetō of Hizen, whom he conquered and executed in 1874.

With the suicide of Saigō in September, 1877 and the assassination of Okubo in May, 1878 the period of armed conflicts ended. The next outstanding bureaucrat was Itō, a gentler man. The officials whom he led sought to put their political enemies in jail, rather than lead armies against them. In this period European political ideas were intro-

<sup>1</sup> For detailed account of the civil service law and its coordination with the education system see Dr. McGovern's *Modern Japan, Its Political, Military and Industrial Organisation*.

duced. Itō travelled abroad in 1882, and in Germany he saw Bismark accomplishing wonders by suppressing the socialists and expounding a theory of politics which made the state paramount. Itō saw that it was good, and used the same system in Japan, not neglecting to preach the theory of divine right and to treat as traitors to the Emperor all believers in democracy.

This period ended in 1889 with the promulgation of the constitution, the work of Itō's pen. In drafting it, Itō signed the death warrant of his method of oppressing the enemies of bureaucracy, for the constitution gave a legal color to the preaching of democracy because it provided for a House of Representatives. The bureaucrats could no longer say that their enemies were traitors.

They did not lack skill, however, in fighting their enemies of the lower house. They pressed to the utmost their autocratic interpretation of the constitution, declaring that since the Emperor has the sole right to appoint the ministers, the lower house has no right to criticise his choice. Bureaucratic premiers, repeating this theory, ignored votes of lack of confidence. The only recourse remaining to the House of Representatives was a direct petition to the Emperor to remove the offending official. As soon as the bureaucrats saw this coming they would dissolve the House and order a new election.

Many professors of the Imperial University who had studied in Germany upheld the bureaucratic theory of the constitution.<sup>1</sup> The advocates of democracy were not so

<sup>1</sup> For many years the law schools have been the predominating elements in the Japanese universities. Students in these schools are trained, not to become gentlemen, as in the British universities, nor to become able lawyers, as in the American law schools, but to pass the civil service examinations. They choose their courses and their professors to this end. The civil service examiners are usually university professors. Thus if the bureaucrats can control the professors, they can control the entire government service.

learned, and were easily vanquished in argument. None but graduates of the Imperial University were able to pass the higher civil service examinations, and the professors could force their theories upon the students by refusing graduation to those who did not agree with them.

The bureaucrats did not scruple to use bribery and coercion in further support of their cause. At this period the officials were the wealthiest class, and they easily succeeded in bribing members of the lower house and candidates for office. Then, too, by taking advantage of their control of the police, they could force the people in the local election districts to vote for the right man or suffer for insubordination.<sup>1</sup>

In spite of all this, the Japanese people clung to their idealism, and the political parties increased in influence. Prince Itō himself, seeing how difficult it had become to succeed in politics without the support of the parties, changed his views and became himself the founder of a party, the Seiyukai, in 1900.

This introduced a period of compromise between the bureaucrats and the parties. At this stage (the opening of the twentieth century) Prince Katsura, the protégé of Yamagata, was the chief leader of the bureaucrats. Although he was a general, Katsura was not intolerant of the parties, and he entered into an agreement with the Seiyukai whereby he alternated in the premiership with the Seiyukai leader, Marquis Saionji. The compromise was successful. At this period the party men sought to invade the field of

<sup>1</sup>Dr. Yatsuka Hozumi, of the Imperial University of Tokio, was of great assistance to the bureaucrats in suppressing liberalism. Doubtless he truly believed the doctrines he preached, for he was a man of high character, but his opposition to progressivism made him a target for the ridicule of liberal students to the day of his death. Followers of the bureaucratic doctrines held him in high esteem.

the bureaucracy by amending the civil service laws, but this the bureaucrats refused to permit. The ambition of the party men was satisfied by an alliance with the capitalists, just then rising to power. The bureaucrats permitted the alliance and even co-operated with the party men to the extent of granting government subsidies to the corporations of which the party men became directors.

Then came the death of the Emperor Meiji in 1912, and the succession of the Emperor Taishō. The bureaucrats at that time were forced temporarily into the background, and the parties took over the reins of government. This fact gave rise to the term Taishō Revolution, applied to the events of that period by some students, who consider that the death knell of the bureaucrats was then sounded. But as a matter of fact the bureaucrats soon recovered, when Count Terauchi, a protégé of Yamagata and a man completely without party affiliations, became premier in 1916. Then Terauchi was forced out in favor of Hara by the rice riots of 1918, the first proletarian uprising in the history of modern Japan. But still the bureaucrats lurk behind the scenes and at any moment they may appear again upon the stage.

## V

We have seen the evolution of the methods used by the bureaucrats to deal with their enemies: first, military oppression; next, suppression by civil law; next, (in the first years of the constitution) subterfuge, bribery and political coercion; next, compromise; and finally, periodic retirement to the background in order to regain strength. Let us now go over the historical ground once more, placing the emphasis this time upon the personalities of the bureaucratic leaders, and their struggles with each other for supremacy.

In glancing over the record of the modern Japanese

bureaucracy it is possible to discern at each stage one outstanding figure. The relations of these successive leaders may then be described, and their stories linked together. Such a procedure is bound to be somewhat artificial, but it will increase the reader's understanding of the situation.

Toshimichi Okubo, a samurai of Satsuma, may fairly be said to have been the first outstanding bureaucrat. He was a genius in civil administration, cosmopolitan in spirit, loyal to the nation before the clan, kindly to those he liked and terrible to his enemies. He gathered about him the talented young men of the nation regardless of their clan connections. Ability, not birth, was his standard of value, and he became the patron of young Itō of Chōshū and Okuma of Hizen, although he was a Satsuma man. His ambition was to unite the nation.

The leading samurai of the Satsuma clan were then divided into two groups, one led by General Takamori Saigō and one by Okubo. Saigō's followers were intensely militaristic and feudalistic, thinking only of their class and the glory of their clan. They were looking for war, at home or abroad, so that they might show their prowess. The men of the Okubo group were broader in their outlook. They knew something about conditions in the rest of the world, and they realized some of the weaknesses of Japan. They were interested in civil organization rather than military prowess. This group at first was the weaker, and Saigō of Satsuma struggled with Kōin Kido of Chōshū for the leadership of the new Japan.

Okubo was at that time touring Europe and America as one of a commission headed by Prince Iwakura. They were the first Japanese to make such a tour. Okubo returned with an increased belief in the importance of civil rather than military matters, and he aroused great resentment among the militaristic samurai by the assertion that the *heimin* (commoners) were as good as they.



The struggle came to a climax on October, 1873, over the Korean problem. Saigō and his followers believed that Japan should then and there send an army to Korea and conquer the country, thereby showing the world what real warriors can do if they want to. Okubo advocated internal reform before embarking on any ambitious enterprises abroad. Okubo's opinion prevailed, and Saigō was forced to resign his post in the government. He sought to re-establish himself by force of arms, and rallying the young men of his clan about him, he led the Satsuma Rebellion of 1877. Okubo took the field against him at the head of the newly formed conscript army, organized according to modern methods, and in this first test of the new Japan against the old the samurai were hopelessly beaten. Half of the young men of Satsuma were killed, and Saigō committed harakiri.

Okubo's triumph was not long-lived. He was assassinated by a group of vengeful samurai in May 14th, 1878. But he had started the nation on the way toward a new era of unity. After the Satsuma Rebellion there was no more civil war.

At about the same time all of the old leaders, including Kido and Iwakura, died. Hirobumi Itō and Shigenobu Okuma, both very young men, struggled for the succession. In 1881 Okuma dropped out of the race, and left the field to his rival, whose brilliancy was already gaining recognition. The resignation of Okuma from the government marks the first differentiation of the statesmen of Japan into the two great camps, bureaucrats and party men. Okuma, in retirement, worked on the development of a political party, and Itō, in office, developed the powerful bureaucratic machine.

After a period of observation abroad Itō, as we have seen, drafted the new constitution, and under it became the first prime minister, then president of the Privy Council, and

then president of the House of Peers. Okuma and Itagaki, party leaders, protested in vain against this monopolization of the important offices.

Chōshū and Satsuma, the great clans which had overthrown the shōgun, continued to occupy the high places. Itō, a Chōshū man, very sensibly took into consideration the claims of the rival clan, and, as we have seen, by mutual agreement Chōshū was alternated in the premiership with Satsuma men until 1898. Satsuma, however, had been greatly depleted in numbers by the rebellion led by Saigō, and Chōshū won the great prizes by dint of numbers.

Then came the Sino-Japanese War (1894-5), and Japan became once more a military nation. When civil affairs were of paramount importance, none could rival Itō in influence. But with war came the opportunity of Yamagata, the arch-militarist, the genius of the army, who then became the active head of the bureaucracy. Hitherto he had been simply a soldier. Now, taking advantage of the patriotic spirit aroused by the war, he rose to the position of greatest power in the nation.

Yamagata himself did not remain long in a position of supremacy. But he ruled for years from the background (from his position as an Elder Statesman) placing his puppets in office. His first protégé was Prince Tarō Katsura, a brilliant general, a former samurai of Chōshū, who won his title of Prince in twenty years of public service. Yamagata made him premier in 1901 after overthrowing by intrigue the fourth Itō cabinet. Japan was still smarting under the intervention of Russia, Germany and France after the Sino-Japanese War, when the Powers revised the Treaty of Shimonoseki (October, 1895), and returned the Liao-tung Peninsula to China. Therefore the nation welcomed the intense militarism of Katsura and his patron.

Katsura, an extremely able man, finally grew so strong that he attempted to overthrow the influence of Yamagata and rule in his own right. He was emboldened to this step by his continuance in office throughout the Russo-Japanese War, (1904-5), when his jingoistic tendencies gained greater recognition than ever, and by the ease with which he manipulated Marquis Saionji, the leader of the Seiyukai, with whom he alternated in the premiership as a result of a compromise. Therefore he attempted to defy both the Seiyukai and Yamagata by the formation of the new political party, the Doshikai. He was not entirely unsuccessful, but his career was cut short by death in October 1913.

For a few years after the death of Katsura the bureaucratic influence was lessened. Quasi-party cabinets, under Admiral Yamamoto (1913-14) and Marquis Okuma (1914-16), leader of the Kenseikai, ruled the nation. But finally Okuma made a tactical blunder, and Yamagata, still lurking in the background, saw that the time was ripe to place another of his protégés in power. His new pupil was General Count Terauchi. Taking advantage of a quarrel between Seiyukai and Kenseikai, Yamagata made it possible for Terauchi, who had no party affiliations, to form a cabinet and to remain in office for two years (1916-18): Japan was then fighting on the side of the Allies, the enemies of militarism, but she herself was ruled by a militarist. Terauchi was not overthrown until 1918, when the rice riots and the intrigues of the Seiyukai, led by Hara, finally cast him from power.

From about 1895 to 1918, then, the arch-bureaucrat and the real ruler of Japan was Prince Yamagata. He still lives and intrigues, surviving both the older bureaucrats and the younger men, Katsura and Terauchi, whom he placed in office. The power of the bureaucrats to-day is bound up in him. When he dies, the last of the great Japanese bur-

eaucrats will have gone, and the resurrection of the old bureaucratic rule will have become considerably more difficult.

The death of Terauchi in 1919 has left Yamagata without a protégé of the first rank. The most likely candidate for that distinction is General Tanaka, who is, however, still too young to become prime minister. Meanwhile, the strongest men in the bureaucratic ranks are Baron Gotō, Viscount Kiyoura and Viscount Hirata, who are not direct followers of Yamagata but might possibly fall under his tutelage. All are waiting patiently for the inevitable downfall of the Hara cabinet.

Baron Gotō is the man who seems to be next in line for the political leadership of Japan. He was born a samurai of a small clan in the north of Japan. He was educated in Germany, and is a physician by profession. Although he has held office under the bureaucrats, and has always worked with them, he did not, like most of them, work out his entire career in the civil service. His bureaucratic color, therefore, is not quite pure.

Gotō's first important position was the command of the government hospital in Nagoya. He later was "discovered" by General Kodama, of Chōshū, who for a while was a contender for the leadership of the bureaucrats. Through Kodama's influence Gotō became the Governor of Formosa, an office which he filled with distinction, developing a model system of colonial administration. Later he distinguished himself as President of the South Manchurian Railway, the center of the Japanese colonization movement in Manchuria.

In the second Katsura cabinet (1908-1911) Gotō was minister of communications. Thereafter he held various cabinet offices and constantly increased in experience and influence. As Katsura's lieutenant he was one of the organizers of the Doshikai, working in rivalry with Viscount

Katō, now leader of the Kenseikai. When Katsura died Gotō left the party and rejoined the Yamagata forces. During the Terauchi administration (1916-1918) he was very powerful, earning the nickname of "vice-premier." He was the first minister of foreign affairs who had never passed the examination required for entrance into the diplomatic service.

He is now laying the foundation for future power. He has cultivated the friendship of Prince Yamagata and at the same time has flirted with the Seiyukai. In 1919 he traveled abroad, studying especially the labor movement. He is watching and waiting and deciding with whom he must cast his lot.

If Prince Yamagata lives on, Gotō will probably remain loyal to the bureaucracy. Yamagata's power is still supreme. When Yamagata dies, the day of prosperity for the bureaucrats will be ended and Gotō will enter the ranks of the political parties to carry his standard. The field is already well occupied by the Kenseikai and Seiyukai, and any attempt at invasion must be made boldly and skillfully. In this fact may be found an explanation of Baron Gotō's extraordinary interest in the European and American labor movement. When Prince Yamagata dies, he may seek to rise to power on the flowing tide of the Japanese labor movement. He may form a labor party.

If Yamagata lives, Gotō's position is secure, for Yamagata will make him premier until General Tanaka can be groomed for the position. Whether Gotō can carry on a successful intrigue after Yamagata dies, remains for the future to tell.

## CHAPTER VI

### THE MILITARISTS <sup>1</sup>

#### I.

FROM the ninth to the nineteenth century Japan was ruled by the sword. The power of the state was the military power. The ruling classes were the military classes. The shōgun ruled the lords because he could defeat them in battle. The daimyō ruled their territories by the power of the sword; and any samurai could slay at will any heimin (commoner). The samurai never travelled abroad unarmed.

Bushido,<sup>2</sup> the chivalry of the Japanese feudal period, was a code of militarism. To be sure, much sentimentality developed about it, and crude brutality was largely eliminated; but at the bottom was the sword, and nothing else. Bushido taught that the sword of the samurai was his honor, which was dearer to him than his life. The sword was a symbol of God.

<sup>1</sup> In this chapter, the writer has utilized some of the historical data on Japanese militarism and imperialism given in *Toishō-no-Seinen-to-Teikoku-no-Zento* (*The Young Men of the Taishō Era and the Future of Imperial Japan*) by Iichiro Tokudomi, published in Tokio, 1916. It is said that more than 24,000 copies of this book were sold in six months. It is considered by many to be one of the most penetrating and influential pieces of propaganda ever issued by the sympathizers with militarism in Japan. The present writer's views on Japanese militarism are, however, not at all influenced by the propagandist elements of the book.

<sup>2</sup> For a full account of the philosophy of Bushido, see Prof. Inazo Nitobe's *Bushido*. His interpretation of Bushido is somewhat different from the present writer's understanding of it.

For ten centuries the nation was engulfed in this tradition. What wonder that the Japanese to-day are inclined to be militaristic? It has been said that the militarism of Japan was imported from Germany. Japan was a military nation before she ever heard of Germany. What happened was this: the devotees of the old military spirit, seeking a means of expression in the modern world, saw the Prussian scheme of militarisation, found it good, and adapted it as far as possible to Japan.

## II

Though the history of Japan thus reveals a sea of militarism, the sea is, of course, not entirely without islands. In the periods known as Nara (707-781 A. D.) and Hei-An (781—about 1158 A. D.) there flourished in Japan a civilization of the highest and most pacific type, imported and adapted from China. The arts flourished, and the rulers of the land were nobles who spent their days writing verse and their evenings in the contemplation of the moon and stars. Most of the great works of early Japanese art were produced in these early days.<sup>1</sup> But the military clans arose and overthrew these nobles. Throughout the years of militarism the spirit of those peaceful days flourished only in Kyōto, the court of the Emperor, where the nobles continued in retirement to practice the beautiful customs which had formerly prevailed throughout the land.

Besides Kyōto there was one other city where the sword was not supreme. This was Osaka, where the merchants, a class despised by the feudalists, maintained an almost free existence. Here the customs of feudalism were enforced only in name. Money, not the sword, was the ruling power. Though the daimyō hated the traders, they needed them,

<sup>1</sup> Those who visit the ancient cities of Nara and Kyōto can see relics of the ancient civilization of Japan.

for in Osaka was the only rice market in the country, and the surplus product of the land could be disposed of in no other place. This gave the merchants a weapon, which they used to preserve the spirit of independence.<sup>1</sup>

### III

The Meiji revolution brought no essential change in this condition. Feudalism was overthrown, but by what? By the sword, in the hands of the Chōshū and Satsuma clans. Tokugawa Keiki, the last of the shōguns, surrendered his power only after he had been beaten in the field, at the battle of Aidzu-Kuwana in 1868. The statesmen of the Meiji era were fully aware of this. When the political parties demanded that Prince Yamagata surrender the power which he held, they claimed, in defiance of the constitution, Yamagata replied: "We won our power by the sword, and only by the sword can you take it from us."

Thus militarism carried its supremacy into the new era. It was opposed by two counter-influences: the influx of European thought, particularly that of England and America; and the ancient Chinese philosophy of non-resistance which the court nobles of Kyōto had fostered, and identified, as closely as they could, with the religion of loyalty to the Emperor. More powerful than these counter-influences were the forces favorable to militarism that were then brought to bear upon Japan. The later part of the nineteenth century was a period of militant nationalism throughout the world. The shōgun abdicated in 1867; Germany and Italy were nationalized, through war, in 1860-1870, and at the same time all Europe sounded the note of nationalism. Japan, as well as Germany and Italy, needed unification, and like them, she found that the best way to get it was through military organization.

<sup>1</sup> The populace is fond of ridiculing the feebleness of the Osaka regiment as a fighting unit.



War with China and later with Russia greatly intensified this spirit. Both struggles, to the Japanese people, were fights for existence. Japan saw enemies all about her. China, called the "sleeping lion," had for years been defiant and brutal to her small island neighbor, and in 1887 sailors from a Chinese fleet had visited Nagasaki, murdered police and citizens, ravished women, and retired unharmed. The memory of this made easy the task of the Japanese statesmen who wished to organize the military and naval power of their nation. At the same time Japan saw the European powers accomplishing the subjugation of Asia. Russia, strongly entrenched in Siberia, was moving on toward Manchuria and Korea. Britain, France and Germany were breaking the isolation of China. Then, after Japan had fought and defeated China, surprising the world by her prowess and avenging her wrongs, Russia, France and Germany intervened, and "advised" Japan to relinquish her conquests, leaving her only the island of Formosa and an indemnity. The powers thereupon utilized the humiliation of China, which had been effected by Japan, to gain extensive concessions for themselves. Russia took the Liao-tung Peninsula, the most prized bit of plunder that Japan had won.

Popular feeling, encouraged by the military leaders, was most intense. "We must defeat Russia," was taught in schools, sung by the popular musicians, used as a theme by writers. Then came revenge in the Russo-Japanese War. In the World War Japan was avenged on Germany, the second of the trio that had intervened. The taking of Tsing-tao, the concession that Germany had won from China after intervention, was actually hailed by many of the Japanese people as the redressing of an old but forgotten wrong.

All this convinced the Japanese that they must defend

themselves by military power. The belief in military preparedness became almost universal. Even the liberals, the bitter opponents of the bureaucratic and militaristic statesmen, realized that Japan must go armed to keep her place in the world, and many of the socialists—of whom there are comparatively few altogether—cannot now accept that part of the radical doctrine that insists upon national disarmament.

The bureaucrats foster the military spirit, and use it to their own advantage, many of them, of course, sincerely believing that it is also to the advantage of Japan. They seek to make the spirit of loyalty to the Emperor coincide with the military spirit, and to represent the Mikado as a soldier-ruler, although, traditionally, he is quite the opposite. In their propaganda they emphasize the nationalistic and militaristic side of western civilization, and at the same time they make the most of the victories of the Japanese armies. They have militarized practically the entire nation, having put uniforms on the college and high-school students, the civil servants, and every organization they could reach. The only groups that have avoided their propaganda are some of the merchants of old Osaka, now grown to be powerful capitalists, and some of the young men of the nation who have studied the Anglo-Saxon philosophies or the individualism of Tolstoi and other Russians.<sup>1</sup>

#### IV

Certain peculiarities in the Japanese political system give the militarists a political power within the nation that is unheard of in any other country to-day.

<sup>1</sup> Russian novels, translated into Japanese, have been the means of conveying much Russian radical philosophy into Japan. The government, not perceiving the dangerous quality of fiction, has been careless in its censorship of these novels.

A Japanese Imperial Ordinance<sup>1</sup> provides that no man can be minister of war unless he is a general or a lieutenant-general, and no man can be minister of navy unless he is an admiral or a vice-admiral. Until the Yamamoto cabinet a few years ago none but generals and admirals in active service could hold these cabinet positions, and then, by dint of hard fighting on the part of the Seiyukai, the provision was liberalized only so far as to extend the privilege to officers on the reserve lists.

This, it will appear at once, is contrary to the democratic practice of cabinet government. In countries like France, England, and the United States, the ministers of the army and navy are always civilians, as a safeguard against militarism. But in Japan the makers of the Japanese constitution thought it proper to provide otherwise.

These Imperial Ordinances, supplemented by the rule that no army officer may affiliate with a political party, gives tremendous power to the militarist. It must be born in mind that until recently almost all the high officers of the navy were former samurai of Satsuma, all the high officers of the army were of Chōshū, and the leading officials of the bureaucracy were also of these clans.

Further, the ministers of the army and navy have, by Imperial Ordinance, direct access to the Emperor, and are therefore completely beyond the control of the prime minister.<sup>2</sup>

As a result of this provision, the administration of the army and the navy is entirely beyond the control of a

<sup>1</sup> Imperial Ordinance No. 314, 1908, amended by Imperial Ordinance No. 165, 1912, Article 26 (An Ordinance to Regulate the Department of the Army). Also Imperial Ordinance No. 194, 1900, amended by Imperial Ordinance No. 168, 1912, Article 17 (An Ordinance to Regulate the Navy Department).

<sup>2</sup> Imperial Ordinance No. 135, 1889, amended by Imp. Ord. No. 7, 1907, Article 7. (Cabinet Organization.)

cabinet dominated by the political parties. The ministers of the army and navy do not resign with a retiring premier, but continue in office in the cabinet of his successor. Their long tenure of office gives them experience beyond that of the newcomers in government, and it also makes possible the frequent choice of army and navy men for the office of prime minister, for it is the rule that a man must always serve in several cabinets before he may be asked to form a government.

The military clique does not hesitate to use the power bestowed upon it by these Imperial Ordinances as a club to force its will upon an unfriendly prime minister. If a premier quarrels with the minister of war or the minister of the navy he has not much chance of surviving unless he himself is an army or navy man. The military or naval colleagues of the revolting minister will always stand firmly behind him.

An understanding of these facts will make clear many of the complex intrigues with which Japanese politics is rife. Consider, for instance, the quarrel that wrecked the third Katsura cabinet. Before Saionji resigned in 1912 to give way to Katsura he formed an alliance with the Satsuma naval clique, and he induced Admiral Saitō, his minister of the navy, to resign with him. Katsura urged Saitō to remain, but to no avail. In vain the prime minister cast about among the admirals for a man who would serve him, but no one would accept the post. At last, in desperation, he went to the Emperor, whom he persuaded to issue an imperial edict ordering Saitō to serve. Saitō, of course, could not refuse this. Katsura therefore won his minister of the navy, but in doing so, he sacrificed his own political future, for the utilization of an Imperial Edict in so shameless a manner is not tolerated in Japan.<sup>1</sup> Katsura soon fell,

<sup>1</sup> R. Uzaki, "The Past, Present and Future of Japanese Militarism" in the *Chugai-Shinron* (a political monthly), vol. iii, no. 1 (1919), pp. 8-9. W. W. McLaren, *A Political History of Japan*, p. 346.

and the naval clique succeeded in placing Admiral Yamamoto as his successor in 1913.

After Yamamoto had run his course, the enemies of the naval clique attempted to form a cabinet under Viscount Kiyoura in April, 1914. Every admiral refused to serve as minister of the navy in such a cabinet, and the attempt failed.<sup>1</sup>

Consider, again, the intrigue that wrecked the second Saionji cabinet in 1913. General Uyehara, the minister of war, demanded that two divisions be placed on garrison duty in Korea. Saionji was pledged to a policy of retrenchment, and found it impossible to accede to this demand. Accordingly, the general resigned, handing his resignation directly to the Throne, instead of giving it, according to custom, to the prime minister. No other general would take his place. Therefore nothing but resignation was left to Saionji.<sup>2</sup>

These examples make it plain that the generals or admirals, by virtue of the ordinances which make two vitally important cabinet posts independent of the prime minister, can wreck any cabinet they choose. This gives militarism a strangle-hold on the government of Japan. The present prime minister, Mr. Hara, although he is opposed to the militarists, can keep his power only by conciliating them. If General Tanaka, his minister of war and the protégé of the arch-militarist, Prince Yamagata, should quarrel with Hara and hand in his resignation, Hara would be forced out immediately.

<sup>1</sup> Ichiro Tokudomi, *Taisho-Seikyoku-Shiron (A Political History of the Taisho Era)*, pp. 231-2.

<sup>2</sup> W. W. McLaren, *op. cit.*, pp. 344-5.

## V

The militarization of the Meiji government in recent years was accomplished largely by one group of men: the high army officers who have come from the Chōshū clan. The navy, whose higher command is monopolized by Satsuma, has given the nation only one eminent statesman, Admiral Yamamoto. But the Chōshū army has developed three great generals who also have been statesmen;— Yamagata, Katsura and Terauchi. Among them, two have occupied the premiership during a large portion of the Meiji era, and one in the Taisho era. The Yamamoto cabinet, it must be noted, lasted only one year.<sup>1</sup>

It might be expected, since Japan is naturally a sea power, that if any warlike group were to dominate the national politics it would be the navy rather than the army. It has not so developed however, for two main reasons: first, the early strength of Satsuma was impaired by the death of most of the ablest men of the clan, and second, military arrogance and clan feeling is not so intense in Satsuma as in Chōshū.

The strength of Chōshū arises largely from the organization of the Japanese army, which places practically complete control in the hands of two men: the minister of war and the chief of the general staff. Chōshū has always managed either to fill these positions with its men, or to capture all the positions slightly subordinate to these, so that the underlings could dominate the chief. Clan loyalty is extremely intense in Chōshū, and for this reason Chōshū domination has been complete.

When Chōshū lacks sufficient capable men in its own ranks, it has the faculty of taking outsiders and assimilating

<sup>1</sup> R. Uzaki, *op. cit.*, p. 4, and his book *Cho-no-Rikugun-Oyobi-Satsuma-Kaigun (The Chōshū Army and the Satsuma Navy)*.

them so that they completely reflect the Chōshū point of view. This it did with General Oka, a man of a minor clan, who became minister of war in the Okuma Cabinet, and with General Uyehara, who, though a Satsuma man by birth, wrecked the third Saionji Cabinet in the interests of Chōshū militarism.<sup>1</sup>

## VI

In the earliest days of Meiji, Satsuma shared with Chōshū the positions of high rank in the army. Indeed, for a few years Satsuma held the higher place, for General Saigō, a Satsuma man, was the military hero of the Restoration movement. Okubo, the bureaucratic leader, was of the same clan. These two leaders, by fighting each other, destroyed the influence of Satsuma in 1877.

The samurai of Satsuma, who formed the clan army, followed Saigō almost to a man. Therefore, Okubo turned for aid to the Chōshū army, then numerically weaker than that of its rival clan. Yamagata, even in those early days an eminent Chōshū general, devised in 1873, the plan of universal military service based on a conscript army of heimin, and Okubo defeated the samurai of Satsuma. Let me remark, parenthetically, in justice to these leaders, that the general welfare of the nation was one of the motives for their adoption of universal military service. But the desire to defeat Satsuma was another.

The military struggle came to a climax, as has been said before, in the Satsuma Rebellion of 1877, which was in a measure instigated by the Chōshū army. The revolt ruined Satsuma. The younger samurai of the clan followed General Saigō, and were killed; the older, wiser men balked at treason and sided with Okubo. Among the former group were Shinowara, Kirino and Murata; and among the latter,

<sup>1</sup> R. Usaki, *op. cit.*

were Kuroda, Lieut.-Gen. Saigō, Maj. General Oyama, the Nodzu brothers, and Admirals Takashima and Kabayama.

In the period that followed, during which the militarists were not active politically, the supremacy of Satsuma continued. The political leaders were Okubo and Itō, who were interested chiefly in civil affairs. The ministers of war and of the navy were mostly Satsuma men. Oyama, Takashima, Tyudō Saigō and the chief of the general staff, Sōroku Kawakami, the most brilliant soldier Japan has ever produced, were of that clan. Kawakami, like most of the Satsuma leaders, did not choose his subordinates from among his clan mates only, but he sought any one with ability, whatever his origin.

The Sino-Japanese War (1874-1875) provided further opportunity for the Satsuma military leaders to win glory. But shortly after the war, most of them, as if by a sudden epidemic, died, leaving no successors in their own clan. This left Yamagata in a position of vantage, and gave him an opportunity to become the grand military leader of the nation.

Yamagata exploited the military spirit of the nation, which had been greatly aroused by the war and the three-power intervention after the Treaty of Shimonoseki, to increase his own influence. He expanded the army, and in the high places he placed Chōshū men, whose loyalty to him he could trust. The generous policy of Kawakami, now dead, made his task easier, for he found no solid Satsuma group to oppose him.<sup>1</sup>

For years thereafter, the post of Minister of War was held by Katsura (1898-1900), Kodama (1900-1901), and Terauchi (1902-1911). Of these, Katsura and Terauchi

<sup>1</sup> Yūzirō Miyake, *Who can Control the Japanese Militarists?* in the *Chūwa-Kōron* (a political monthly), Sept., 1918.



rose to the premiership. All three were of Chōshū, and loyal to Yamagata.

## VII

In the meanwhile Satsuma, driven out of the army, was intrenching itself in the navy, which had grown since the restoration from a negligible position to one of great importance. The small significance of the navy in the earliest Meiji years is shown by the fact that at that time it was considered that to be an admiral required no special training, and men were often generals and admirals both. But now, especially since the Sino-Japanese War, in which the decisive battle was naval, and since the development of foreign commerce, the situation is different.

Tudō Saigō and Kabayama devoted themselves to the development of the growing navy, and they captured it for Satsuma. They passed the scepter down to Yamamoto, who was minister of navy for ten years, and who grew sufficiently important to become a rival of Katsura for political power.

Yamamoto won his premiership by an alliance with the Seiyukai in 1913. He was at first interested in the Koku-min-tō rather than any other party, but when Katsura formed the Doshikai of Kukumintō men he transferred his interest. The change was fortunate, and he was able to form a cabinet. While in office he struck a blow at Chōshū domination by widening the qualifications for ministers of the army and navy to include reserve officers. This struck a blow at the militarists of the army, because there were very few Chōshū men on the reserve list.

The naval scandal case of 1913 deprived Yamamoto of power and was a tremendous set-back to the rising political fortunes of Satsuma. The clan was further punished in May, 1914, by the removal from active service of Saitō and Takarabe, two of its most promising admirals.

Since the death of Terauchi in 1919, which was a great blow to Chōshū, the tide of power is flowing again toward Satsuma. The Seiyukai, which is now in a position of great influence, is in debt to Satsuma for the aid rendered during the Yamamoto cabinet. This debt Hara has already started to pay by giving to Admiral Saitō the desirable post of Governor of Korea. He has also restored Takarabe to active service, and given him an important command.

Thus the situation stands today. Tanaka, still young, is the hope of the army group, and Takarabe is the coming champion of Satsuma. Neither of these will have as great political opportunity as had the admirals and generals who went before them, for the rise of the parties has taken much power from the hands of the militarists.

## CHAPTER VII

### POLITICAL PARTIES

#### *Part I. Analytical*

##### I

THE formation of a cabinet in 1918 by Mr. Hara, a party man as free from association with the old-line bureaucrats as any politician in Japan, was hailed by many uncritical persons as a triumph of democracy. The present government is the first in the history of Japan to be formed exclusively of party men—with the exception, of course, in compliance with the Imperial Ordinances, of the ministers of the army and navy.<sup>1</sup> It came after a struggle of thirty years between the parties and the bureaucrats. The Japanese people still retain some of the enthusiasm they expressed when the cabinet came into power.

But their enthusiasm is misplaced. The parties do not represent the Japanese public. Least of all does the Seiyukai, of which Mr. Hara is the head.

The different parties represent three groups, the land-owners, living on rent collected from tenants whose con-

<sup>1</sup> In comparing the Wai-Han cabinet (*cf. supra*, p. 91) with the present Hara government, which is a true triumph for the political parties, it must be borne in mind that Hara is a commoner and a member of the House, whereas Okuma and Itagaki were both peers and were connected with the House only as leaders of the parties in the legislature. Moreover Hara is backed by a thoroughly organized party, not by a hastily concocted coalition.

dition is only slightly better than in feudal days; the merchants and manufacturers of the cities who are sufficiently prosperous to pay the business tax; and the higher salaried classes, largely officials of the government or of corporations, who pay an income tax. The Seiyukai derives most of its support from the first group, and the Kenseikai from the second. All three groups may be termed the higher bourgeoisie. Unlike corresponding classes in Anglo-Saxon countries, they have no tradition of a fight for freedom, and they have no sympathy with the struggling masses. Their tradition, carried over from the days of the Tokugawas, when most of them or their fathers were samurai, gives them a sense of superiority over the common workers.<sup>1</sup>

The total electorate of Japan, under the law permitting only payers of large direct taxes to vote, is about 3,000,000. The population of the country is about 56,000,000 (excluding Korea). Until the election laws were slightly liberalized by the Seiyukai government about a year ago, the electorate was about two-thirds of that size.

So even a strictly party government, which commanded a large majority in the House of Representatives—a majority which, by the way, the Hara cabinet has not always enjoyed—would hardly be democratic.

There are many similarities between the party politicians and the bureaucratic politicians. Both are largely of the samurai class in origin. Neither group cares about the masses. The bureaucrats, in fact, in recent years have taken a keener interest in the welfare of the proletariat than have the party politicians. Like the English Conservatives, the opponents of the Liberal Party which represents

<sup>1</sup> Etsuziro Uyehara, *Democracy-to-Nihon-no-Kaiso (Democracy and the Reconstruction of Japan)*, pp. 99-100; Putman Weale, *The Coming Struggles in Eastern Asia*, pp. 357-60.

industrial interests, they have begun to coquette with labor. The left wing of the Japanese House of Peers is more interested in social legislation than the "democrats" of the lower house.

There is this real difference between the bureaucrats and party men:—the bureaucrats preach benevolent despotism, declaring that the wise should rule and emphasizing the traditional authority of the emperor, while the political party men believe in the parliamentary system of government by elected representatives. But the party men do not desire to be representative of the entire people. They are champions of various minority group interests. It is possible that believers in a despotism may have the interest of the whole nation at heart, but the champions of a group will always oppose the other groups.

It is conceivable that the bureaucrats may in the near future support the movement for universal suffrage, for such an attitude would strengthen their arms against the parties. The parties, however, are not likely to support such a policy, for it is aimed against their propertied constituents. Ten years ago, when the Seiyukai had no influence in the cabinet, although it controlled the House of Representatives, it passed a resolution favoring universal suffrage; but today, when the party has actual power, it is on the other side. This party is democratic only when nothing more effective than a resolution is contemplated.

## II

Party platforms in Japan mean nothing.<sup>1</sup> They are virtually all the same, varying neither between parties nor from election to election. Seiyukai, Kenseikai and Koku-

<sup>1</sup> Mr. Pooley's journalistic discussion of this point is suggestive and interesting. Cf. his book *Japan at the Cross-roads*.

mintō alike always declare in national elections that the "divine authority of the Emperor must be respected, the welfare of the nation depends on the prosperity of the Imperial Dynasty . . . . we must have ample preparedness for the national defense . . . . Japan must develop her industries." On national issues the platform declarations are never concrete. Mr. Hara is quite frank about it; he has often said, "My platform is a blank sheet of paper; I can write upon it what I will." The Kokumintō, which has only a few members in the house, sometimes violates this rule and puts forward some concrete proposal in its national election literature, but this is only a symptom of weakness.

• In the local elections the party platforms are not quite as bad. They are at least concrete. But still there is little difference between the declarations of the different parties. They, all alike advocate the construction of bridges, and railroads, or the improvement of harbors, undertakings which would be of advantage both to the landowners and to the commercial classes, and which might yield profitable contracts to the associates of the politicians, or even to the politicians themselves.

What slight difference may sometimes be detected among the declarations of the various parties is a matter of emphasis rather than of essential content. The Seiyukai places the stress upon policies favorable to the rural interests: the reduction of the land tax, the imposition of a high tariff on imported rice, the extension of railways in the rural districts. The Kenseikai gives more attention to the reduction of the business and income taxes, and the imposition of a tariff on manufactured products. The Kokumintō sometimes wanders into the field of idealism, advocating something that would be pleasing to the masses, but only because it need not put its ideals into effect.

## III

Within the political parties there is no democracy. The aim of each party is power. To win power the *sine qua non* is a leader having prestige, sufficient to enable him to become a prime minister some day. To keep such a leader the party must obey him absolutely. Therefore the parties are usually one-man affairs. The decisions of the Seiyukai are made by Mr. Hara, with the assistance only of a council of some eight or nine Seiyukai leaders in the House of Representatives. The rest of the party just follow.

This has been true from the earliest days. When, at the beginning of the Meiji era, Itagaki formed the Jiyu-tō or Liberal Party and Okuma the Kaishin-tō or Progressive Party, these men were autocrats among the samurai of Hizen and Tosa that followed them in the party movement. Each maintained his rule as long as he had a chance to become prominent in the government. When Itagaki lost his prestige, his party went over in a body to his enemy, Prince Itō, who reformed it into the Seiyukai and, like his predecessor, ruled absolutely, for he was then the greatest man in the land. His successors, Matsuda, Saionji and Hara, have also been autocrats in the party. Okuma's Kaishin-tō (the name of which was later changed to Kokumintō) ran a similar course. As Okuma's chances for high governmental position seemed to wane, some of his opportunist followers broke away, and under the leadership of the militarist Katsura formed the Dōshikai. Katsura had an immediate road to power and that was all they cared about. They later returned to the banner of Okuma and were rewarded when, after Katsura's death, the old Kokumintō leader became premier. But that is neither here nor there. The point is, the parties are owned by their leaders: the Seiyukai by Hara, the Kenseikai by Viscount Kato, and the Kokumintō, now, by Inugai.

Thus the party government in vogue at present is not much of an improvement over bureaucratic government.

The present strength of the political parties is due, in a large degree, to nothing more than the dying off of the bureaucratic leaders. None remain to take up their work except those who have identified themselves with the parties. Few of the old bureaucrats have left heirs to carry on their work along the original lines. The ruling clans Chōshū and Satsuma, from whose ranks have come the bureaucratic leaders, no longer count among their young men statesmen of sufficient promise to receive the falling scepter. Therefore the power passes to their rivals among the parties.

In Chōshū, where once there were so many brilliant men, there now remains only the old Prince Yamagata, who still holds the reins of state. No member of the clan remains to succeed him but General Tanaka, who is minister of war in the Hara cabinet; but Tanaka is too young to become a great leader for some years. Yamagata's successful protégés, Prince Katsura and Count Terauchi, are both dead. The other great Chōshū Genrō, Prince Itō, chose his successors, Viscount M. Itō and Marquis K. Saionji, outside the Chōshū clan. Thus, unless General Tanaka displays extraordinary precocity, the day of Chōshū's greatness is nearly past.

In the Satsuma clan death has been even more severe. Early in the Meiji era, as a result of the Satsuma Rebellion Saigō and Okubo were lost to the clan. The greatest Satsuma man of recent years, Admiral Yamamoto, was ruined politically by the discovery, during his premiership, that he had failed to prevent a corrupt bargain with an

<sup>1</sup> Reikichi Kita, "The Present Conditions of Japanese Politics under the Dark Clouds" in the *Chūwa-Koron* (a political monthly), vol. xxxiii, no. 10 (Sept., 1918), pp. 1-11.



English shipbuilding concern in connection with naval construction contracts.<sup>1</sup> His former eminence was won by an alliance with the Seiyukai. The most successful Satsuma men of today are Baron Makino, (son of Okubo) who went with Marquis Saionji to the peace conference, and Mr. Tokonami, minister of home affairs in the Hara cabinet. Tokonami has joined the Seiyukai and Makino is also favorable to this party.

So it appears that the death of the bureaucrats of Chōshū and Satsuma has left the field to party men, most whom come of smaller clans. Hara, Katō, and Gotō, the great leaders of Japan today and tomorrow, are all of minor clans.

These party leaders entered the national service in the bureaucracy. In the early days of the Meiji era it was the general custom of samurai of the smaller clans to enter the civil service as clerks. When such men rose, they found that their origin kept them from becoming prominent cabinet members. Then they joined the political parties, which welcomed their administrative experience, for just at the time when these men began to rise, the parties were approaching a position of power which made it necessary for them to include within their ranks men with sufficient training to occupy important executive positions. Thus, Hara started his career as a petty clerk in the foreign office, rose as high as he could in the diplomatic service, and when he found the upper ranks blocked by Chōshū and Satsuma, joined the Seiyukai which Itō was forming just at that time.

Their early bureaucratic training is reflected in the present attitude of these party leaders. The tendency toward one man rule in the parties may be partially explained by this.

<sup>1</sup> Ichiro Tokudomi, *Taisei-Seikyoku-Shiron* (A Political History of the Taisho Era), pp. 189-199.

## IV

The growth of industrialism which has been simultaneous with the extinction of the bureaucratic leaders has been another source of strength to the parties. The lower house, the stronghold of the parties, has the power to amend budget legislation,<sup>1</sup> and with the industrial growth of the nation the importance and size of the budget has increased. Also, the number of voters has increased with the growing wealth of the country, and this, of course, has added strength to the faction which believes in government by the ballot. Again, the deal between the bureaucratic statesmen and the party leaders which was consummated under the leadership of Yamagata in 1898, whereby the party men were permitted to benefit by the concessions and subsidies allowed to capital by the government<sup>2</sup> has redounded in increasing measure to the advantage of the parties as the importance of capital has grown. The alliance between the parties and industry has been most fortunate for the parties.

With the growth of industrialism, too, the spirit of the whole Japanese nation has been modernized. In feudal days the young men respected the authority of the state, the glory of the soldier, and the nobility of honor; now they think of making money. In former days the envied professions were those of the army and the law; now the young men wish to study business and engineering. Indeed the lack of cadets and midshipmen is becoming a source of alarm to the chiefs of the army and navy. In a nation of so changed a spirit, is it surprising that a militaristic bureaucracy, based upon a tradition of obedience,

<sup>1</sup> The Japanese Constitution, Article LXIV.

<sup>2</sup> W. W. McLaren, *A Political History of Japan*, pp. 257-8. Y. Uchida, *The Political Development of Japan*, pp. 241-2.

should give way to a system of party government based upon wealth?

## V

The outcome of the World War, which was viewed in Japan as a struggle between bureaucracy and liberalism, has greatly strengthened the parties. The bureaucrats were in favor of Germany, and, in the days when to them a German victory seemed likely, they overthrew the Okuma-Kenseikai government that had placed Japan on the side of the Allies, and put Count Terauchi in power. When the armistice was signed the party men acclaimed the triumph of democracy, and took advantage of the situation further to increase their strength.

Finally, the parties have been strengthened by the decline of the Divine Right theory,<sup>1</sup> which has been a weapon of the bureaucrats. The grammar schools have been used in the past by the government to preach the holy authority of the Emperor, and at the same time to give the impression that the bureaucrats were the only patriots. But in the higher institutions the young men learned English and read the English theories of government, and their belief in the old theories was undermined. The newspapers, too, which are the organs of the parties, encouraged this.

Thus the parties have grown in influence, as a rolling snowball grows in size.

<sup>1</sup> Great numbers of young men wrote passionate articles in advocacy of democracy in 1918 and 1919. The authorities seemed unable to suppress them.

*Part II. Historical<sup>1</sup>*

## I

At the outset of the Meiji era there were three groups among the ruling classes of Japan whose needs, political and economic, were slighted by the new regime. They were the petty samurai of all clans, whose jobs as retainers to the daimyo were destroyed by the revolution; the Gō-nō, or large landowners, not of the aristocracy, whose interests were impaired by the financial reforms of Meiji; and the important samurai of the minor clans, notably Hiizen and Tosha, who were kept out of the high places by the men of Chōshū and Satsuma. These three groups formed political parties, by means of which they opposed the government.

The small samurai found their caste destroyed with the end of feudalism. Their position as professional soldiers was destroyed with the adoption of universal service, which placed all the people upon an equal footing with them. They saw the importance of the clans minimized. They saw the placing of civil ahead of military affairs by those who conducted the government.

Armed rebellion against the Meiji government was the first reaction of the petty samurai. Between 1874 and 1878 there were many bloody outbreaks, all unsuccessful. After the final attempt, the Satsuma rebellion led by Saigō, the samurai saw that they could not win, and looked about for other means. They learned something of the European theories of parliamentarism and found them suited to their end, for in a parliament there is a place for the opposition. Thus these reactionaries became progressives.

<sup>1</sup> For detailed historical accounts of the politics of the Meiji and Taisho eras, cf. W. W. McLaren, *A Political History of Japan*; Y. Ueyhara, *The Political Development of Japan*; Iichiro Tokudomi, *Taisho-Seikyoku-Shiron (A Political History of the Taisho Era)*.

The Gō-nō joined them in the movement. These were incensed at the new land laws, which, in addition to permitting private ownership and the free transfer of land, provided a taxation system more severe than that of former days. The feudal lords had exacted a portion of the land's product, paid in rice; the new government demanded payment in cash of three (later two and one-half) per cent. of the land's assessed value. The old taxes had been easy to evade, but the new government really collected nearly all that was due to it. The Gō-nō felt that the burden of the new financial policy fell unduly upon them and they also resented the new order on general principles. Therefore they were willing to join a movement against the Sat-chō group that ruled.

To these two groups were added the statesmen of Tosa and Hizen, who found themselves frozen out. These men—notably Itagaki, Gotō, Yetō and Soyezima—broke with the Sat-chō government on the Korean issue, as raised by Saigō. With Saigō, they resigned from the government when it was determined to postpone the invasion of Korea until the civil government of Japan had been reformed.

Then, on January 18, 1874, these three disaffected groups united in presenting to the government a memorandum asking the introduction of the parliamentary system of government. They complained, without much regard for logic, that the treatment of the samurai had been unfair, that the introduction of conscription was bad for the nation, that the new land tax and land law were objectionable, that the foreign policy of the government was too weak, and, finally, that all these ills were due to the absence of a parliament that could watch the government in the interests of a minority.

The drafter of the memorandum was Count Taisuke Itagaki, a samurai of Tosa, who in feudal days had been

one of the most important administrators of his clan, and had represented Tosa in the higher councils of the Meiji government. After his resignation on the Korean issue, and the drafting of the memorandum, he went home to his native city of Kōchi, and devoted himself to the political education of the young. Many promising students gathered about him to learn the democratic ideas of the West, and he taught them to admire the French doctrines. From this school as headquarters a far-reaching propaganda was conducted for the opening of a national parliament. Leagues were formed all over Japan and students were placed as editors of newspapers, so that a large proportion of the press was captured for the plan.

As a result of the propaganda, in which all the disaffected groups united, the Emperor in 1881 issued an edict promising that in ten years a parliament would be formed, and making it legal immediately to form political parties. Immediately Itagaki formed the *Jiyu-tō* or Liberal Party with himself as president.

The *Jiyu-tō* declaration of principles called for universal suffrage and a parliament. Some of the party members were open republicans. Yet the party advocated a firm, imperialistic foreign policy, for it needed the support of the small samurai. Such contradictions are the rule in Japanese politics.

At about the same time Shigenobu Okuma, later famous as Marquis Okuma, formed the *Kaishin-tō* or Progressive Party. Okuma was a samurai of Hizen and a thorough student of the West. Even before the time of Meiji he had studied with the Dutch settlers and American missionaries in Nagasaki. In the early Meiji movement he and Itō had been equally eminent, and with Yetō and Soyezima he represented Hizen in the higher governmental councils. Unlike the other founders of the political parties, he sided

against Saigō and with the Sat-cho bureaucrats on the Korean question, for as an admirer of western civilization he believed in civil reform rather than militarism. Also, he differed from most of the disaffected leaders in that he was an expert in financial reform, sharing with Inouye and Matsukata the glory of that work.

He was a true progressive, however, and he expressed his sympathy with the draft of the memorandum requesting a parliament. Still working in the bureaucratic government, he managed in 1875 to force the formation of a Genrō-in or Senate, and a Daishin-in or Supreme Court. This was the first attempt in Japan at anything like a separation of the governmental powers, along the lines of the traditional French and American theory. In the Genrō-in Okuma was the leader of the left wing, having with him such brilliant radical young men as Mr. Ozaki and Mr. Shimada, who are now party leaders. He led the opposition to Yamagata and Itō, who called him a dangerous radical.

The issue between the bureaucrats and Okuma was joined when the bureaucrats delivered at a small price to the samurai of Satsuma and Chōshū a huge development in Hokkaidō, the northern island of Japan, which the government had effected at heavy cost. Okuma attempted in vain to oppose this. The Sat-chō combination was too strong for him and he resigned from the government in 1881.

He then formed the Kaishin-tō, or the Progressive Party, which advocated a parliament of the Anglo-Saxon type, with limited manhood suffrage, which Britain was just then outgrowing. It declared in favor of a bicameral legislature, internal administrative improvements and no imperial expansion.

A third party called the Teisei-tō (Monarchical Party) was formed at this time by Mr. Maruyama and Mr.

Fukuchi, backed by the Sat-chō group. This faction does not belong to the true political party movement, which was anti-Sat-chō. The bureaucrats frequently carried the war into the enemies' territory by the organization of short-lived parties such as the Teisei-tō and also by the election to the Diet of "independents" whom they controlled.

Between the founding of the parties and the opening of the Diet under the constitution the anti-bureaucratic agitation was carried on exclusively through the newspapers. Itō, drawing his inspiration from Germany, attempted to suppress this by putting the editors in jail, but martyrdom only aided them.

## II

At last, in 1890, the Diet opened. The Jiyu-tō, and Teisei-tō elected members to the House of Representatives. Yamagata was premier.

Thus to Yamagata, arch-bureaucrat and believer in a cabinet independent of the parliament, fell the task of defending the bureaucracy against the first attacks of the parties in the House of Representatives. The Jiyu-tō and Kaishin-tō combined against him and blocked his budget bill. Yamagata sent his lieutenant, Munemitsu Mutsu, among the Jiyu-tō members with a large slush fund, to see what could be accomplished by bribery. Overnight he bought outright the votes of twenty-eight members, but this was not enough. The others stood firm. In the end the premier was forced to modify his budget bill in order to get it passed. Then he resigned in May, 1891.

Matsukata then became premier with the support of Itō and Yamagata. When he found the parties combined against him, he dissolved the House of Representatives and ordered a new election. Shinagawa, his minister of home affairs, summoned the police commissioners of all prefec-



tures to Tokyō and instructed them to see that the two hostile parties were defeated. The police interfered in the voting and many were killed in riots, particularly in the cities of Hizen and Tosa. Nevertheless the Jiyu-tō and Kaishin-tō, combined, sent a majority to the Diet, and Shinagawa resigned in shame.

Not long afterwards Matsukata also resigned. Itō, his successor, tried a new method of suppressing the obstreperous parties. He prevailed upon the Emperor, in February, 1893, to issue an edict ordering the party leaders to adopt a conciliatory attitude. They obeyed, of course, and Itō triumphed. But in the next session they renewed their opposition.

Itō now saw that a fight to a finish was useless, and decided to compromise. He gave Itagaki, leader of the Tiyu-tō, an important place in his cabinet and thus won the support of that party. At this point, too, the Sino-Japanese war made necessary a truce in the internal political conflict.

After the war, Matsukata became premier again in September, 1896. Following the example of Itō, he compromised with a party. He flirted with the Kaishin-tō and gave Okuma a cabinet position. The opposition of the Tiyu-tō, which had a plurality though not a majority in the House, was not enough to embarrass him more than slightly.

Itō succeeded Matsukata in January, 1898, with the support of the Tiyu-tō. After five months, however, the party deserted him and for this and other reasons he resigned.

Then in July, 1898, the bureaucrats tried an experiment. They permitted the party leaders to form a cabinet. Okuma they made premier and Itagaki minister of home affairs, and the government was known as the Wai-Han, a combina-

tion of the initials of these two men. In the House of Representatives the Jiyu-tō and the Kaishin-tō (now known as the Shimpō-tō) consolidated under the name Kensei-tō. They did their best to get on without the bureaucrats and to open the way for party government, but they could not succeed. After five months, two groups in the Kensei-tō found that they could not get along together, and the scheme was wrecked.

Yamagata now resumed the premiership in November 1898. He could not resume his former complete antagonism to the parties. He chose as his allies the Jiyu-tō group of the Kensei-tō and made with them a bargain which did much to align the political parties in Japan on the side of the growing class of capitalists. He refused to permit the party men to participate in the work of the government and he maintained the rigid civil service rules which kept the administration in the hands of the machine bureaucrats; but he permitted the parties to participate in the graft associated with local improvements and with subsidies, and he tolerated connections between party leaders and favored industries.

At about this time, Prince Itō became restless. He found that Yamagata was getting the better of him in the struggle for the leadership of the bureaucracy and he began to lean in the direction of the parties. The Jiyu-tō group at the same period found itself without a leader who could possibly guide it to power, since Itagaki's political prestige had been ruined by the failure of the Wai-Han cabinet. The partyless leader and the leaderless party found each other, and the result was the Seiyukai, founded in August, 1900, with Prince Itō as its president. At the same time the Shimpō-tō element of the Kensei-tō transformed itself into the Kensei-hontō under Okuma.

Itō again succeeded Yamagata as premier in September,

1900, supported by his Seiyukai and opposed by the Kensei-hontō, which had a minority in the House. But he had offended the bureaucrats, and under the direction of Yamagata the House of Peers made war upon him. Once more Itō went to the Emperor for an edict in March, 1901. He got it; but twice is too often to do that, for no one in Japan approves the utilization for political purposes of influence at court. Itō soon resigned in May and never again became premier. He interested himself in diplomacy, travelled, and finally became president of the Privy Council. Although still nominally president of the Seiyukai, he no longer took an active interest in party affairs. He passed the sceptre to Saionji, his protégé, in July, 1903.

With the retirement of Itō into the background there began a long period of truce between the bureaucrats and the parties. Katsura, the follower of Yamagata, alternated in the premiership with Saionji, now a leader of the Seiyukai. The Kensei-hontō changed its name to Kokumintō, and remained an ineffectual minority, still under the leadership of Okuma. During this period came the Russo-Japanese War, bringing glory to Katsura, and profit to the Seiyukai men and their capitalist friends. In 1906, the Seiyukai for the first time formed a cabinet under its own leader, Saionji, dividing the portfolios between its own members and a few bureaucrats from the House of Peers.

In 1912, the year of the death of the Meiji Emperor, the Seiyukai-Katsura compromise was ended. The length of its rule made the Saionji party unpopular, and to regain its prestige the last Saionji cabinet adopted a policy of retrenchment. The press approved but the bureaucrats and militarists were wrathful. General Uyebara, minister of war, started trouble by proposing that two divisions be maintained in Korea. Since this would have been anything but economical, the cabinet rejected the proposal. Uyebara

thereupon resigned and none of his fellow generals would take his place. Unable to find a minister of war, Saionji resigned in December, 1912.

The Genrō, when it was summoned to the Imperial Court to choose a new premier, spent three weeks looking for an eligible man. Katsura was out of the running, for he had gone to the Imperial Court as grand chamberlain to the young Emperor. It is believed that Yamagata, fearing that his protégé was becoming a rival, secured his appointment to this post to put him out of the way. At last, however, Katsura found his way out of the intricacies of court ceremony, relinquished his post as chamberlain, and formed his third cabinet.

He now repudiated his compromise with the Seiyukai, and formed his cabinet entirely of bureaucrats. The Seiyukai, which had a majority in the House, enlisted in its support the newspaper sentiment that had been won by the last Saionji cabinet, and waged war upon the government.

Katsura thereupon turned to the failing Kokumintō for relief. This party, during the years of its obscurity, had been divided into two camps, idealistic and opportunist. The former, which cared less for immediate power than for principles, was led by Inugai; the latter by Oishi, Shimada and Takedomi. The opportunists, irritated at the failure of Count Okuma to get a place in the government, forced the old leader to resign. Katsura, knowing of this wrangle decided to take advantage of it, thinking to follow the example of Prince Itō, and form a political party of his own out of the ruins of an unsuccessful party. In a quick raid on the members of the Kokumintō, he gathered together about seventy of its men, all of the opportunist group, and called them the Dōshikai. But he had not Itō's success. The Seiyukai, fortified by a favorable press and public

opinion, attacked the Dōshikai from every angle. Katsura made a frantic effort to win men from the Seiyukai to his banner, but the majority party was too well organized.

The people, more interested in political affairs than ever before, and lashed by the newspapers, were furious at the intrigues of the bureaucratic premier. There was serious rioting. The clever politicians of the Seiyukai supplied a slogan: "Down with the clans, up with the constitution." Fifty-three days after the formation of the cabinet Katsura resigned his office.

It seemed for a while that a new era had come, and that democracy, in the form of the Seiyukai, would rule Japan. But the party was not equal to the occasion. In the last throes of his administration Katsura deprived the Seiyukai of its leader, Saionji, for he had persuaded the Emperor to issue an edict to Saionji to stop his party's opposition to the cabinet, and when Saionji found himself unable to obey he was in honor bound to consider himself a traitor, and to retire from public life. No other member of the party was qualified to form a cabinet.

The only man of prime-ministerial stature in the country was Admiral Yamamoto, a Satsuma navy man. To him, although he was one of the hated clan leaders, the Seiyukai turned, to the disappointment of the people who thought that democracy had come. A Satsuma-Seiyukai cabinet was formed, in February, 1913, with Yamamoto as premier. The idealistic element of the Seiyukai, led by Ozaki (who had been among the loudest shouters of "Down with the clans") bolted the party and formed a new group called the Seiyū Club.

Yamamoto lasted only one year. He liberalized the civil service laws to some extent, and extended the privilege of serving as ministers of the navy and army to reserve admirals and generals. His government was wrecked by the

“naval scandal,” involving a crooked deal with a British shipbuilding firm, and by the opposition of the House of Peers, which rejected a bill for the expansion of the navy.

The Genrō had great difficulty in choosing the next premier. Katsura was dead. None of the Dōshikai was available. Viscount Kiyoura tried to form a bureaucratic government, but the opposition of the naval party, all of whom refused to serve on his cabinet, defeated his efforts. Count Okuma, eighty years old, president of Waseda University and active only as a contributor of political articles to the newspapers and magazines, was the only available man.

Okuma, most of whose ministers were chosen from the Dōshikai, was energetically opposed by the Seiyukai majority in the House of Representatives. He was forced to dissolve the Diet, and the elections resulted in his favor. The Seiyukai lost its majority, and the Dōshikai, the Seiyū Club and a third party consisting of Okuma's personal following united to form the Kenseikai, now the Seiyukai's chief rival. Katō and Osaki are the chief Kenseikai leaders.

Prince Yamagata looked askance at the rise of the Kenseikai. He opposed it vigorously and finally succeeded in overthrowing Okuma to make room for his protégé, General Count Terauchi.

Terauchi dissolved the Diet immediately after his accession to the premiership, before the Kenseikai, which dominated the House of Representatives, had a chance to pass a bill of lack of confidence in him. In the election which followed he used the usual methods of enforcing a victory for the government. For two years thereafter neither Kenseikai nor Seiyukai could command a majority in the House, and the premier played one against the other.

Terauchi remained in office until the rice riots of 1918, when public opinion made it necessary for him to resign.

He was succeeded by Hara, the present prime minister, who was chosen by a Genrō Council consisting of Yamagata, Matsukata, Okuma and Saionji. Saionji was the choice of the Council, but he declared that the position should be held by a younger man, and recommended Hara, who had been his successor in the leadership of the Seiyukai.

Throughout his administration Hara has been vigorously opposed by the Kenseikai. But the premier is too wily a politician for them. He intrigued with the Kokumintō and the Genrō, and succeeded in placing himself in a strong position. He pleased Yamagata by appointing as his minister of war General Tanaka, whom the old militarist is grooming for the place left vacant by Katsura and Terauchi.

He held the Kenseikai at bay by adroitly juggling the election law to the Seiyukai's advantage, then he watched his opportunity to dissolve the Diet and call a general election, which he knew he would win. After a preliminary skirmish with the opposition, in which he showed brilliant generalship, he brought the issue of universal suffrage to the fore, dissolved the Diet on that issue, and came out handsomely victorious in the election that followed.

The Kenseikai, weakened, is still hammering away at him. In July, 1920, Shimada, leader of the Opposition, brought charges that three ministers had turned official knowledge to personal use on the stock market, and succeeded only (after an uproarious session of the House) in having a vote of censure passed against himself. Hara now appears to be stronger than ever. His greatest danger is from the House of Peers, the traditional enemy of party government.

## CHAPTER VIII

### THE CAPITALISTS

#### I

THE small area and dense population of Japan have forced her, in her modern economic development, to become an industrial rather than an agricultural power. This her people and government have realized from the first beginnings of that development. They have carried on the development of their nation along these lines so successfully that she seems about to become, at no very distant date, one of the greatest industrial powers of the world.

The bureaucratic rulers of Japan have had more than one reason for encouraging the growth of industrialism. In the first place, they saw that success in warfare depends upon the possession of modern munition factories, railway lines and ships; and accordingly they encouraged the growth of these industries under government auspices, maintaining strict governmental regulation. In addition, they saw the advantage of great industrial development for other than military reasons. The proximity of China, the greatest potential market and source of raw materials in the world, presented a great opportunity to Japan, they perceived. They adopted a policy of paternalism in order to develop an industrial Japan which might supplant the western nations as the economic exploiter of China. Since they would need cheap labor to accomplish this aim, they took care not to let their paternalism take the form of a too active movement to better the standard of living of the working class.



## II

It is said by many that the center of Japanese life is no longer Tokyō but Osaka. This is largely true, for with the development of Japanese industrialism Osaka has grown more rapidly than Tokyō. The financial center of the nation is now Osaka. Party conventions are frequently held there. The nascent labor movement, an unwanted child of industrialism, has Osaka for its center.

This is in accordance with the historical position of Osaka, which has always been commercially important. Throughout the Tokugawa period this city, then known as Naniwadzu, was a free city, governed by no daimyō, and its merchants were little troubled by the arrogance of the samurai class. Here was the national rice market, whither all the daimyō of the land sent the surplus products of their fields. Even such distant daimyō as those of Tsugaru and Matsumaye, in the extreme north, sent ships laden with rice to Sakai, the seaport of Naniwadzu.

In the city was a form of merchant guild, called Zeniza, which acted as a sort of combination rice exchange and bank, lending money to needy daimyō who mortgaged their crops as security. Doing business with the Zeniza was a group of samurai called Kanjōgata (accountants) who were representatives in Osaka of the several clans. These gave themselves great airs in dealing with the merchants, their social inferiors, but they got the worse end of most of the business deals they consummated. Here the heads of the guild were the real powers, and the great daimyō were merely their clients.

With modern times, the great money-lending families of Osaka have become modern bankers. The houses of Kōnoike and Kashima, now millionaire financiers, are directly descended from the bankers of old Osaka.

In Yedo (now Tokyo) the Tokugawa capital, there was in feudal days a minor group of merchants. They did business on much the same system as their fellows in Osaka, but they were directly under the eyes of the shōgun, and therefore lacked independence. The Mitsui family, now millionaires, are of this group. In other cities, there were merchants, but they could not rise above their feudal rank, which was the lowest of the social order.

The foreign trade of Japan in feudal days was carried on entirely through the port of Nagasaki, the only harbor which the shōguns permitted to be used for this purpose. The only European people who had a share in this trade were the Dutch. Daimyō such as Shimadzu of Satsuma, Nabeshima of Hizen and Kuroda of Chikuzen sent their samurai to Nagasaki to deal with the foreigners. Thus they grew rich and formed the basis of the fortunes which they still enjoy.

### III

When the Meiji era arrived all of the ruling classes escaped economic damage except the lower orders of samurai. The daimyō kept much of their fields and forests as their private property; the greater samurai, who were the true administrators in feudal days, became prominent government figures and could get whatever they wanted; but the lesser samurai found themselves in a bad way. With the abolition of feudalism they lost their posts as minor administrators for the daimyō. They knew no trades, and their dignity forbade them to learn. The government issued bonds and turned over the money to them in compensation for their losses, but the funds were insufficient.

To gain a livelihood these petty samurai turned to the development of industrialism. Financed by the govern-

ment, they went abroad to study industrial methods, and returned to apply their new knowledge at home. Those of Satsuma and Chōshū especially found it easy to get government backing for new corporations. The merchants of Osaka and Tokyō did not fail to join them and take part in the new movement, but it was the efforts of these smaller samurai, that carried Japan speedily and effectively into the industrial revolution only a few years after she had cast out feudalism.

At the same time there arose in the rural districts a new class of rich landowners. In feudal days there was in each village a shiōya or hereditary village president, of the farmer class, who acted as agent of the daimyō, gathering the rice tax and helping to govern the other farmers. He was privileged to wear a sword, and was a sort of sub-samurai. When the days of Meiji came these shiōya, like the daimyō and the greater samurai, come into the possession of the land. They are now known as Gō-nō, or country gentlemen. These, together with the descendants of many of the greater samurai, are the large landowners of to-day. They are the backbone of the Seiyukai party.

The wealthy landed aristocrats, of daimyō families, are economically in a similar position but form a separate social group.

The Meiji Restoration, like any other great conflict, required financiers on both sides. It is believed, although the fact has not been definitely established, that the Mitsui family of Tokyō financed the losing shōgunate, and that Kōnoike of Osaka backed the revolting daimyō.

#### IV

In considering the development of Japanese industrialism we must bear constantly in mind that the entire process was sponsored by the government. Industrialism in Europe

was developed by private enterprise and the government stepped in only with the development of dangerous monopoly; but it was not so in Japan. Here the government developed the industry, and then turned it over to private merchants, who reaped the profits. At the same time the government kept the control, though not the financial fruits, of every business of military importance. Government enterprise was necessary in order to get anything done, for the merchant class outside of Osaka and Tokyō was not equal to the task of economic reconstruction, and the lesser samurai had too much dignity and too little money to engage in business except as agents of the bureaucrats. In the early days of Meiji the only private enterprises were the Osaka banks. All else was operated by the government or heavily subsidized.

Under such circumstances there was necessarily a close connection between the business men and the bureaucrats. The way to get rich was to become the friend of some high officers in the government. Such friendships were frequent. For example, Marquis Inouye, the great Genrō and leader of financial reform, was an intimate of the Mitsui family. Marquis Okuma and the Iwasaki family, the steamship kings, are also closely associated. The connection between the government and big business in Japan is frankly admitted.

## V

Let us briefly sketch the rise of some of Japan's great capitalists. Most spectacular, perhaps, has been the career of Iwasaki. Iwasaki Yatarō was a petty samurai of Tosa. He was accustomed to the ways of the sea, and when the Meiji era came he determined to seek his fortune in ships. He started with the purchase of a few ships, and by intrigue and business skill he developed into the greatest shipowner of the land. Early in his career he became the

friend of Marquis Okuma and Count Gotō, an association which was of great value to him, in his competition with Viscount Shinagawa, whom he overcame and whose power he absorbed after a period of deadly rivalry. He also found it valuable in his fight on another rival company which was later organized by the Seiyukai interests.

Many of the Japanese millionaires have won their riches in war time. The Sino-Japanese war produced Fujita and Okura, who are now men of great wealth upon whom the title of baron has been conferred. They started life as plain merchants, one in Tokyō and the other in Osaka. Then they found an opportunity to sell munitions to the government, and although the people clamored, they profited. The Russo-Japanese War brought wealth to Baron Furukawa, the copper king, to whom Premier Hara is legal adviser. The greatest beneficiary of the Great War was the Suzuki Company, with which Baron Gotō is associated, and which when the war broke out, had already made a fortune in the sugar business in Formosa, of which Gotō was governor. Mitsui, Iwasaki, Furukawa, Fujita, Okura, and Suzuki are the great capitalists of Japan. They control the industry of the nation.

## VI

In the foregoing I have occasionally mentioned the close relations between the capitalists and the political parties in Japan. Let me explain these relations a little more in detail.

The Japanese political parties—the Seiyukai, the Ken-seikai and the Kokumintō—are the organs of the rich. They are controlled absolutely by the industrial capitalists and the wealthy land owners. The rich peers, of course, are not interested in the parties. They have other means of political expression, described in Chapter IV.

When the great samurai of Chōshū and Satsuma seized, as bureaucrats, the great places of power in the nation, they left no place in the front ranks of politics for the parties. But they permitted the parties to compensate themselves by an alliance with the capitalists, whereby the party politicians gained much money. The parties did not at first agree to this bargain. They fought to amend the civil service rules and the regulations concerning the ministers of the army and navy which deprived them of political power, but they were beaten, and were forced to seek their development in the field of industrialism and by an alliance with capital, since they could not win an important place in the government. Thus party leaders became directors of such concerns as the South Manchurian Railway and the Nippon Yusen Kaisha. The Seiyukai was the cleverest of the parties in utilizing this association with capitalism. To this is due the Seiyukai ascendancy to-day.

The fundamental condition which makes the parties the organs of the rich is the Japanese election law. Only the rich are voters. To qualify for the franchise one must pay direct taxes of three yen annually. Only the propertied classes can take part in election. Therefore the parties care nothing for the propertyless masses.

There is still another bond between capital and the parties. The expense of operating a political party in Japan is even greater than in European countries or the United States. The party leaders have no jobs with which to reward their subordinates, for they have no control over the offices of government. Therefore the party workers must be rewarded with cash. The cost of every election is great, for many of the voters are purchasable. Elections are frequent, because the House of Representatives is often dissolved. Before the war it cost usually more than 20,000 yen to elect a man to the House of Representatives, and the

expense now is doubtless much greater, Each candidate, by custom, pays half of this expense, and the party pays the rest. When it is considered that there are four hundred members of the House to be elected every time the House is dissolved, it is easy to see that the parties need great sums of money. They can get them only from the capitalists.

The party politicians who are elected to the Diet have a still further need for an alliance with capital. The pay of a member of the Diet is small, and the expense of election is great. Therefore the Representatives find it convenient to combine business with politics, and to use their parties to make lucrative business connections, so that they may support themselves while serving their country.

## VII

This alliance shows itself in the attitude of the parties on taxation. The direct taxes, payment of which is the qualification for voting, are the land tax, the income tax and the business tax. The Seiyukai, which is largely supported by the landowners, always fights for the reduction of the land tax. The Kenseikai, organ of the industrial capitalists in the cities, fights for the reduction of the business tax. The Kokumintō in its more powerful days, when it had much backing in the cities, used also to fight for the reduction of the income and business taxes. Now, since it has only a few members in the House and has little power, it can permit its principles to become slightly idealistic, and it talks about reducing the indirect taxes on consumption, which are paid by the non-voting masses. Neither of the powerful parties cares anything about these taxes, and if the Kokumintō returns to power it, too, will forget them.

The parties, moreover, are always willing to vote a large part of the budget for national defense. The capitalist shipbuilders and munitions makers profit by this. Usually

the budget provides that the expenses of preparedness be paid out of the consumption taxes, which are paid by the poor.

No party has ever been opposed to imperial expansion. The chief reason for this is the close relation between capitalism and imperialism: territorial expansion means profit, in which parties share. Moreover, the men of the lower classes get killed in war, and the parties are not concerned with them, for they do not vote. The parties originally took a militaristic attitude to counteract the charges of anti-patriotism which were brought against them by the early bureaucrats; but they have since found more substantial reasons for jingoism. The old-fashioned militarists are satisfied with the glory of victory, but not so the party politicians. In Korea, the Seiyukai men have won places in the Oriental Colonization Company, which has many concessions in this colony, and in Manchuria, others of the same party have places in the railroad corporation.

The foreign policies of the pure militarists and the capitalistic imperialists differ in this, however: the former insist upon the extension of the imperial territories by force of arms, whereas the latter are satisfied with "peaceful penetration." Thus it is that the present Japanese government is willing to return the conquered territory in Shantung Province to China, provided it is permitted to keep the economic rights formerly held by Germany—and such other rights as can be extorted from China.

## VIII

Thus it appears that the bureaucrats of Japan built up a modern industrial nation, and turned over the profits to the new capitalist class and its allies, the political parties. The two latter divide the fruits by bargains in the reduction of direct taxation in the increase of subsidies, and by the gift of



directorates in industrial concerns. The only weakness in the structure is the possibility of the awakening of labor. The Japanese industrial system was built in haste, and its erectors neglected the human element. The workers were nowhere considered. Suppose, now, that they should find themselves. The entire structure would be ruined and the industrial future of Japan would be wrecked. Japan's chance for the economic control of China would be no more.

## CHAPTER IX

### THE WORKERS

#### I

The laboring masses of Japan, by reason of the traditions of feudalism which still influence them strongly, and even more by reason of the system of education which has been set up and operated by the bureaucrats, have no interest in politics and no understanding of its workings.

In feudal days the common man grew accustomed to feel himself subordinate to others. He was ruled by others, and he had nothing to do with government. The daimyō and his samurai, and over the daimyō the shōgun, took care of such things for him. He knew his duty to his lords, but no one had ever told him of his rights.

There was, indeed, no reason for the workingman of feudal days to interest himself in politics. Politics had nothing to do with industry. The business of every craftsman was carried on under the supervision of his craft guild, which regulated everything in minute detail, and which was independent of daimyō and samurai.

A glimpse at the organization of these craft guilds may help the reader to grasp the psychology of the feudal craftsman, which the modern worker has inherited.<sup>1</sup> Trades were passed from father to eldest son. If a master craftsman (Oyabun) had no son, or if his son was unable to

<sup>1</sup> Cf. Katayama, S., "The Japanese Laborer," *Asia*, vol. xx, pp. 31-5. Jan., 1920.

carry on the craft, he was required to adopt a boy, teach him the secrets of his skill, and bequeath to him his name and his business.

When the apprentice, who was always the son or the adopted son of the Oyabun, had learned something of the trade, he went into the world as a journeyman (Shokunin or Kobun). The journeyman could travel throughout Japan without paying for anything. Any Oyabun to whom he applied was required by the rules of the guild to give him work, food and shelter. When the journeyman wanted to move to another city, the Oyabun always gave him money for his traveling expenses. In return for his complete protection, the Kobun owed the Oyabun absolute obedience. The preservation of these master-and-servant relations was a matter of strict honor to both parties.

When the industrial revolution arrived in Japan less than half a century ago, the newly arisen master class impressed upon the workers that the old relations of Oyabun and Kobun had not been disturbed. The worker was still the journeyman, and must obey his master; the owner of the plant was still a master craftsman, and would protect his employes. This propaganda, coupled with the natural inertia of the Japanese, made the workers slow to awaken to the new conditions. It did not often occur to them that they should attempt to take part in politics. Their ignorance and indifference to matters of state were increased by the education they received during the Meiji era. This is true in spite of the fact that education was made compulsory, and that by the widespread use of the Kana (syllabic letters) illiteracy was reduced to a minimum.

The people were taught in the schools that the Emperor was the sole ruler of Japan, and that no other influence in politics was of any importance. The bureaucrats used the relation of Emperor-worship as a means of discouraging

participation in politics; for if the Emperor alone ruled, his rule was certainly good, and there was no use in trying to change things anyway, because the Emperor ruled by divine authority. The pupils in the higher classes were further taught that government, in general, was a matter to be left to the wise men, and that the people were better off if they did not interfere. The duties of subjects were taught at great length, but no mention was made of any rights that they might have. Likewise, no mention was made of such topics as representative government, political parties or elections.

Teachers for the public schools were trained in normal colleges which taught them humility, left them ignorant of all civics, and encouraged them to be conservative and to hate all political parties. The pay of teachers was small. Grammar school instructors were usually weak, poor men, who were willing to accept such lowly positions because the jobs were steady. Poor boys were encouraged to become teachers by the fact that the government would supply them with food while they went through normal school.

The administration of the primary schools was highly centralized. The high officials dictated the curriculum in minute detail, and controlled every moment of the school day. Such a thing as academic freedom was unknown.

## II

Even if labor were to take any interest in politics, it would do labor no good, for only rich men can vote. No man who does not pay an annual direct tax of at least three yen has the franchise. This rules out most workers. Most of the farm workers are tenants, and therefore own no property and most of the industrial workers in the towns are not paid enough to enable them to accumulate property.

Those few voters who might be inclined to favor a labor

ticket, or to give a labor tinge to the policies of the existing political parties, are so scattered that their votes have no effect.

Moreover, any small farmers who have the right to vote are, by tradition, under the control of the *Gō-nō* of their district, the man who has inherited the authority of the village supervisor of feudal times. These men control their districts with discipline far stricter than that of the Tammany district leaders in New York.

The advance of the labor movement in Japan has been hampered by constant government opposition. Ever since the earliest days of Meiji the government has severely frowned on labor organizations of all kinds. In the early days none but socialists spoke for labor in Japan, and this prejudiced the chances of any more real labor movement which might have arisen later, for the government, feeling that socialism was a menace, proceeded to label as socialism every movement of any kind in the interests of the workers, and suppressed all alike. The government did not even distinguish between socialism and anarchism; both alike, it said, were traitorous doctrines. The leaders of all proletarian movements were prosecuted and the rank and file of their organizations frightened, so that the workers shunned organizations of any kind as dangerous.

The newspapers, which were mostly party organs, cared nothing for the labor movement, and helped the government to suppress it. Only in recent years has the labor question received any notice at all in the news or editorial columns. Even if the newspapers had printed anything about their situation it would have done the workers no good, for their long hours of labor left them no time to read, and the newspapers, which cost 3 sen a copy, on the average, were luxuries too expensive for their pockets.

## III

In feudal days farming and fishing were the sole sources of wealth of Japan. The government took great interest in the welfare of the farming class, which was the highest of the *heimin* in the social scale. Even to-day the majority of the population tills the soil.

Although the external life of the Japanese farmer has been somewhat changed by the innovations of the Meiji Era, his inner life and his way of thinking is the same as it was in the feudal age. He is congenitally conservative, and his isolated life has aided that tendency. The tradition of loyalty to the Emperor is the dominant passion of his existence.

Universal military training increases this conservatism. The farm boys are the healthiest in the nation, and they are the backbone of the conscript army. The glory of Japan is deeply impressed upon the young man while he is in service, and his loyalty to things as they are is deepened. This loyalty pervades the entire farmer class.<sup>1</sup>

When industrialism developed in Japan many of these farmers began to move to the cities. The land was hard to work, the income of the peasant family was small, most of the desirable land in foreign countries were occupied by whites, who did not favor Japanese immigrants, and therefore the farmers could do nothing but go to the cities and become industrial workers. Industrialism, under government encouragement, grew tremendously, and the domestic system of manufacture gave way to the factory system. The relations of *Oyabun* and *Kobun* were no more; workers were simply employés and wage earners. The psychology of Japanese labor began to change.

<sup>1</sup> Cf. Mr. H. M. Hyndman, "Japan: Imperial and Capitalistic," *Asia*, vol. xix, pp. 24-6, Jan., 1919. This is a good account of the Japanese labor movement.

The wars which Japan fought in her period of growth always brought industrial expansion, but in each case prosperity was followed by a depression. The great depression which has followed the Great War, beginning in the spring of 1920, is a case in point. This see-saw aided the change in the psychology of the workers. In boom times the number and power of the rich increased, and the distinction between the capitalists and the working classes grew greater; in slack times the workers suffered and began to learn how to complain.

#### IV<sup>1</sup>

The Sino-Japanese war (1894-5) occasioned the first great forward stride in Japanese industrialism. Before the struggle the domestic system of manufacture clung to all industries except ship-building and munitions-making, but new factories sprung up like mushrooms over the entire nation. At the same time the first labor organization in Japan was formed,—a fraternal society of Japanese railway workers. It did not call itself a labor union, and it devoted itself largely to the provision of accident and unemployment insurance for its members. All Japanese labor organizations have pursued this course. There are no "labor unions" in Japan today; there are only "fraternal societies."

Also at the close of the Sino-Japanese War came the beginning of the Japanese socialist movement. A Society for the Study of Socialism was formed in Tokyō. At first not all the members of this organization were socialists, but as the years passed the non-socialists left it one by one. Among the members of the society were the well-known

<sup>1</sup> This account of the labor movement in the Meiji era is based largely upon Mr. S. Katayama's *Labor Movement in Japan* (1918). This small book by a Japanese socialist can be highly recommended.

Japanese radicals, Mr. Sen Katayama, now in exile in the United States, and Professor Isoo Abe of Waseda University.

In 1901 the first Japanese Social Democratic Party was founded by S. Katayama, I. Abe and K. K. Kawakami, who is now well known in the United States as a writer on Japanese affairs. The party was immediately dissolved by the bureaucratic government, which thereafter saw to it that no radicals or laborites were permitted to start political action.

The socialists then proceeded to spread their propaganda by means of secret societies. They saw that there was no hope for them in politics, and they were therefore driven to thoughts of direct action.

During the Russo-Japanese War (1904-5) these societies carried on an active pacifist agitation. They managed to publish a daily, which was constantly being suppressed. They got in touch with the Russian revolutionists, with whom they exchanged resolutions hoping that both sides would lose the war. They gained a number of converts in Japan, no doubt, but the opposition of the government and the loyalty of the population were too strong for them.

Shortly after the close of the war a group of anarchists and nihilists, led by Denjiro Kōtoku, attempted to assassinate the Emperor.<sup>1</sup> This outrageous act, which shocked the entire nation, caused the government to inaugurate a complete suppression of everything resembling socialism. All radical books were strictly suppressed and no one dared, thereafter, to call himself a socialist.

Independent of the puny socialist movement, however, the germs of a more truly proletarian movement were developing among the laborers of the cities. The unrest, which was—and still is, even to-day—chaotic and without

<sup>1</sup> Stellman, L. J., "Denjiro Kōtoku, Revolutionist," *The Overland Weekly*, vol. lviii, pp. 287-90, Oct., 1911.



direction, took the form of a popular clamor against the government of the bureaucratic clans, Chōshū and Satsuma. Riots in Tokyō, especially in the last days of the Katsura regime, were frequent. This movement, was, of course, utilized by the political parties in their fight for the control of the government.

## V

In August 1918, out of a clear sky came the first real uprising of the Japanese proletariat for proletarian ends: the rice riots. This outburst was the result of a tremendous rise in the cost of rice—the price tripled in less than two months—which was due, in turn, to under-production and to war-time speculation.

Throughout the summer of 1918 the Japanese masses suffered patiently while the price of their staple food went higher. The Terauchi cabinet, through its minister of agriculture and commerce, Mr. Ren Nakashōji, tried in vain to check profiteering and to lower the cost of living. Stories were printed in the newspapers of the great wealth and the reckless spending of the speculators. Popular feeling slowly became uncontrollable.

On August 3, a hundred fishermen's wives in the little northern village of Toyama got together and decided that they had had enough of this. They went in a body to the rice dealers, and asked them to reduce their prices. Some one told them that a train load of rice was about to be moved away from their village, and they immediately ran to the railroad, jumped frantically upon the tracks in front of the train, and cried for rice. They pillaged the rice shops and when their leaders were arrested, they swarmed around the police station and freed the prisoners. On August 5 and 6 the riots continued.

The news of the disorders in Toyama spread rapidly over

the nation. The people promptly reacted to the tidings, and the disorders spread to the large cities. In quiet Kyōto, where in feudal days the nobles of the Imperial Court practiced their lovely and peaceful arts, the people now raided the rice shops and demolished the police stations. In Kobe the trouble was most violent. The offices and warehouses of the great Suzuki Company, which the rioters believed had been guilty of profiteering, were burned. Rioting spread to Osaka, Nagoya, Hiroshima and Kure. Finally it reached Tokyō, and echoes of it were heard in Korea and Formosa. The police lost control completely, and the army was called out.<sup>1</sup>

Finally the Imperial Household, with a contribution of three million yen, started a fund for the relief of the sufferings of the poor. The capitalists of the nation contributed. With this fund the government opened shops, and, with the aid of soldiers and policemen as storekeepers, distributed rice among the people.

## VI

The fury, extent and spontaneity of this uprising make it peculiarly significant. It was the first uprising against the rich that modern Japan has ever seen. Its great violence is largely due to the fundamental excitability of the Japanese, who lack discipline in public demonstration, and who are extremely susceptible to the suggestions of violence that make mobs dangerous.

The party politicians made it appear that the rioting was an expression of indignation against Terauchi and the bureaucratic government. They succeeded in getting themselves sufficiently believed to cause the downfall of the cabinet. This was the only immediate effect of the rioting.

<sup>1</sup> Weil, E. F., "The Land of Narikin and Rice Riots," *The World Outlook*, vol. v, pp. 18-9, Jan., 1919.

In the long run, however, it will doubtless appear that the riots did more than overthrow a cabinet. They demonstrated to the workers the effectiveness of mob action, and the futility of the government in the face of it. The workers have felt their power, and they know now that they can give battle to the police and the soldiers. The generosity of the rich men, who were quick to give money when the peace of the nation appeared to be in danger, may have suggested to many that riots among the dissatisfied poor would make the rich surrender.

Thus the workers have learned that although they can neither vote nor strike, they have a weapon. This is the dawn of an effective Japanese labor movement.

## VII

Count Terauchi was succeeded by Mr. Hara, a commoner, who is an exceedingly clever politician. The new prime minister proceeded to ingratiate himself with the masses by eliminating a bit of pompous formality formerly practiced by members of the government in addressing the houses of the Diet. Formerly each minister invariably referred to himself as "This Imperial Minister." Mr. Hara and the individual members of his cabinet called themselves simply "I," and were greatly applauded therefor. The Seiyukai government also abolished the body-guard of uniformed police which had accompanied former premiers in their perambulations. Further, it lightened the restrictions on freedom of speech; and, apparently at the instance of the cabinet, the Imperial Household Department abolished the stoppage of street traffic and the lining up of school children whenever the Emperor moved about.

The subject of socialism may now, to some extent, be discussed in Japan. Shortly after the advent of Hara many translations of *Das Kapital*, which had been held in

abeyance because of the censorship, were published. Radical philosophers such as Bertrand Russell came to be freely discussed by the students, and idolized by many.

Labor questions were discussed in the House of Representatives for the first time in the history of the Diet. The number of "fraternal societies" of laboring men increased, for although Mr. Hara did not remove the restrictions on the formation of unions, he was lax in his execution of the restricting laws.

Labor unrest in Japan recently has been stimulated by the success of the Russian revolution and the manifest easiness of labor throughout the West. The people have taken full advantage of the relaxation of the restrictions on discussion, and socialism has been widely discussed in the newspapers and magazines. The International Labor Conference of 1919 in Washington, in which Japan showed fully as much interest as any other nation, has further increased the consciousness of her workers.

This unrest was counterbalanced by the prosperity brought by the war, much of which has vanished in the subsequent industrial depression. High wages and bonuses survived after the armistice, and helped to keep the worker satisfied. The farmers were kept happy by the increased return from their rice fields. Moreover, the government tried to do something for labor by undertaking, through labor bureaux of one sort or another, to improve industrial conditions. In response to pressure brought to bear at the International Labor Conference, the factory laws of the nation are to be revised.

## CHAPTER X

### CONCLUSION

#### I

There are two ways of theorizing about the state: you may consider it something static, capable of analysis once and for all; or you may regard it as dynamic, with aspect constantly shifting under the play of varying forces. The first way of theorizing is the metaphysical way, greatly beloved of political philosophers at the end of the nineteenth century. Students of that type believe that one can accurately determine who is the real ruler in a state—that sovereignty is a definite thing, assignable to one person or element in the community—and they divide States, according to the location of sovereignty, into monarchies, oligarchies and democracies. In point of logic, this way of theorizing is satisfactory. Its failure to tally with the facts does not make it the less logical.<sup>1</sup>

Looking thus at the state as a static thing, the Japanese professors of political science explained the government of Japan for the benefit of the people. Japan, they said, is an absolute monarchy. The Emperor is the sole head of the state. In him lies all sovereignty. This is the all-important fact, the cardinal principle of Japanese government.

The professors cited the legendary history of Japan, which says that the Sun Goddess sent her son, the ancestor of the Imperial Dynasty, to rule Japan forever. Feeling,

<sup>1</sup> Cf. Prof. Giddings' *The Responsible State*, chap. ii, 1918

perhaps, that the legend was not sufficiently convincing, they quoted Article I of the constitution, which says that the Emperor is the sole head of the nation. They also quoted the constitution to show that the Emperor controls all three branches of the government, the executive, legislative and judicial; and they argued from this that to make the cabinet responsible to the Diet instead of to the Emperor would be against the spirit of the constitution.

It must be borne in mind that these theorists were satellites of the bureaucrats who ruled Japan in the name of the Emperor.

The extreme bureaucratic professors of constitutional law argued learnedly: "The constitution, rightly, says nothing of the rights of subjects. It is concerned merely with the powers of the sovereign. That part of the constitution which is interpreted by some as an exposition of the rights of the people is in reality only a section limiting the rights of the executive, which is under the control of the sovereign." And again "The Diet is not intended as a medium of representation of the people. It is an institution to help the Emperor to rule." Yet again: "Elections are not intended to make possible the choice of men who represent the people. The members of the Diet are responsible to the Emperor, not to those who elect them. The voters are merely helping the Emperor to choose his advisers."

The people placidly accepted this interpretation of their form of government. They did not see its failure to correspond with the facts, for they had been educated for 1,400 years in speculative Chinese philosophy, which is not concerned with facts. They did not see that it was unjust to them, for during the long feudal era they had been taught that dutiful submission was the fate of the masses, and that the rulers of Japan, from the Emperor to the lowest samurai, were their superiors forever. They revered

the Emperor with the worship of true religion, and the ruling classes took advantage of this to strengthen their own position.

The professors believed and taught this theory of government largely because they were speculative scholars, interested in logic. They had been hurriedly educated, in Germany for the most part, and they taught what they had learned from text-books there. For independent inquiry they had not the time. The students were not wholly injured by this. They learned to think abstractly—an acquisition not to be despised—and they also absorbed the poetic atmosphere of legend in which most of the professors teaching these theories were wrapped.

The attitude of the professors has been, in the opinion of the writer, unrelated to the facts. The state is a dynamic, changing thing. Although from a pedagogic viewpoint it may be advisable to look upon it as static, from a scientific viewpoint this is false.

Social and political forces in the state are constantly shifting, constantly differentiating and integrating. Viewed statistically, they seem always to tend to a norm, but that norm is constantly moving.

For this reason it is impossible for statesmen who make constitutions to fit the documents to the political systems with which they are concerned. A constitution is only a document, and it is never an accurate image of the forces which make up the shifting state. That is why, in describing the Japanese State, I have avoided as much as possible quotations from the constitution, and descriptions of the prescribed forms of government. The constitution of Japan is not a reflection of the Japanese state.

Prince Itō, the great political genius of the Meiji era, drafted the constitution as a means of adjusting the conflict between the forces that sought to rule Japan. His draft was a compromise between the ruling classes.

The theory of Itō's constitution places the Emperor at the head of the nation. But the law does not hint at direct rule. The Emperor is adored as the sovereign, but, like the King of England, he rules only through his advisers.

The Peers, under Itō's constitution, are the bulwarks which should save the state from too quick change. Itō gave them, in the upper house of the Diet, sufficient power to counteract any radical tendencies which, he foresaw, might develop among the minor clans in the early days of their power.

Nevertheless, Itō made the bureaucratic cabinet members independent of the politicians of the lower house, for he saw that experts, not orators, would be needed for the building of the new Japan. At the same time, by creating the House of Representatives he left room for the formation of political parties, without directly encouraging them.

Thus the constitution is a compromise between groups. As such it has been successful. But to learn how the state is really governed one must study not the constitution, but the state itself. Let us study the Japanese state in the light of the following two general propositions:

First: the achievement of political power is the result of a struggle among groups, each of which contends for its own interest, whether that interest be idealistic, materialistic, or a combination of the two. Usually the groups are engaged in the pursuit of power, although even in the rush of this pursuit the most materialistic of them must listen to the humanitarian voice of the people.

Second: no state is a democracy, in the sense that it is ruled by the whole people. A close scientific examination will reveal that every state is a protocracy. It is ruled by the capable. The capable will always lead. Their leadership may be hidden under varying forms of government: if the population is homogeneous in race and intellect, the



form of government will be democratic; if the people are heterogeneous, they are led by despots. But always they are led.

## II

So much for preliminary theorizing. Let us now, in the light of this theory, pass in review the several forces which make up the Japanese state.

### *The Emperor*

Strictly, the Emperor is not one of the political forces which we are considering. Both before and after the Meiji Restoration he has been outside of politics, worshipped by the people from afar, and has kept a godlike aloofness from the affairs of state. He is the center of Japanese culture and religion. To him all eyes are reverentially turned.

Beyond all doubt, the Emperor will maintain this position forever. Whatever political changes may take place, however the balance of power among the contending groups may be shifted, the Emperor will remain the supreme head of the state, worshipped by all, yet aloof from the actual affairs of government.

### *The Genrō*

The Elder Statesmen—Itō, Yamagata, Inouye, Matsukata, Oyama, and later Okuma, Saionji and perhaps one or two others—have been the leaders of Japan since the early days of the Meiji era. Their rule, interrupted but never overthrown by incursions of other groups, has been an excellent example of protocracy, the rule of the capable. These men were all, except Saionji, humble samurai in origin, and they rose by their ability to the highest places in the land. Yamagata outshone all others in military

organizing ability, Inouye and Matsukata in financial genius, Itō and Okuma in home affairs and diplomacy, Saionji in diplomacy. These able men took the government in their own hands, at first as officials under the constitution, and later, when they retired from officialdom, as the extra-constitutional Genrō Council. Thus they showed that in the hands of able governors a constitution is only a piece of paper, and that protocrats will rule in spite of documents.

There has always been a struggle for supremacy within the Genrō. The group of the Elder Statesmen, like the nation, has been divided into contending factions. At first the division was along clan lines: Satsuma against Chōshū. Later we find it divided along lines of political ideals and programs: the conservatives (Yamagata and his protégés) against the liberals (Saionji and Okuma).

This new line-up in the Genrō body is a hopeful sign. There will always be Genrō in Japan, for there will always be statesmen of more than average ability. But in the future, it is to be hoped and expected, the Genrō will not be clan leaders interested chiefly in the promotion of clan interests, but statesmen interested in governmental policy and ideals.

Thus the reformers in Japan will probably obtain better results by seeking to place men of real ability and public interest among the Elder Statesmen rather than by attempting the difficult task of abolishing the Genrō.

### *The Peers of the Upper House*

These aristocrats owe their position to tradition, not ability. Most of them are the successors of the military lords of feudalism and the literarily-inclined nobles of the ancient Imperial Court. When the Meiji Restoration came they were skilful enough to avoid destruction by bargaining with the leaders of the new era, and they arranged for the crea-

tion of the new peerage so that they might be compensated for the loss of their feudal privileges.

Banded together in the upper house of the Imperial Diet, these peers wield no small political power. But this power is not based on any real ability and can be justified by no contribution to the needs of the state. Therefore in the course of time it must vanish, or be modified in one or more of the following ways:

The House of Representatives, with the broadening of the suffrage and the development of a party system on Anglo-Saxon lines, may grow to sufficient power to enable it to dominate the upper house — and perhaps the cabinet also. The House of Peers, like its counterpart in England, will combat this tendency, but eventually it must lose such a battle, and its legislative power be limited. It seems probable that this will be the normal development. It is, of course, a matter of the comparatively distant future.

But this may not happen at all. The transformation may be wrought through the activities of a radical element in the House of Peers itself. The aristocratic conditions, and the class distinction of feudalism, have already shown signs of disappearance. The feudal distinctions between samurai and heimin and between daimyō and samurai, which were based upon the military necessities of the feudal age, are no longer clearly drawn. Only, in the country districts the ancient worship of aristocracy remains. This change in the national feeling is reflected among the aristocrats themselves, many of whom are beginning to doubt the value of their titles. There has even arisen in the House of Peers a radical group of young men who wish to give up their titles. They would prefer to sit in the House of Representatives. Although according to tradition a title bestowed by the Emperor cannot be relinquished, in the past few years this practice has been somewhat modified, and greater

modifications may be expected in the future. The young peers who separate themselves from the aristocracy in this way will doubtless join the ranks of the political parties, or even of labor, thus breaking the power of the peerage.

In the constitutional organization of the House of Peers itself is the third seed of destruction of the aristocratic power. A part of the personnel of the upper house is appointed by the Emperor. This appointment, of course, is made according to the advice of the cabinet. In the past the bureaucratic cabinets have taken advantage of this to pack the upper house with their own followers. In the future, if the political parties continue to form cabinets, they may follow the same procedure, and thus convert the House of Peers to the party point of view. This will be the death of the old aristocratic influence.

There remains a fourth way in which the power of the peerage may be destroyed: by the removal, in response to popular appeal, of the peerage itself. Popular feeling against the aristocrats has greatly increased in recent years, as the feudal influences have waned. The radicals among the people openly cry for the immediate abolition of the peerage. But these radicals are few in number. There is a group of more moderate reformers who want to deprive the aristocrats of their titles and power by a slow, painless process. Sons of princes, they contend, should be permitted to retain the title of marquis; sons of marquises should be counts; sons of counts, barons, and sons of barons, commoners. Thus in a few generations the whole scheme would disappear. Other reformers wish simply to abolish the inheritance of titles.

Such are the forces in operation against the aristocrats.

*The Bureaucrats*

The position of the bureaucrats is entirely different. A class of office holders, trained to the work, is necessary to any efficient government, and therefore the bureaucrats, as a class, will endure.

The bureaucrats have rendered great service to Japan. After the restoration they established a government on the western model in an astonishingly short time. They mastered the material details of western civilization with great acuteness, and applied them efficiently to the Japanese national life. To the bureaucrats must go much of the credit for creating, in the period of transition, a strong and efficient central government, which overcame the difference between the clans and established the new era with a minimum of civil war. In England, in the United States, in almost every country, terrific internal strife was necessary at periods in the national life corresponding to the Meiji Restoration in Japan. But the samurai who occupied the offices of government and became known as the bureaucrats of the new regime successfully and peacefully carried the nation through the critical period.

In doing so, however, the bureaucrats preserved many bad features of the old regime. They took upon themselves the attitude of superiority that had characterized the samurai in feudal days. The official class of the Meiji era was unbearably arrogant. Any officer of the government, down to the last policeman or clerk, considered himself better than any private citizen, from shopkeeper to banker. Much of the popular opposition to the bureaucrats today is due to this arrogance. The political parties, in their anti-bureaucratic propaganda, have not failed to take advantage of this.

In the defense of their position in the government, the bureaucrats did not scruple to utilize the popular worship

of the Emperor. They attempted to make it seem that loyalty to the Emperor meant also loyalty to the bureaucracy, and they spread this propaganda by means of the schools, which they controlled. This abuse has added to their present unpopularity. The Japanese people do not like those who try to utilize the Emperor.

In spite of these shortcomings, a bureaucratic class seems to be necessary to efficient government. Even should the political parties win the upper hand, they will not dare to abolish the civil service law, which creates such a class by competitive examination.

In Japan, the bureaucratic class will undoubtedly keep the upper hand for a while at least, because of certain peculiar political conditions. While Prince Yamagata lives his bureaucratic followers, who are entrenched in the Privy Council and the House of Peers, will not yield to the political party men. But even if he dies before the fall of the Hara cabinet, the bureaucrats are safe for a while. In such an event, the Genrō council, which the Emperor would summon to select a new prime minister, would consist of Matsukata, Okuma, Saionji and possibly Hara. Saionji and Hara are associated with the Seiyukai. They would therefore forbid the selection of a Kenseikai premier, such as Okuma would be likely to recommend, for a Kenseikai man would certainly dissolve the Diet and would use his official position to manipulate the new elections to the peril of the Seiyukai majority in the House of Representatives. There is no man of prime ministerial stature in the Seiyukai except Saionji and Hara themselves: therefore they would be unable to force the choice of one of their own party. Accordingly, they would compromise on a bureaucrat, with whom the Seiyukai could make a deal, as they did with Katsura and Yamamoto in the past.

Suppose that Matsukata and Okuma, both old men,

should die as well as Yamagata, before the fall of the Hara cabinet. In such an event it is possible that the Emperor would call no meeting of the Genrō council. The only man who could recommend the new premier would be Hara, the retiring prime minister. As I have shown, he would nominate a friendly bureaucrat rather than a Kenseikai man.

In the bureaucratic camp at present are three men who may win the next premiership. They are Baron Gotō, who comes of a small clan but who is closely associated with Chōshū; Viscount Makino, a Satsuma man who has won distinction in diplomacy; and Admiral Baron Saitō, officer of a small clan who has associated himself with the Satsuma navy clique.

### *The Militarists*

The influence of militarism in Japan is not easily to be weakened. The military clique might conceivably be destroyed, but the spirit of militarism would still live. The practice of thousands of years has embedded it deep in the soul of the Japanese people.

In feudal times, Bushido, the philosophy of the samurai's sword, was taught as the ideal way of life. In the Meiji era the military spirit thus developed was transformed to a blind love of the nation. The heimin had seen the samurai as their superiors; accordingly, the civilians of the new nation were taught to look upon the soldiers as their superiors.

The propaganda of militarism was spread broadcast in the temple, the school and the community. The Emperor, the army and the nation were preached as the trinity which all Japanese must worship.

Upon this spirit as a basis the military class has created a machine which holds a dominating position in the life of the nation. The military policy of Japan is dictated by

the General Staff, which is independent of every agency of government but the Emperor himself. The rule that ministers of the army and navy must be generals and admirals makes the military even more independent of any civil authority. Through its power of appointing military attachés to embassies and legations all over the world, the General Staff is in a position to dominate the diplomacy of the nation. For the War Department has a larger appropriation than the Foreign Office; and its envoys, with big allowances for expenses, can make better, quicker, and fuller reports on foreign affairs than can the members of the diplomatic corps. Thus the military clique is better informed than the civil government in matters pertaining to war and peace, and Japanese diplomacy is to a large extent controlled by the militarists. In matters of army reorganization, the General Staff makes plans without consulting any other agency, and then reports its plans to the helpless prime minister as "approved by the Emperor." The tradition of the schools and colleges is that the ablest young men must go into the army.

Thus strongly are the militarists entrenched. But in recent years the position of the military party—as distinguished from the spirit of militarism itself—have been somewhat weakened. The able young men just from college have not been as willing as in former years to align themselves with the generals and admirals. The Seiyukai has taken advantage of its new power to diminish the privileges which were accorded by the bureaucrats to the military men. Civilians have for the first time been appointed to the governorship of Formosa.

The number of able Satsuma and Chōshū men in high places in the army and navy has been diminished, and the prejudice of the people against those that remain has increased. The growth in power of capitalisim will hasten the



downfall of this military clique. But its fall will only strengthen the spirit of militarism, for it will remove the only prejudice against the army which the people feel.

### *The Political Parties*

The political parties, which began as organizations of Gō-nō and petty samurai, have risen to a position of dominance in the civil government of Japan.

Students of politics now admit that party government is the system best suited to the needs of Japan. The old arguments of the bureaucrats based on the supposed inefficiency of parties or on the divine right of the Emperor to rule through the agency of the bureaucrats no longer carry weight.

The only opponent of the political parties which can threaten their supremacy in the future is labor, which is only beginning to rise as a political force.

The parties are now being feebly attacked on the ground that they are identified with the capitalists. But until this radical attitude gains general public approval the parties need not fear.

The expert politicians which the present parties have developed in the years of their struggle for power are quite able to keep out competition. Among them are many men who were trained in the bureaucracy. Their administrative and political skill is great. They are capable of using even the Privy Council and the House of Peers, the old strongholds of the bureaucrats, and the newly created Advisory Council on Foreign Relations, as weapons to overwhelm opposition. They know how to roll logs and to compromise as do none of their competitors, actual or potential.

The present parties do not want universal suffrage. This is natural enough, for they have been developed by a limited electorate whose strength would be decreased by an exten-

sion of the ballot. But they will use agitation for universal suffrage as a weapon against their bureaucratic opponents in the House of Peers and the Privy Council. In doing so they will be playing with fire. Unless they handle the subject with the greatest of tact, it will overwhelm them, and universal suffrage will be passed in spite of them, by the pressure of circumstances.

The people hope for this, but vainly. Elections under universal suffrage would be no freer of control by party bosses than are elections today. The Japanese masses know nothing of politics, and merely to give them the vote will not teach them.

### *The Capitalists*

In Japan the capitalists are not welded together to form a distinct, conscious class as they are in some western countries. The merchants and financiers still remember the humble places they held in feudal times, and the people remember also. In the rural districts especially, where the industrial revolution has not progressed far, the people do not greatly respect capitalists.

The industrial revolution has in no part of Japan reached the stage where capital is concentrated in the hands of a very few powerful men. The great capitalists who have already emerged have not yet learned how to advance their cause by means of propaganda in the schools, temples and newspapers. They are not experienced politicians, and although they are closely allied with the political parties, they are not the dominating half of the alliance. Again, industrialism in Japan was fostered by the state, which means that the bureaucrats and the capitalists therefore have not the fighting spirit which captains of industry show in nations where the growth of industrialism meant a fierce competition under a government which kept its hands off.

When the Japanese financiers hear of a revolt against their power, they compromise rather than fight. For instance, when the rice riots of 1918 disturbed the peace of the capitalists they made haste to contribute to a fund to relieve the suffering of the rioters.

But the wealth of the nation will increase, and capital will grow stronger and stronger. And as it develops it will entrench itself as a political force by strengthening its alliance with the dominant political parties, and also by flirting with the militarists.

It will use the former connection to get protection for its property and to win the aid of the police in its struggle with labor. It will use foreign complications and imperialistic schemes appealing to patriotic pride and calling for a large army to divert the attention of the masses from domestic affairs.

### *The Workers*

Labor is the weakest of the political forces we have been considering. It has recently burst out in several directions, but its strength is not to be overestimated on this account.

The city labor groups have recently held demonstrations for political purposes. They have participated in the agitation for universal suffrage. But none of their leaders has a clear idea of what he is after. Most of them are tools of the existing political parties. To be sure, these demonstrations are better ordered than were the riots of former years, when the workers would rise and smash everything in sight for no particular reason and to no advantage to themselves; but still the proletarian movement is poorly organized. The membership of unions, both craft and industrial, is growing, and the use of the strike and of sabotage is increasing; but to say that for these reasons labor has suddenly become strong is to exaggerate.

Participation in politics can offer no hope of success to Japanese labor. Labor in Japan has no leaders trained in the intricacy of politics. In countries like Great Britain the radical parties still feel this lack. How much more acutely is it felt in a nation where political action is entirely new to the workers? Moreover the expense of maintaining an effective political party in Japan is far greater than the laborites could hope to bear for many years to come.

Labor may possibly try to act politically through the media of existing parties, as does the American Federation of Labor. Such tactics can be attempted as soon as universal suffrage is won. But this would divide the labor movement into two groups, the idealists who object to the compromise which would be necessitated by dealing with the parties, and the opportunists who are willing to compromise. A division on these lines would greatly damage the potency of the labor movement for real progress. Also, a tendency to deal with existing parties would open labor to the tricks of politicians. Some clever opportunist such as Gotō or Osaki might undertake the leadership of the labor group, and thus rise to great power, at the expense of the ideals and true interests of the workers.

Therefore Japanese labor will probably denounce politics and turn to industrial weapons to achieve its ends. The movement for One Big Union and for the use of the general strike for political purposes has already gained great headway among the workers. The most idealistic of the labor leaders favor something resembling British guild socialism, and the most radical of them are out-and-out syndicalists.

### III

Such are the forces whose interplay is Japanese politics. Each takes its turn at being on top. The bureaucrats, led

by the Genrō and in alliance with the militarists, have held that position throughout the Meiji era and into the present Taishō era. It is now the turn of the political parties, in alliance with capital.

But no group, however strong, can become the dictator. No one force can make the others negligible. The politics of the nation will always be the resultant of their interplay, the balance of the forces.

## BIBLIOGRAPHICAL NOTE

The books in the list headed "A" have been thoroughly examined by the writer in the course of preparation for his study of Japanese politics. With a few exceptions, their treatment of the subject is impartial and their conclusions trustworthy. Some of them, especially those books by Dr. McLaren, Dr. Gulick and Mr. Clement are admirable. Mr. McGovern's book is a recent attempt to show a cross-section of the political mechanism of Japan, and it should be read in connection with the elaborate treatise by Dr. McLaren on the political history of the nation. It is not necessary to comment upon the accurate and painstaking book by Dr. Uyehara, which is commonly considered the best study of Japanese politics ever written in English. Mr. Clement's books are unrivaled in accuracy. It is fortunate for Japan that so brilliant a foreign scholar has studied her institutions. Mr. Kawakami's book, a dissertation written for the degree of Master of Arts in the University of Iowa, is worth reading; so are his other studies on international politics. In recommending Mr. Pooley's book, as well as that of Mr. Crow, the writer had some hesitation, for their attitude is plainly journalistic and bitterly prejudiced; but the books are, for the most part, vivid and suggestive, and should not be ignored as malicious propaganda. The profundity of Dr. Griffin's knowledge of Japan is an amazement even to native students. Mr. Ozaki's little book is a severe impeachment of the Japanese bureaucrats and militarists. He is the political leader of the democratic movement of Japan. Mr. Katayama's brief account of the Japanese labor movement is a valuable book written in English on this interesting and vital subject. He is living in exile in the United States because of his socialistic and radical opinions.

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Those books in the list headed "B" are reliable works on Japan and the Japanese. The writer took great care in selecting them. Those books marked with \* are especially recommended to the student of conditions in Japan.

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The magazine articles in the list headed "C" are, for the most part, accurate accounts of recent phases of the Japanese political situation. Those marked \* are especially recommended to students who wish to keep abreast of the latest developments in this field. The articles by Mr. Clement, Dr. Griffin and Dr. Dewey are most important.

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EDITED BY THE FACULTY OF POLITICAL SCIENCE  
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Volume XCIV]

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**CATASTROPHE AND SOCIAL  
CHANGE**

BASED UPON A SOCIOLOGICAL STUDY OF  
THE HALIFAX DISASTER

BY

**SAMUEL HENRY PRINCE**

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*Halifax*  
is not a large city  
but there are those who love it  
who would choose to dwell therein  
before all cities beneath  
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☪  
ALL SUCH  
CITIZENS, PAR EXCELLENCE,  
I COUNT IT AN HONOR TO DEDICATE  
THESE LINES

## PREFACE

THE following pages embody the result of an observational study of the social phenomena attendant upon one of the greatest catastrophies in history—the Halifax Disaster. The idea of the work was suggested while carrying out a civic community study of the disaster city under the direction of Professor F. H. Giddings of Columbia University.

The account deals first with the shock and disintegration as the writer observed it. Individual and group reactions are next examined in the light of sociological theory. The chapters on Social Organization are an effort to picture that process as it actually occurred.

The writer has also tried faithfully to record any important contribution which Social Economy was able to make in the direction of systematic rehabilitation. Special reference is made to private initiative and governmental control in emergency relief. This monograph is in no sense, however, a relief survey. Its chief value to the literature of relief will lie in its bearing upon predictable social movements in great emergencies.

Nor is the book a history of the disaster. It is rather, as the title suggests, an intensive study of two social orders, between which stands a great catastrophe, and its thesis is the place of catastrophe in social change.

In the preparation of this work, which the author believes to be the first attempt to present a purely scientific and sociological treatment of any great disaster, he has received invaluable assistance. A few grateful lines can ill-express his obligation to his Professors of the Department

of Sociology. To Professor F. H. Giddings the volume owes its inspiration and much of its social philosophy. To Professor A. A. Tenney it owes its present form and structure and any literary excellence it may possess. Professor R. E. Chaddock has read the manuscript throughout and has contributed many helpful suggestions. Professor S. M. Lindsay has read the chapter on Social Legislation, and Professor R. S. Woodworth of the Department of Psychology, that on Disaster Psychology. The author is under special tribute to Professor H. R. Seager, and to Professor Tenney, who most cheerfully sacrificed part of a summer vacation to read and revise the manuscript and proof.

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S. H. P.

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**“This awful catastrophe is not the end but the beginning. History does not end so. It is the way its chapters open.”—*St. Augustine.***

## INTRODUCTION

The "catastrophe" in sociological literature—The "catastrophic view" vs. progress in evolution—Factors in social change—The stimuli factors—What crises mean—Communities and great vicissitudes—Causes of immobility—Catastrophe and progress—Historic cases suggested for study.

There are many virgin fields in Sociology. This is one of the attractions the subject has for the scientific mind. But of all such fields none is more interesting than the factor of catastrophe in social change.

And strangely enough, if there are but few references to the problem in all our rapidly-growing literature, it is not because catastrophies are few. Indeed it would seem that with the advent of the industrial age, disasters grow more frequent every year.<sup>1</sup> Many are small, no doubt, touching but the life of a village or a borough—a broken dyke, a bridge swept out by ice, a caved-in mine. Others again write themselves on the pages of History—an Ohio flood, an Omaha tornado, a Chicago fire, a San Francisco earthquake, a Halifax explosion. Each in its own way inscribes its records of social change—some to be effaced in a twelve-month—some to outlast a generation. Records they are, for the most part unread. How to read them is the problem. And it may be that when readers have grown in number and the script is better known, we shall be able to

<sup>1</sup> "Within a score of years disasters . . . have cost thousands of lives, have affected by personal injury, or destruction of property no fewer than a million and a half persons and have laid waste property valued at over a billion dollars . . . the expectation based on past experience is that each year no less than half a dozen such catastrophies will occur." (Deacon J. Byron, *Disasters*, N. Y., 1918, p. 7.) This quotation refers to the United States alone.

seize the moment of catastrophe and multiply immeasurably its power for social good.

To define the term catastrophe is scarcely necessary. The dictionary calls catastrophe "an event producing a subversion of the order or system of things," and such as "may or may not be a cause of misery to man."<sup>1</sup> It is desirable however to limit the use of the term, in primary investigations at least, to those disasters which affect communities rather than states or nations, for restricted areas are more amenable to study. National cataclysms, such as war, famine, and financial panic are too general in character, and function on too grand a scale for satisfactory treatment, at least until the ground is cleared. It is necessary also to limit this investigation to those social changes which follow upon catastrophies, rather than precede them. For there are social effects which result from living in anticipation of disaster, such as are observable among communities in volcanic areas. Interesting as a broad study might be, it would be likely to lead the investigator too far afield into the realm of speculation. Nevertheless a general point of view is necessary to give meaning to even a limited treatment of the theme. For this purpose there may be contrasted the catastrophic view of history, as illustrated by that of the Hebrew peoples, and the modern conception of progress through evolution. The former looks upon history as a series of vicissitudes mercifully ending one day in final cataclysm. The spirit of apocalyptic expectancy prevails. Social conditions rest hopelessly static. Faith is pinned to a spiritual kingdom which can grow and can endure. Against this has been set an optimistic evolution, pictured like an escalade with resident forces lifting the

<sup>1</sup> Catastrophies are those unforeseen events which the Wells-Fargo express receipts used to call quaintly "Acts of God, Indians and other public enemies of the government."

world to better days. Progress becomes a smooth continuous growth. On the other hand the newer philosophy sees in history not necessarily the operation of progressive evolution but also of retrogressive evolution and cataclysm.<sup>1</sup> There are great stretches of smooth and even current in the stream, but always along the course are seen the rapid and the water-fall, the eddy and reversing tide. The latter is the general subject of this dissertation, and its thesis is the place of the water-fall. Only a very small, and specialized treatment is attempted; the great Niagaras must be left to abler hands.

The conception of social change as used in this monograph also needs definition. By social change is meant those rapid mutations which accompany sudden interferences with the equilibrium of society, break up the *status-quo*, dissipate mental inertia and overturn other tendencies resistant to structural modification. The various forces which initiate such disturbances are factors in social change. These factors may be *intra-social*,—within the group—such factors as operate in the regular social process, *imitation* and *adaptation*, for example; or they may be *extra-social*, “stimuli” factors—from without the group—such as, *accidental*, *extraneous* or *dramatic events*. Of the latter conquest may be one, or the sudden *intrusion* of a foreign element, or rapid changes of environment.<sup>2</sup>

<sup>1</sup> If nature abhors a vacuum, she also abhors stagnation. Is there not reason behind all this action and reaction, these cycles and short-time changes which her observers note? May it not well be that the ever-swinging pendulum has a stir-up function to perform and that the miniature daily catastrophes of life are the things which keep it wholesome and sweet?

The old order changeth yielding place to the new.  
And God fulfils Himself in many ways  
Lest one good custom should corrupt the world.”

—Tennyson, Alfred, *The Passing of Arthur*.

<sup>2</sup> Ross, Edward A., *Foundations of Sociology* (N. Y., 1905), ch. viii, p. 189.

These sudden changes are fully worthy of careful study by scientific method. However important the accumulation of impulses toward social transformation may be, there is often a single "precipitating factor" which acts as the "igniting spark" or "the knocking away of the stay-block," or "the turning of a lever."<sup>1</sup> It is among such extra-social or "stimuli" factors that catastrophe falls as a precipitating agent in social change.

The significance of crisis in social change likewise requires attention, and it will be clarifying to our thought at this point to distinguish carefully between crisis and catastrophe, and to inquire what the nature of the former really is. The word "crisis" is of Greek origin, meaning a point of culmination and separation, an instant when change one way or another is impending. Crises are those critical moments which are, as we say, big with destiny. Battles have crisis-hours when the tide of victory turns. Diseases have them—the seventh day in pneumonia, or the fourteenth day in typhoid fever. Social institutions afford numerous illustrations, such as the eighth year of marriage.<sup>2</sup> There are critical years of stress and strain—the ages of fourteen and forty in life-histories, the latter being according to Sir Robertson Nicoll the most dangerous hour of existence. Other crises are "hours of insight" in the world of thought, and hours of opportunity in the world of action,—that "tide in the affairs of men, which taken at the flood leads on to fortune," hours of doubt in religion "when all the gods are dead." "Crisis," Professor Shailer Mathews observes, "is something more than a relative term. It describes a situation which is not ordinary member of a line of antecedents and consequents, but one that assures radical change in the immediate future." He distinguishes

<sup>1</sup> Ross, *op. cit.*, p. 198.

<sup>2</sup> Jeune, Sir Francis, a celebrated judge in divorce cases.

between a crisis and a revolution. "The difference between a revolution and a crisis is the difference between the fire and the moment when someone with a lighted match in hand pauses to decide whether a fire shall be lighted." The term covers the situation preceding change, whether this situation be the culmination of a process or the result of some particular stimulus. "It is not necessarily precipitated by great issues. Quite as often it is occasioned by events . . . which are so related to a new situation as to set in motion an entire group of forces as a match kindles a huge bonfire when once the fuel is laid."<sup>1</sup> The failure to distinguish between that which occasions the crisis and the crisis itself has been the source of some confusion in thinking. "Defeat in battle, floods, drought, pestilence and famine," are not strictly crises, but they super-induce the crisis-situation, as does anything which brings about "a disturbance of habit," though it be simply "an incident, a stimulation or a suggestion." In short, crises are the result either of a slowly maturing process or of sudden strain or shock; and the nature of the reaction in the crisis-hour is nothing more than the effort towards the reestablishment of habits, new or old, when the former functioning has been disturbed. The situation, as has been pointed out, is closely correlated with attention.

When the habits are running smoothly the attention is relaxed; it is not at work. But when something happens to disturb the run of habit, the attention is called into play, and devises a new mode of behavior which will meet the crisis. That is, the attention establishes new and adequate habits, or it is its function so to do.<sup>2</sup>

<sup>1</sup> Mathews, Shailer, *The Church in the Changing Order* (N. Y., 1907), ch. I, p. 1.

<sup>2</sup> Thomas, William L., *Source Book of Social Origins* (Chicago, 1909), Introduction, p. 17.

What appears to take place is analogous to what is known as the reconditioning of instincts in psychology. Professor Giddings has been the first to make the sociological application:

Folk-ways of every kind, including mores and themistes are the most stable syntheses of pluralistic behavior; yet they are not unchanging. Under new and widening experience they suffer attrition and are modified. Instincts and with them emotion and imagination which largely fills the vast realm between instinct and reason are reconditioned. The word means simply that reflexes and higher processes subjected to new experiences are in a degree or entirely detached from old stimuli and associated with new ones. From time to time also traditions are invaded and habits are broken down by crisis. Pluralistic behavior then is scrutinized, criticized, discussed. It is rationally deliberated.<sup>1</sup>

Crises often, perhaps most often, precede catastrophies, as when revolutions break. The alternate truth that the catastrophies themselves are re-agents to generate the crisis-situation has not been so commonly noted. Nevertheless the disintegration of the normal by shock and calamity is an increasingly familiar spectacle.

Heretofore it has been in the life-histories and careers of individual men rather than in the case of communities that the observations have been recorded. Our biographies teem with instances of personal crises precipitated by a great shock or disappointment—Hawthorne's dismissal from the custom house, Goldsmith's rejection from Civil Service, the refusal of Dickens's application for the stage, the turning back of Livingstone from China, the bankruptcy of Scott.

Now examination reveals that the one thing characteristic of the crisis-period in the individual is a state of fluidity<sup>2</sup>

<sup>1</sup>Giddings, Franklin H., "Pluralistic Behaviour," *American Journal of Sociology*, vol. xxv, no. 4 (Jan., 1920), p. 401.

<sup>2</sup>The phrases "The world in a welter," "nations in the melting pot," "life in the smelting oven," are commonly heard and suggest a solution stage prior to the hardening process, or antecedent to crystallization.

into which the individual is thrown. Life becomes like molten metal. It enters a state of flux<sup>1</sup> from which it must reset upon a principle, a creed, or purpose. It is shaken perhaps violently out of rut and routine. Old customs crumble, and instability rules. There is generated a state of potentiality for reverse directions. The subject may "fall down" or he may "fall up." The presence of dynamic forces in such a state means change. But the precise rôle of the individual mind in a period of crisis is a problem not for sociology but for psychology.

The principle that fluidity is fundamental to social change is also true, however, of the community. Fluidity is not the usual state of society.

Most of the "functions" of society have no tendency to disturb the *status quo*. The round of love, marriage and reproduction, so long as births and death balance, production so far as it is balanced by consumption, exchange so long as the argosies of commerce carry goods and not ideas, education so far as it passes on the traditional culture, these together with recreation, social intercourse, worship, social control, government and the administration of justice are essentially statical. They might conceivably go on forever without producing change.<sup>2</sup>

Indeed the usual condition of the body politic is immobility, conservatism and "determined resistance to change." The chief reason for this immobility is habit.<sup>3</sup>

<sup>1</sup> Following the French Revolution Wordsworth wrote:

I lost  
All feeling of conviction and in fine  
Sick, wearied out with contrarieties  
Yielded up moral questions in despair.

—*Prelude*, bk. xi.

<sup>2</sup> Ross, *op. cit.*, p. 300.

<sup>3</sup> To this cause of immobility may be added others, such as: (1) Narrow experience and few interests. (2) Large percentage of population owning property. (3) Oriental pride in permanence. (4) Fatalistic philosophies. (5) Over-emphasis of government.



When our habits are settled and running smoothly they most resemble the instincts of animals. And the great part of our life is lived in the region of habit. The habits like the instincts are safe and serviceable. They have been tried and are associated with a feeling of security. There consequently grows up in the folk mind a determined resistance to change . . . a state of rapid and constant change implies loss of settled habits and disorganization. As a result, all societies view change with suspicion, and the attempt to revise certain habits is even viewed as immorality. Now it is possible under such conditions for a society to become stationary or to attempt to remain so. The effort of attention is to preserve the present status, rather than to re-accommodate. This condition is particularly marked among savages. In the absence of science and a proper estimate of the value of change they rely on ritual and magic and a minute unquestioning adhesion to the past. Change is consequently introduced with a maximum of resistance . . . Indeed the only world in which change is at a premium and is systematically sought is the modern scientific world.<sup>1</sup>

But when there comes the shattering of the matrix of custom by catastrophe, then mores are broken up and scattered right and left. Fluidity is accomplished at a stroke. There comes a sudden chance for permanent social change.

Social changes follow both minor and major disasters. The destruction of a mill may change the economic outlook of a village. The loss of a bridge may result in an entirely different school system for an isolated community; a cloud-burst may move a town. Great visitations, like the Chicago fire or the San Francisco earthquake, reveal these social processes in larger and more legible scale. Take as a single instance the latter city. Its quick recovery has been called one of the wonders of the age. In the very midst of surrounding desolation and business extinction, the Cali-

<sup>1</sup> Thomas, *op. cit.*, pp. 20, 21.

fornian city projected a Panama-Pacific exposition, and its citizens proceeded to arrange for one of the greatest of all world fairs. On the other hand, the social changes which succeed relatively small disturbances are often such as to elude an estimate. The reason has been well suggested that "big crises bring changes about most easily because they affect all individuals alike at the same time." In other words a more general fluidity is accomplished. We see, therefore, a second principle begin to emerge. Not only is fluidity fundamental to social change, but the degree of fluidity seems to vary directly as the shock and extent of the catastrophe.

There yet remains to notice the bearing of catastrophe upon social progress. The following words are quotable in this connection:

It is quite certain that the degree of progress of a people has a certain relation to the number of disturbances encountered, and the most progressive have had a more vicissitudinous life. Our proverb "Necessity is the mother of invention" is the formulation in folk-thought of this principle of social change.<sup>1</sup>

We cannot, however, remain long content with this suggestion as to the principle concerned—namely, that progress is a natural and an assured result of change. The point is that catastrophe always means social change. There is not always progress. It is well to guard against confusion here. Change means any qualitative variation, whereas progress means "amelioration, perfectionment." The latter will be seen to depend on other things—the nature of the shock, the models presented, the community culture and morale, the stimulus of leaders and lookers-on. The single case of Galveston, Texas,<sup>2</sup> is sufficient to disprove the too optimistic

<sup>1</sup> Thomas, *op. cit.*, p. 18.

<sup>2</sup> "It has one of the finest, if not the finest, ports in North America."

hypothesis that the effects of catastrophies are uniform. Here a city lost heart by reason of the overwhelming flood, and in spite of superior commercial advantages was out-grown by a rival fifty miles away. At the same time the case of Dayton, Ohio, should be borne in mind. Here also was a flood-stricken city and she became "the Gem City of the West." The principle<sup>1</sup> thus appears to be that progress in catastrophe is a resultant of specific conditioning factors, some of which are subject to social control.

It is indeed this very thing which makes possible the hope of eventual social control over disaster-stricken cities, and the transmutation of seeming evil into tremendous good. And this is in addition to the many practical social lessons which we have already been intelligent enough to preserve, such as those of better city-planning, and a more efficient charity organization.

How much of man's advancement has been directly or indirectly due to disaster?<sup>2</sup> The question asks itself and it is a question as yet without an answer. When the answer is at last written, will there not be many surprises? Pitt-Rivers tells us that "the idea of a large boat might have been suggested in the time of floods when houses floated down the rivers before the eyes of men."<sup>3</sup> A terrible

In 1900 a great tidal wave swept over the city, causing enormous damage and loss of life. While the city has had a certain growth since that time, it has been far outstripped by Houston, Dallas, and other Texas cities."—Kirby Page, formerly of Texas, in a letter to the author.

<sup>1</sup> Another principle is suggested for study by the following sentence in Ross' *Foundations of Sociology* (p. 206) "Brusk revolution in the conditions of life or thought produces not sudden, but gradual changes in society." This might easily be elaborated.

<sup>2</sup> The relationship of poetry and disaster is of interest. In a recent article on Disaster and Poetry a writer asks "whether often, if not always, suffering, disease and disaster do not bring to him [the poet] the will to create."—Marks, Jeanette, "Disaster and Poetry," *North American Review*, vol. 212, no. 1 (July, 1920), p. 93.

<sup>3</sup> Thomas, *op. cit.*, p. 23.

storm at sea gave America its first rice.<sup>1</sup> City-planning may be said to have taken its rise in America as a result of the Chicago fire, and the rôle of catastrophe in the progress of social legislation is a study in itself. The impetus thus received is immeasurable. Historically, labor-legislation took its rise with the coming of an infectious fever in the cotton-mills of Manchester in 1784. After the Cherry mine disaster legislation ensued at once. Again it was the Triangle fire which led to the appropriation of funds for a factory investigation commission in the State of New York. The sinking of the Titanic has greatly reduced the hazards of the sea.

It may easily prove true that the prophets of golden days to come who invariably arise on the day of disaster, are not entirely without ground for the faith which is in them; and that catastrophies are frequently only re-agents of further progress. But this is merely introductory. Thought becomes scientific only when its conclusions are checked up and under-written by observation or experiment. Prior to such procedure it must still remain opinion or belief.

The whole subject is, it must be repeated, a virgin field in sociology. Knowledge will grow scientific only after the most faithful examination of many catastrophies. But it must be realized that the data of the greatest value is left oftentimes unrecorded, and fades rapidly from the social memory. Investigation is needed immediately after the event. It is, therefore, of the utmost importance that sociological studies of Chicago, Galveston, Baltimore, San Francisco, and other disaster cities should be initiated at once.<sup>2</sup>

<sup>1</sup>In this storm a ship from Madagascar was driven into a South Carolina port. In gratitude the Captain gave the Governor a sack of seed.

<sup>2</sup>It is perhaps due to the reader to say that while this volume treats specifically of Halifax, the writer has studied the records of many

Of such a series—if the work can be done—this little volume on Halifax is offered as a beginning. It is hoped that the many inadequacies of treatment will receive the generous allowances permitted a pioneer.

disasters and these have been kept in mind in drawing his conclusions. He participated in the rescue and relief work at Halifax in 1917, and at the time of the Titanic disaster accompanied one of the expeditions to the scene. He was in New York when the Wall Street explosion occurred, and made a first hand study of its effects.

## CHAPTER I

### CATASTROPHE AND SOCIAL DISINTEGRATION

The City of Halifax—Terrific nature of the explosion—Destruction of life and property—The subsequent fire and storms—Annihilation of homes—Arresting of business—Disintegration of the social order.

HALIFAX is the ocean terminal of the Dominion of Canada on her Atlantic seaboard. It is situated at the head of Chebucto Bay a deep inlet on the southeastern shoreline of Nova Scotia. It is endowed by nature with a magnificent harbor, which as a matter of fact is one of the three finest in the world. In it a thousand vessels might safely ride at anchor. The possession of this harbor, together with ample defences, and a fortunate situation with regard to northern Europe established the Garrison City, early in the year 1914 as the natural war-base of the Dominion. Its tonnage leaped by millions, and it soon became the third shipping port in the entire British Empire. Hither the transports came, and the giant freighters to join their convoy. Cruisers and men-of-war put in to use its great dry-dock, or take on coal. Here too, cleared the supply and munition boats—some laden with empty shells, others with high explosives destined for the distant fields of battle. How much of the deadly cargo lay in the roadstead or came and went during those fateful years is not publicly known.<sup>1</sup> Certainly there was too much to breed a sense of safety, but no

<sup>1</sup> During the month of December, 1915, alone, 30,000 tons of munitions passed over the railroad piers of Halifax.

one gave the matter second thought. All were intent upon the mighty task of the hour. Sufficient unto each day was each day's evil. Each night the great war-gates were swung across the channels. Powerful searchlights swept unceasingly the sea and sky. The forts were fully manned. The gunners ready. The people knew these things, and no one dreamed of danger save to loved ones far away. Secure in her own defences the city lay unafraid, and almost apathetic.

About midway in the last two years of war—to be exact December, 1917,—a French munitioneer<sup>1</sup> heavily laden with trinitrotoluol, the most powerful of known explosives, reached Halifax from New York. On the early morning of the sixth of that month, she was proceeding under her own steam up the harbor-length toward anchorage in the basin—an oval expansion half-hidden by a blunt hill called Turtle Head. Suddenly an empty Belgian relief ship<sup>2</sup> swept through the Narrows directly in her pathway. There was a confusion of signals; a few agonized manoeuvres. The vessels collided; and the shock of their colliding shook the world!

War came to America that morning. Two thousand slain, six thousand injured, ten thousand homeless, thirty-five millions of dollars in property destroyed, three hundred acres left a smoking waste, churches, schools, factories blown down or burned—such was the appalling havoc of the

<sup>1</sup> The *Mont Blanc*, St. Nazaire, Captain Lemedec, Pilot Francis Mackay, owners La Compagnie General Transatlantique 3,121 tons gross, 2252 net register, steel, single screw, 330 ft. long, 40 ft. beam, speed 7½ to 8 knots, inward bound, from New York to await convoy. Cargo 450,000 lbs. trinitrotoluol, 2300 tons picric acid, 35 tons benzol, employed in carrying munitions to France.

<sup>2</sup> The *Imo*, Christiania, Captain Fron, Pilot William Hayes, owners Southern Pacific Whaling Company, 5,041 tons gross, 3161 tons register, steel, single screw, 430 ft. long, 45 ft. beam, speed 11 to 12 knots, outward bound to New York, in ballast, employed in carrying food to Belgium.

greatest single explosion in the history of the world.<sup>1</sup> It was an episode which baffles description. It is difficult to gain from words even an approximate idea of the catastrophe and what followed in its trail.

It was all of a sudden—a single devastating blast; then the sound as of the crashing of a thousand chandeliers. Men and women cowered under the shower of debris and glass. There was one awful moment when hearts sank, and breaths were held. Then women cried aloud, and men looked dumbly into each other's eyes, and awaited the crack of doom. To some death was quick and merciful in its coming. Others were blinded, and staggered to an fro before they dropped. Still others with shattered limbs dragged themselves forth into the light—naked, blackened, unrecognizable human shapes. They lay prone upon the streetside, under the shadow of the great death-cloud which still dropped soot and oil and water. It was truly a sight to make the angels weep.

Men who had been at the front said they had seen nothing so bad in Flanders. Over there men were torn with shrapnel, but the victims were in all cases men. Here father and mother, daughter and little child, all fell in "one red burial blent." A returned soldier said of it: "I have been in the trenches in France. I have gone over the top. Friends and comrades have been shot in my presence. I have seen scores of dead men lying upon the battlefield, but the sight . . . was a thousand times worse and far more pathetic."<sup>2</sup> A well-known relief worker who had been at San Francisco, Chelsea and Salem immediately after those disasters said "I am impressed by the fact that this is much the saddest disaster I have seen." It has been com-

<sup>1</sup>The greatest previous explosion was when 500,000 pounds of dynamite blew up in Baltimore Harbor.

<sup>2</sup>Johnstone, Dwight, *The Tragedy of Halifax* (in MS.).



pared to the scenes pictured by Lord Lytton in his tale of the last days of Pompeii:

True there was not that hellish river of molten lava flowing down upon the fleeing people; and consuming them as feathers in fierce flames. But every other sickening detail was present—that of crashing shock and shaking earth, of crumbling homes, and cruel flame and fire. And there were showers, not it is true of ashes from the vortex of the volcano, but of soot and oil and water, of death-dealing fragments of shrapnel and deck and boiler, of glass and wood and of the shattered ship.<sup>1</sup>

Like the New Albany tornado, it caused loss "in all five of the ways it is possible for a disaster to do so, in death, permanent injury, temporary injury, personal property loss, and real property loss."<sup>2</sup> Here were to be found in one dread assembling the combined horrors of war, earthquake, fire, flood, famine and storm—a combination seen for the first time in the records of human disaster.

It was an earthquake<sup>3</sup> so violent that when the explosion occurred the old, rock-founded city shook as with palsy. The citadel trembled, the whole horizon seemed to move with the passing of the earth waves. These were caught and registered, their tracings<sup>4</sup> carefully preserved, but the mute record tells not of the falling roofs and flying plaster and collapsing walls which to many an unfortunate victim brought death and burial at one and the same time.

It was a flood, for the sea rushed forward in a gigantic

<sup>1</sup>McGlashen, Rev. J. A., *The Patriot* (Dartmouth, N. S.).

<sup>2</sup>Deacon, J. Byron, *Disasters* (N. Y., 1918), ch. ii, p. 158.

"The effect of the vast, sudden interference with the air was practically the same as if an earthquake had shaken Halifax to the ground." (MacMechan, Archibald, "Halifax in Ruins," *The Canadian Courier*, vol. xxiii, no. 4, p. 6.)

<sup>3</sup>The tracings on the seismograph show three distinct shocks at the hours 9.05, 9.10 and 10.05.

tidal wave, fully a fathom in depth. It swept past pier and embankment into the lower streets, and receding, left boats and wreckage high and dry, but carried to a watery doom score upon score of human lives. Nearly two hundred men were drowned.

It was a fire or rather a riot of fires, for the air was for a second filled with tongues of igneous vapour hiding themselves secretly within the lightning discharge of gas, only to burst out in gusts of sudden flame. Numberless buildings were presently ablaze. Soon there was naught to the northward but a roaring furnace. Above, the sky was crimson; below, a living crematorium—church and school, factory and home burned together in one fierce conflagration; and the brave firemen knew that there were men and women pinned beneath the wreckage, wounded past self-help. Frantic mothers heard the cries of little children, but in vain. Fathers desperately tore through burning brands, but often failed to save alive the captives of the flame. And so the last dread process went on,—earth to earth, ashes to ashes, dust to dust. And when the fires at last abated, the north end of the City of Halifax looked like some blackened hillside which a farmer had burned for fallow in the spring.

But perhaps the most terrible of all the terrible accompaniments was the tornado-like gas-blast from the bursting ship. It wrought instant havoc everywhere. Trees were torn from the ground. Poles were snapped like toothpicks. Trains were stopped dead. Cars were left in twisted masses. Pedestrians were thrown violently into the air, houses collapsed on all sides. Steamers were slammed against the docks. Then followed a veritable air-raid, when the sky rained iron fragments upon the helpless city. Like a meteoric shower of death, they fell piercing a thousand roofs, and with many a mighty splash bore down into the sea.

Nor yet did this complete the tale of woes of this *Dies Irae*. Scarce was the catastrophe an hour old when the news was flashed around that a second explosion was approaching. It was the powder magazine in the Navy-yard, and the flames were perilously near. Through the crowded streets raced the heralds like prophets of wrath to come. "Flee! . . . Flee! . . . Get into the open ground" was the cry. Shops were abandoned unguarded, goods laid open on every side. No key was turned, no till was closed, but all instantly joined the precipitant throng, driven like animals before a prairie fire—yet this was not all; for "the plight of the aged, the sick, the infants, the bed-ridden, the cripples, the nursing mothers, the pregnant can not be described."

It was like the flight from Vesuvius of which Pliny the Younger tells:

You could hear the shrieks of women, the crying of children and the shouts of men. Some were seeking their children; others their parents, others their wives and husbands . . . one lamenting his own fate, another that of his family. Some praying to die from the very fear of dying, many lifting their hands to the gods, but the greater part imagining that there were no gods left anywhere, and that the last and eternal night was come upon the world.<sup>1</sup>

It has been said that "Moscow was no more deserted before Napoleon than were the shattered streets of Halifax when this flight had been carried out."<sup>2</sup> And when the hegira was over, and when there had ensued a partial recovery from the blow and gloom, a still lower depth of agony had yet to be undergone—a succession of winter storms. Blizzards, rain, floods and zero weather were even then upon

<sup>1</sup> Pliny, *Letters* (London, 1915), vol. i, bk. vi, p. 405.

<sup>2</sup> Smith, Stanley K., *The Halifax Horror* (Halifax, 1918), ch. ii, p. 24.

the way. They came in close procession and as if to crown and complete the terrors of the great catastrophe thunder rumbled, lightning broke sharply and lit up weirdly the snow-clad streets. Such was the catastrophe of Halifax—"a calamity the appalling nature of which stirred the imagination of the world."<sup>1</sup>

The description here concluded, brief and inadequate as it is, will sufficiently indicate the terrific nature of the catastrophic shock, and explain how utter and complete was the social disintegration which followed.

There was the disintegration of the home and the family,—the reproductive system of society—its members sundered and helpless to avert it. There was the disintegration of the regulative system—government was in perplexity, and streets were without patrol. There was the disintegration of the sustaining system—a dislocation of transportation, a disorganization of business while the wheels of industry ceased in their turning. There was a derangement of the distributive system<sup>2</sup>—of all the usual services, of illumination, water-connections, telephones, deliveries. It was impossible to communicate with the outside world. There were no cars, no mails, no wires. There was a time when the city ceased to be a city, its citizens a mass of unorganized units—struggling for safety, shelter, covering and bread. As Lytton wrote of Pompeii; "The whole elements of civilization were broken up . . . nothing in all the varied and complicated machinery of social life was left save the primal law of self preservation."<sup>3</sup>

A writer has given a vivid word picture of the social con-

<sup>1</sup> Bell, McKelvie, *A Romance of the Halifax Disaster* (Halifax, 1918), p. 57.

<sup>2</sup> Spencer, Herbert, *The Principles of Sociology* (N. Y., 1908), pt. ii, p. 409 et seq.

<sup>3</sup> Lytton, Lord, *The Last Days of Pompeii* (London, 1896), p. 405.

trasts of the disaster night and the beautiful evening before.

What a change from the night before! No theatres open, no happy throngs along the street, no cheery gatherings around the fire-side. The houses were all cold, and dark and silent. Instead of laughter, weeping; instead of dancing, agonizing pain; instead of Elysian dreams, ominous nightmares. Fears and sorrow were in the way and all the daughters of music were brought low . . . Halifax had become in a trice a city of dead bodies, ruined homes and blasted hopes.<sup>1</sup>

To have looked in upon one of the great makeshift dormitories that first night, to have seen men, women and children, of all stations, huddled together on the stages of theatres, the chancels of churches, in stables, box-cars and basements was to have beheld a rift in the social structure such as no community had ever known. Old traditional social lines were hopelessly mixed and confused. The catastrophe smashed through strong walls like cobwebs, but it also smashed through fixed traditions, social divisions and old standards, making a rent which would not easily repair. Rich and poor, debutante and chambermaid, official and bell-boy met for the first time as victims of a common calamity.

Even on the eighth, two days after the disaster, when Mr. Ratshesky of the Massachusetts' Relief arrived he could report: "An awful sight presented itself, buildings shattered on all sides—chaos apparent." In a room in the City Hall twelve by twenty, he found assembled "men and women trying to organize different departments of relief, while other rooms were filled to utmost capacity with people pleading for doctors, nurses, food, and clothing for themselves and members of their families. Everything was in turmoil."<sup>2</sup> This account faithfully expresses the dis-

<sup>1</sup>Johnstone, *op. cit.*

<sup>2</sup>Ratshesky, A. C., "Report of Halifax Relief Expedition," *The State* (Boston, 1918), p. 11.

integration which came with the great shock of what had come to pass. It is this disintegration and the resultant phenomena which are of utmost importance for the student of social science to observe. To be quite emotionally free in the observation of such phenomena, however, is almost impossible. It has been said of sociological investigations that

observation is made under bias because the facts under review are those of human life and touch human interest. A man can count the legs of a fly without having his heart wrung because he thinks there are too many or too few. But when he observes the life of the society in which he moves, lives and has his being, or some other society nearby, it is the rule that he approves or disapproves, is edified or horrified, by what he observes. When he does that he passes a moral judgment.<sup>1</sup>

Sociology has suffered because of this inevitable bias. In our present study it is natural that our sympathy reactions should be especially strong. "*Quamquam animus meminisse horret, incipiam*" must be our motto. As students we must now endeavor to dissociate ourselves from them, and look upon the stricken Canadian city with all a chemist's patient detachment. In a field of science where the prospect of large-scale experimental progress is remote, we must learn well when the abnormal reveals itself in great tragedies and when social processes are seen magnified by a thousand diameters. Only thus can we hope for advances that will endure.

In this spirit then let us watch the slow process of the reorganization of Halifax, and see in it a picture of society itself as it reacts under the stimulus of catastrophe, and adjusts itself to the circumstantial pressure of new conditions.

<sup>1</sup> Keller, A. G., "Sociology and Science," *The Nation* (N. Y., May 4, 1916), vol. 102, no. 2653, p. 275.

Before doing so, however, we shall pause, in the next chapter, to glance at a number of social phenomena which should be recorded and examined in the light of social psychology. But we must not lose the relationship of each chapter to our major thesis. It is sufficient for our purpose if thus far it has been shown that at Halifax the shock resulted in disintegration of social institutions, dislocation of the usual methods of social control and dissolution of the customary; that through the catastrophe the community was thrown into the state of flux which, as was suggested in the introduction, is the logical and natural prerequisite for social change; and finally that the shock was of a character such as "to affect all individuals alike at the same time," and to induce that degree of fluidity most favorable to social change.

## CHAPTER II

### CATASTROPHE AND SOCIAL PSYCHOLOGY

Shock reaction—Hallucination—Primitive instincts—Crowd psychology—Phenomena of emotion—How men react when bereft completely—Post-catastrophic phenomena—Human nature in the absence of repression by conventionality, custom and law—Fatigue and the human will—The stimuli of heroism—Mutual aid.

SOCIAL Psychology is a subject of primary importance to the student of society. Like Sociology itself its field is far from being exhausted. One looks in vain for a treatment of disaster psychology. In such a study the diverse phenomena involved would be of interest to the psychologist. Their effects in retarding or promoting social organization would concern the sociologist. With such possible effects in mind we are now to proceed to an examination of the major subjective reactions as they were to be seen in the Halifax catastrophe.

It is improbable that any single community has ever presented so composite a picture of human traits in such bold relief as appeared in the City of Halifax upon the day of the explosion. Human phenomena which many knew of only as hidden away in books, stood out so clearly that he who ran might read. Besides the physiological reactions there was abundant illustration of hallucination, delusion, primitive instincts, and crowd psychology as well of other phenomena all of which have important sociological significance tending either to prolong disintegration, or to hasten social recovery.



The first of these phenomena was the "stun" of the catastrophe itself. The shock reaction at Halifax has been variously described. It has been graphically likened "to being suddenly stricken with blindness and paralysis." It was a sensation of utter helplessness and disability. "We died a thousand horrible deaths" ran one description, "the nervous shock and terror were as hard to bear as were the wounds." "The people are dazed," wrote another observer, "they have almost ceased to exercise the sensation of pain." This physiological reaction animals and men shared alike. The appearance of the terror-stricken horses was as of beasts which had suddenly gone mad.

A physiological accompaniment of shock and distraction is the abnormal action of the glands. The disturbance of the sympathetic nervous system produced by the emotional stress and strain of a great excitement or a great disappointment is reflected in the stimulation or inhibition of glandular action. Much physical as well as nervous illness was precipitated by the grief, excitement and exposure of the disaster.<sup>1</sup> Among cases observed were those of diabetes, tuberculosis and hyper-thyroidism, as well as the nervous instability to which reference is subsequently made. Such an epidemic of hyper-thyroidism—exaggerated action of the thyroid gland—is said to have followed the Kishineff massacres, the San Francisco earthquake and the air-raids on London.<sup>2</sup> As to diabetes, it has been shown that

emotions cause increased output of glycogen. Glycogen is a step toward diabetes and therefore this disease is prone to appear in persons under emotional strain . . . so common is this

<sup>1</sup> For a full discussion of nervous disorders induced by an explosion at short range, *vide* Roussy and Lhermette, *The Psychoneuroses of War* (London, 1918), ch. x.

<sup>2</sup> Brown, W. Langden, Presidential address to Hunterian Society, London.

particular result in persons under prolonged emotion that someone has said that "when stocks go down in New York, diabetes goes up."<sup>1</sup>

Turning now to other psychological aspects, we have to note the presence of hallucination in disaster.

Hallucination may be roughly defined as false sense impression. For example, the patient sees an object which has no real existence, or hears an imaginary voice. Hallucinations are termed visual, auditory, tactile, *etc.* according to the sense to which the false impression appears to belong.<sup>2</sup>

Hallucination is induced by the unusual suggesting the expected. It is sense-perception colored by association. It is the power of a dominant idea that, unbidden, enters the field of consciousness and takes possession of even the senses themselves. In Halifax one idea seemed to dominate most minds and clothe itself in the semblance of reality—the expected Germans. For a long time there had been under public discussion the question as to whether or not the city would be shelled by Zeppelin raiders, or possibly by a fleet at sea. All street-lights had been darkened by military orders. The failure to draw window shades had been subject to heavy penalty. It is no wonder eyes looked upward when there came the crash, and when seeing the strange unusual cloud beheld the Zeppelin of fancy. A man residing on the outskirts of the town of Dartmouth "heard" a German shell pass shrieking above him. Dartmouth Heights looks out over Halifax harbor, and here perhaps the vista is most expansive, and the eye sees furthest. The instant after the explosion a citizen standing here

<sup>1</sup>Crite, George W., *The Origin and Nature of the Emotions* (Phila., 1915), p. 163.

<sup>2</sup>Hart, Bernard, *The Psychology of Insanity* (Cambridge, 1916), ch. iii, p. 30.

"saw" clearly a German fleet manoeuvring in the distance.<sup>1</sup> That shells had actually come few on the instant doubted. The head of one firm advised his employees not to run elsewhere, as "two shots never fall in the same place."

This—a German assault—was the great mental explanation that came into the majority of minds. There was one other—that of the end of the world. Many fell to their knees in prayer. One woman was found in the open yard by her broken home repeating the general confession of the church. Few would have been surprised if out of the smoky cloud-ridden skies there should have appeared the archangels announcing the consummation of mundane affairs. Indeed there were instances, not a few, of those who "saw" in the death-cloud "the clear outlines of a face." Thus both auditory and visual hallucination were manifested to a degree.

Hallucination has been described as "seeing" something which has no basis in reality. Thus it differs from delusion, which is rather a misinterpretation of what is seen. "Delusions are closely allied to hallucinations and generally accompany the latter. The distinction lies in the fact that delusions are not false sensations but false beliefs."<sup>2</sup> Anxiety, distraction by grief and loss, as well as nervous shock play freely with the mind and fancy and often swerve the judgment of perception. This was especially noticeable at Halifax in the hospital identification, particularly of children. A distracted father looked into a little girl's face four different times but did not recognize her as his own which, in fact, she was. The precisely opposite oc-

<sup>1</sup> "So hypochondriac fancies represent  
Ships, armies, battles in the firmament  
Till steady eyes the exhalations solve  
And all to its first matter, cloud, resolve."

—Defoe, *Journal of the Plague Year*.

<sup>2</sup> Hart, *op. cit.*, ch. iii, p. 31.

currence was also noted. A fond parent time and time again "discovered" his lost child, "seeing" to complete satisfaction special marks and features on its little body. But often there were present those who knew better, and the better judgment prevailed. Again this phenomenon was repeated in numberless instances at the morgue. Wearing and white after frantic and fruitless search wherever refugees were gathered together, the overwrought searchers would walk through the long lines of dead, and suddenly "recognize" a missing relative or friend.<sup>1</sup> Regretfully the attendant fulfilled the same thankless task from day to day. There had been no recognition at all. The observer had seen "not the object itself but the image evoked in the mind."<sup>2</sup>

The primitive instincts of man were for a long time vaguely and loosely defined, until James and later McDougall essayed to give them name and number. But only with Thorndike's critical examination has it become clear how difficult a thing it is to carry the analysis of any situation back to the elemental or "primal movers of all human activity." Thorndike is satisfied to describe them as nothing save a set of original tendencies to respond to stimuli in more or less definite directions. When he speaks of instincts it is to mean only a "series of situations and responses" or "a set of tendencies for various situations to arouse the feelings of fear, anger, pity, *etc.* with which certain bodily movements usually go." Among them there are those resulting in "food-getting and habitation," in "fear, fighting and anger" and in "human intercourse."<sup>3</sup> But McDougall's classification preserves the old phrases,

<sup>1</sup> For parallel cases of erroneous recognition of the dead, *vide* Le Bon, Gustave, *The Crowd, a Study of the Popular Mind* (London), bk. i, ch. i, p. 51.

<sup>2</sup> *Ibid.*, p. 51.

<sup>3</sup> Thorndike, Edward L., *The Original Nature of Man* (N. Y., 1913), ch. 7, p. 43 *et seq.*

and men are likely to go on speaking of the "instinct of flight," the "instinct of pugnacity," "parental instinct," "gregarious instinct" and the others.<sup>1</sup> For the sociologist it is enough that all agree that men are held under some powerful grip of nature and driven at times almost inevitably to the doing of acts quite irrespective of their social effects.

In catastrophe these primitive instincts are seen most plainly and less subject to the re-conditioning influences of ordinary life. This was especially noticeable at Halifax. The instinct of flight for self-preservation was reflected in the reaction of thousands. "Almost without thought, probably from the natural instinct of self-preservation I backed from the window to a small store-room and stood there dazed."<sup>2</sup> The experience so described may be said to have been general. This instinct was to be seen again in the action of the crew of the explosives-laden ship. Scarcely had the collision occurred when the whole complement lowered away the boats, rowed like madmen to the nearest shore—which happened to be that opposite to Halifax—and "scooted for the woods." As the ship, although set on fire immediately after the impact, did not actually blow up until some twenty minutes later, much might have been done by men less under the domination of instinct, in the way of warning and perhaps of minimizing the inevitable catastrophe.<sup>3</sup>

The instinct of pugnacity was to be seen in many a fine example of difficulty overcome in the work of rescue; as

<sup>1</sup> McDougall, William, *An Introduction to Social Psychology* (Boston, 1917), ch. iii, p. 49 *et seq.*

<sup>2</sup> Sheldon, J., *The Busy East* (Sackville, N. B. Can.), March, 1918.

<sup>3</sup> The judgment of the court of enquiry ran as follows: "The master and pilot of the *Mont Blanc* are guilty of neglect of public safety in not taking proper steps to warn the inhabitants of the city of a probable explosion." (Drysdale Commission, *Judgment of*, sec. viii.)

also in other instances, some suggestive of that early combat when animals and men struggled for mere physical existence.

The parental instinct was everywhere in evidence, and was reflected not only in the sacrifices made and the privations endured by parents for their young, but in every act of relief, which arose in involuntary response to the cry of the distressed. It perhaps partially explains the phenomenon often noticed in disasters that "immediately and spontaneously neighbors and fellow-townsmen spring to the work of rescue and first aid."<sup>1</sup>

The gregarious instinct—the instinct to herd—showed itself in the spontaneous groupings which came about and which seemed somehow to be associated with feelings of security from further harm. The refugees found comfort in the group. They rarely remained alone.

These and other instinctive responses in a greater or less degree of complication were to be remarked of the actions not only of individuals but of groups as well. In the latter the typical phenomena of crowd psychology were manifested upon every hand. The crowd was seen to be what it is—"the like response of many to a socially inciting event or suggestion such as sudden danger." Out of a mere agglomeration of individuals and under the stress of emotional excitement there arose that mental unity, which Le Bon emphasizes.<sup>2</sup> There was noticeable the feeling of safety associated with togetherness which Trotter suggests.<sup>3</sup> There was the suggestibility, with its preceding conditions which Sidis<sup>4</sup> has clarified, namely, expectancy, inhibition,

<sup>1</sup> Deacon, J. Byron, *Disasters* (N. Y., 1918), ch. vi, p. 151.

<sup>2</sup> Le Bon, *op. cit.*, p. 26.

<sup>3</sup> Trotter, William, *Instincts of the Herd in Peace and War* (London, 1919), p. 31.

<sup>4</sup> Sidis, Boris, *The Psychology of Suggestion* (N. Y., 1919), ch. vi, p. 56 et seq.

and limitation of the field of consciousness. There were the triple characteristics which Giddings notes: "Crowds are subject to swift contagion of feeling, they are sensitive to suggestion . . . and always manifest a tendency to carry suggested ideas immediately into action."<sup>1</sup>

Of illustrations of impulsive social action there are none more apt than those furnished by the reactions following the Halifax tragedy. Only Pliny's narrative of the flight from the eruption of Vesuvius, or the story of the "Day of Fear" in France,<sup>2</sup> or that depicting the days of the comet<sup>3</sup> are comparable thereto.

At first all was confusion. Some ran to the cellars. Some ran to the streets. Some ran to their shops. Those in the shops ran home. This was in the area of wounds and bruises. Farther north was the area of death. Thither the rescuers turned. Automobiles sped over broken glass and splintered boards toward the unknown. Then came the orders of the soldiers, whose barracks were situated in the very heart of the danger district, for the people to fly southward, Common-ward, to the open spaces—anywhere. Another explosion was imminent. Then came further outbreaks of the flight impulse. Runs a graphic account:

The crowd needed no second warning. They turned and fled. Hammers, shovels and bandages were thrown aside. Stores were left wide open with piles of currency on their counters. Homes were vacated in a twinkling. Little tots couldn't understand why they were being dragged along so fast. Some folks never looked back. Others did, either to

<sup>1</sup>Giddings, Franklin H., *Principles of Sociology* (N. Y., 1916), bk. ii, ch. ii, p. 136.

<sup>2</sup>Stephens, Henry M., *A History of the French Revolution* (N. Y., 1886), vol. i, p. 179.

<sup>3</sup>Wells, H. G., *In the Days of the Comet* (N. Y., 1906).

catch a last glimpse of the home they never expected to see again or to tell if they could from the sky how far behind them the Dreaded Thing was. . . . They fled as they were. . . . Some carried children or bundles of such things as they had scrambled together. . . . Many were but scantily clad. Women fled in their night dresses. A few were stark naked, their bodies blackened with soot and grime. These had come from the destroyed section of the North End. What a storm-tossed motley throng, and as varied in its aspect and as poignant in its sufferings as any band of Belgian or Serbian refugees fleeing before the Hun. . . . A few rode in autos, but the great majority were on foot. With blanched faces, bleeding bodies and broken hearts, they fled from the Spectral Death they thought was coming hard after, fled to the open spaces where possibly its shadow might not fall. Soon Citadel Hill and the Common were black with terrified thousands. Thousands more trudged along St. Margaret's Bay road, seeking escape among its trees and winding curves. . . . Many cut down boughs and made themselves fires—for they were bitterly cold. Here they were—poorly clad, badly wounded, and with not one loaf of bread in all their number, so hastily did they leave, when galloping horsemen announced the danger was over and it was safe to return.<sup>1</sup>

The ever-shifting responsiveness to rumor which distinguishes a crowd was noted.

The entrance to the Park was black with human beings, some massed in groups, some running anxiously back and forth like ants when their hill has been crushed. There were blanched faces and trembling hands. The wildest rumors were in circulation and every bearer of tidings was immediately surrounded.<sup>2</sup>

Not only here but when the crowd trekked back, and in

<sup>1</sup> Johnstone, Dwight, *The Tragedy of Halifax* (in MS.).

<sup>2</sup> *St. John Globe*, Correspondence, Dec., 1917.



the subsequent scenes which were witnessed in supply stations and shelters, the association which Sidis draws between calamity and hyper-suggestibility in the body politic was abundantly endorsed.

We must now endeavor to understand the phenomena of emotion which accompany a great catastrophe. This is not the less difficult because the term emotion is not given consistent use even by psychologists. One interprets it as merely the affective side of the instinctive process—those “modes of affective experience,” such as “anger, fear, curiosity,” which accompany the excitement of “the principal powerful instincts.”<sup>1</sup> Another sees it as also an impulsive, not merely a receptive state. It is “the way the body feels when it is prepared for a certain reaction,” and includes “an impulse toward the particular reaction.”<sup>2</sup>

It will be accurate enough for our purpose to think of the emotions as complicated states of feeling more or less allied to one another and to the human will.<sup>3</sup> Among them are jealousy and envy—“discomfort at seeing others improved and at being out-done by them.”<sup>4</sup> This appeared repeatedly in the administration of relief and should be included in disaster psychology. Again greed<sup>5</sup>—more strictly a social instinct than an emotion—was common. How common will receive further exemplification in a later chapter.

<sup>1</sup> McDougall, *op. cit.*, p. 46.

<sup>2</sup> Woodworth, Robert S., *Dynamic Psychology* (N. Y., 1918), ch. iii, p. 54.

<sup>3</sup> “Anger, zeal, determination, willing, are closely allied, and probably identical in part. Certainly they are aroused by the same stimulus, namely, by obstruction, encountered in the pursuit of some end.” (*Ibid.*, p. 149.)

<sup>4</sup> Thorndike, *op. cit.*, p. 101.

<sup>5</sup> “To go for attractive objects, to grab them when within reach, to hold them against competitors, to fight the one who tries to take them away. To go for, grab and hold them all the more if another is trying to do so, these lines of conduct are the roots of greed.” (*Ibid.*, p. 102.)

Fear has already been referred to. Anger, shame, resentment while evident, were of less significance. Gratitude was early shown and there were many formal expressions of it. Later on, it seemed to be replaced by a feeling that as sufferers they, the victims, were only receiving their due in whatever aid was obtained.

Of special interest is the rôle of the tender emotions, kindness, sympathy and sorrow, as well as the reactions which may be expected when these occur in unusual exaltation through the repetition of stimuli or otherwise. Whatever may be the nature of the process whereby the feelings of his fellows affect a man, that which chiefly concerns us here, is how these reactions differ when the stimulation is multiplex. Of this multiplex stimulation in collective psychology Graham Wallas has written:

The nervous exaltation so produced may be the effect of the rapid repetition of stimuli acting as repetition acts, for instance, when it produces seasickness or tickling. . . . If the exaltation is extreme conscious control of feeling and action is diminished.<sup>1</sup> Reaction is narrowed and men may behave, as they behave in dreams, less rationally and morally than they do if the whole of their nature is brought into play.<sup>2</sup>

What Wallas has said of the additional stimulation which the presence of a crowd induces may be given wider application, and is indeed a most illuminating thought, describing exactly the psycho-emotional reactions produced by the stimulation of terrifying scenes, such as were witnessed at Halifax.

<sup>1</sup> M. Dide, a French psychologist, regards "the hypnosis produced by emotional shock—and this occurs not only in war but in other great catastrophes as well—as genetically a defence reaction, like natural sleep whose function according to him is primarily prophylactic against exhaustion and fatigue. . . . it is comparable to the so-called death-shamming of animals." (Dide, M., *Les émotions et la guerre* (Paris, 1918), Review of, *Psychological Bulletin*, vol. xv, no. 12, Dec., 1918, p. 441.)

<sup>2</sup> Wallas, Graham, *The Great Society* (N. Y., 1917), p. 136.

A case in point was that of the nervous exaltation produced upon a young doctor who operated continuously for many hours in the removal of injured eyes. The emotional tension he went through is expressed in his words to a witness: "If relief doesn't come to me soon, I shall murder somebody."

Another instance where conscious control of feeling and action was diminished was that of a soldier. He was so affected by what he passed through during the explosion and his two days' participation in relief work, that he quite unwittingly took a seat in a train departing for Montreal. Later in a hospital of that city after many mental wanderings he recovered his memory. Over and over again he had been picturing the dreadful scenes which he had experienced. This condition includes a hyperactivity of the imagination "characterized by oneirism [oneiric delirium] reproducing most often the tragic or terrible scenes which immediately preceded the hypogenic shock."<sup>1</sup>

The nature of sympathy<sup>2</sup> may not be clearly comprehended but of its effects there is no doubt. It may lead to the relief of pain or induce the exactly opposite effect; or it may bring about so lively a distress as to quite incapacitate a man from giving help. Again it may lead to the avoidance of disaster scenes altogether. Thus some could on no account be prevailed upon to go into the hospitals or to enter the devastated area. Others by a process understood in the psychology of insanity secured the desired avoidance by suicide. The association of suicide with catastrophe has been already remarked in the case of San Francisco. A Halifax instance was that of a physician who had labored hard among the wounded. He later found the reaction of

<sup>1</sup> *Ibid.*, p. 440.

<sup>2</sup> Classed by William James as an emotion, but considered by McDougall a pseudo-instinct.

his emotional experiences too strong. He lost his mental balance and was discovered dead one morning near his office door. He had hanged himself during the night. Still another, a railroad man, driven to despair by loneliness and loss, his wife and children having perished, attempted to follow them in death.

Joy and sorrow are pleasure-pain conditions of emotional states. Sorrow is painful because "the impulse is baffled and cannot attain more than the most scanty and imperfect satisfaction in little acts, such as the leaving of flowers on the grave;"<sup>1</sup> although the intensity is increased by other considerations. Here again the unusual degree of stimulation which catastrophe induces brings about a behavior other than that which commonly attends the experience of grief. A phenomenon associated with wholesale bereavement is the almost entire absence of tears. A witness of the San Francisco disaster said it was at the end of the second day that he saw tears for the first time.<sup>2</sup> At Halifax, where the loss of life was many times greater, there was little crying. There seemed to be indeed a miserable but strong consolation in the fact that all were alike involved in the same calamity.<sup>3</sup>

There was "no bitterness, no complaint, only a great and eager desire to help some one less fortunate." Another observer said: "I have never seen such kindly feeling. I have never seen such tender sympathy. I have never heard an impatient word." And this was amongst men "who were covered with bruises, and whose hearts were heavy, who have not had a night's sleep, and who go all day long with-

<sup>1</sup> McDougall, *op. cit.*, p. 152.

<sup>2</sup> O'Connor, Chas. J., *San Francisco Relief Survey* (N. Y., 1913), pt. i, p. 6.

<sup>3</sup> "The cutting edge of all our usual misfortunes comes from their character of loneliness."—(James, William, *Memories and Studies*, N. Y., 1911, p. 224.)

out thought of food." Another visitor remarked "there is not a more courageous, sane and reasonable people. Everyone is tender and considerate. Men who have lost wives and children, women whose sons and husbands are dead, boys and girls whose homes have been destroyed, are working to relieve the distress." A Montreal clergyman reported that "Halifax people have been meeting with dry eyes and calm faces the tragedies, the horrors, the sufferings and the exposures which followed the explosion." Grief is after all "a passive emotion," a "reaction of helplessness." It is "a state of mind appropriate to a condition of affairs where nothing is to be done"—<sup>1</sup> and there was much to be done at Halifax.

There are also to be added the phenomena of emotional parturition. As was to be expected the shock meant the immediate provision of a maternity hospital. Babies were born in cellars and among ruins. Premature births were common, one indeed taking place in the midst of the huddled thousands of refugees waiting in anguish upon the Common for permission to return to their abandoned homes. Nor were all the ills for which the shock was responsible immediately discernible. There were many post-catastrophic phenomena. Three months after the explosion many found themselves suffering an inexplicable breakdown, which the doctors attributed unquestionably to the catastrophe. It was a condition closely allied to "war-neurasthenia." Another disaster after-effect also may be here recorded. This was the not unnatural way in which people "lived on edge," for a long period after the disaster. There was a readiness and suggestibility to respond to rumor or to the least excitant. Twice at least the schools were emptied precipitately, and citizens went forth into pell-mell flight from their homes upon the circulation of reports of possible danger. No better illustration is af-

<sup>1</sup>Woodworth, *op. cit.*, p. 58.

forded of the sociological fact that "the more expectant, or overwrought the public mind, the easier it is to set up a great perturbation. After a series of public calamities . . . minds are blown about by every gust of passion or sentiment."<sup>1</sup>

There are also to be included a few miscellaneous observations of behavior associated with the psychology of disaster relief. (1) The preference upon the part of the refugee for plural leadership and decision. (2) The aggravation of helplessness through the open distribution of relief. (3) The resentment which succeeds the intrusion of strangers in relief leadership. (4) The reaction of lassitude and depression after a period of strain. (5) The desire for privacy during interviews. (6) The vital importance of prompt decision in preventing an epidemic of complaint.<sup>2</sup>

Analytic psychology is becoming increasingly interested in the phenomena of repression, inhibition and taboo. The real motives of action are often very different from the apparent motives which overlie them. Instinctive tendencies are buried beneath barriers of civilization, but they are buried alive. They are covered not crushed. These resistances are either within our minds or in society. The latter are summed up in conventionality, custom and law, all so relatively recent<sup>3</sup> in time as to supply a very thin veneer over the primitive tendencies which have held sway for ages. Few realize the place which conventionality, custom and law possess in a community until in some extraordinary catastrophe their power is broken, or what is the same thing the ability to enforce them is paralyzed.

<sup>1</sup>Roos, Edward A., *Social Psychology* (N. Y., 1918), ch. iv, p. 66.

<sup>2</sup>A list compiled by the author from suggestions in Deacon's discussion of disasters. All were to be observed at Halifax.

<sup>3</sup>It has been said that were the period of man's residence on earth considered as having covered an hundred thousand years, that of civilization would be represented by the last ten minutes.

This fact is especially true of repressive enactments, and most laws fall within this category. Catastrophe shatters the unsubstantial veneer. When the police of Boston went on strike it was not only the signal for the crooks of all towns to repair to the unguarded center, but an unexpected reserve of crookedness came to light within the city itself. Lytton discovered at Pompeii signs of plunder and sacrilege which had taken place "when the pillars of the world tottered to and fro." At the time of the St. John Fire "loafers and thieves held high carnival. All night long they roamed the streets and thieved upon the misfortunes of others."<sup>1</sup>

With the possibility of apprehension reduced to a minimum in the confusion at Halifax, with the deterrent forces of respectability and law practically unknown, men appeared for what they were as the following statement only too well discloses:

Few folk thought that Halifax harbored any would-be ghouls or vultures. The disaster showed how many. Men clambered over the bodies of the dead to get beer in the shattered breweries. Men taking advantage of the flight from the city because of the possibility of another explosion went into houses and shops, and took whatever their thieving fingers could lay hold of. Then there were the nightly prowlers among the ruins, who rifled the pockets of the dead and dying, and snatched rings from icy fingers. A woman lying unconscious on the street had her fur coat snatched from her back. . . . One of the workers, hearing some one groaning rescued a shop-keeper from underneath the debris. Unearthing at the same time a cash box containing one hundred and fifty dollars, he gave it to a young man standing by to hold while he took the victim to a place of refuge. When he returned the box was there, but the young man and the money had disappeared.

Then there was the profiteering phase. Landlords raised

<sup>1</sup> Stewart, George, *The Story of the Great Fire in St. John* (Toronto, 1877), p. 35.

their rents upon people in no position to bear it. The Halifax Trades and Labor Council adopted a resolution urging that the Mayor be authorized to request all persons to report landlords who "have taken advantage of conditions created by the explosion." . . . Plumbers refused to hold their union rules in abeyance and to work one minute beyond the regular eight hours unless they received their extra rates for overtime; and the bricklayers assumed a dog-in-the-manger attitude and refused to allow the plasterers to help in the repair of the chimneys. And this during days of dire stress . . . when many men and women were working twelve and fourteen hours a day without a cent or thought of remuneration. One Halifax newspaper spoke of these men as "squeezing the uttermost farthing out of the anguished necessities of the homeless men, women and children." Truckmen charged exorbitant prices for the transferring of goods and baggage. Merchants boosted prices. A small shopkeeper asked a little starving child thirty cents for a loaf of bread.

On Tuesday, December the twelfth, the Deputy Mayor issued a proclamation warning persons so acting that they would be dealt with under the provisions of the law.<sup>1</sup>

Slowly the arm of repression grew vigorous once more. The military placed troops on patrol. Sentries were posted preventing entrance to the ruins to those who were not supplied with a special pass. Orders were issued to shoot any looter trying to escape. The Mayor's proclamation, the warning of the relief committee, the storm of popular indignation gradually became effectual.

The stimulus of the same catastrophe, it thus appears, may result in two different types of responses—that of greed on the one hand or altruistic emotion on the other. One individual is spurred to increased activity by the opportunity of business profit, another by the sense of social needs. Why this is so—indeed the whole field of profiteer-

<sup>1</sup>Johnstone, *op. cit.*



ing—would be a subject of interesting enquiry. Whether it is due to the varying degrees of socialization represented in the different individuals or whether it is not also partly due to the fact that philanthropy functions best in a sphere out of line with a man's own particular occupation, the truth remains that some display an altogether unusual type of reaction in an emergency to the actions of others; and perhaps exhibit behavior quite different from that which appears normal in a realm of conduct where associations based on habit are so strongly ingrained.

The human will as we have seen is in close association with the emotions. We are now to notice the dynamogenic value of the strong emotions aroused by catastrophe. It is first of all essential to remember the rôle of adrenin in counteracting the effects of fatigue. Wonderful phenomena of endurance in disaster might well be anticipated for "adrenin set free in pain and in fear and in rage would put the members of the body unqualifiedly at the disposal of the nervous system." This is "living on one's will" or on "one's nerve." There are "reservoirs" of power ready to pour forth streams of energy if the occasion presents itself. Strong emotions may become an "arsenal of augmented strength." This fact William James was quick to see when he said "on any given day there are energies slumbering within us which the incitements of that day do not call forth."<sup>1</sup> But it was left to Cannon to unfold the physiological reasons,<sup>2</sup> and for Woodworth to explain how the presence of obstruction has power to call forth new energies.<sup>3</sup> Indeed the will<sup>4</sup> is just the inner driving force

<sup>1</sup>James, William, *The Energies of Men* (N. Y., 1920), p. 11.

<sup>2</sup>Cannon, Walter B., *Bodily changes in Pain, Hunger, Fear and Rage*, ch. xi, p. 184, *et seq.*

<sup>3</sup>Woodworth, *op. cit.*, p. 147.

<sup>4</sup>Will is indeed the supreme faculty, the whole mind in action, the

of the individual and an effort of will is only "the development of fresh motor power."<sup>1</sup> Following the lines of least resistance the will experiences no unusual exercise. Catastrophe opposes the tendency to eliminate from life everything that requires a calling forth of unusual energies.

The energizing influence of an emotional excitant was shown at Halifax in the remarkable way in which sick soldiers abandoned their beds and turned them over to the victims rushed to the military hospitals. It was seen again in the sudden accession of strength displayed by the invalids and the infirm during the hurried evacuation of the houses—a behavior like that of the inhabitants of Antwerp during the bombardment of that city in October 1914, when those who fled to Holland showed extraordinary resistance to fatigue.<sup>2</sup> The resistance to fatigue and suffering received more abundant illustration at Halifax in the work of rescue and relief. Often men themselves were surprised at their own power for prolonged effort and prodigious strain under the excitement of catastrophe. It was only on Monday (the fifth day) that collapses from work began to appear. Among the more generally known instances of unusual endurance was that of a private, who with one of his eyes knocked out, continued working the entire day of the disaster. Another was that of a chauffeur who with a broken rib conveyed the wounded trip after trip to the hospital, only relinquishing the work when he collapsed. An unknown man was discovered at work in the midst of the ruins

internal stimulus which may call forth all the capacities and powers. (Conklin, Edwin G., *Heredity and Environment in the Development of Man* [Princeton], ch. vi, p. 47.)

<sup>1</sup> Woodworth, *op. cit.*, p. 149.

<sup>2</sup> Sano, F., "Documenti della guerra: Osservazioni psicologiche notate durante il bombardamento di Anversa," *Rivista di psicologia*, anno xi, pp. 119-126.

although his own face was half blown off. Those who escaped with lesser injuries worked day and night while the crisis lasted. Many did not go home for days, so manifold and heavy were the tasks. There was no pause for comment. Conversation was a matter of nods and silent signs, the direction of an index finger. Weeks later the workers were surprised to find themselves aged and thin. The excitement, the stimulus of an overwhelming need had banished all symptoms of fatigue. During the congestion which followed the arrival of the relief trains there were men who spent seventy-two hours with scarcely any rest or sleep. One of the telephone terminal room staff stuck to his post for ninety-two hours, probably the record case of the disaster for endurance under pressure. Magnificent effort, conspicuous enough for special notice was the work of the search parties who, facing bitterest cold and in the midst of blinding storms, continued their work of rescue; and the instance of the business girls who in the same weather worked for many hours with bottles of hot water hung about their waists. An effect which could not escape observation was the strange insensibility to suffering on the part of many of the victims themselves. Men, women and little children endured the crudest operations without experiencing the common effects of pain. They seemed to have been anaesthetized by the general shock. Sidewalk operations, the use of common thread for sutures, the cold-blooded extracting of eyes were carried on often without a tremor. This resistance to suffering was due not only to the increase of energy already described but also to the fact that the prostrating effect of pain is largely relative to the diversion of attention,—as “headaches disappear promptly upon the alarm of fire” and “toothaches vanish at the moment of a burglar’s scare.” Much pain is due to the super-sensitivity of an area through hyperaemia,

or increased blood supply, following concentrated attention. Thus it is actually possible by volition to control the spread of pain, and the therapeutic virtues of an electric shock or a slap in the face are equally demonstrable. This reasoning is also applicable to the absence of sympathetic reactions among many disaster workers. They were found often to be "curiously detached and not greatly moved by the distressing scenes in morgue, in hospital, in the ruins and at the inquiry stations."<sup>1</sup>

Catastrophe and the sudden termination of the normal which ensues become the stimuli of heroism and bring into play the great social virtues of generosity and of kindness—which, in one of its forms, is mutual aid. The new conditions, perhaps it would be more correct to say, afford the occasion for their release. It is said that battle does to the individual what the developing solution does to the photographic plate,—brings out what is in the man. This may also be said of catastrophe. Every community has its socialized individuals, the dependable, the helpful, the considerate, as well as the "non-socialized survivors of savagery," who are distributed about the zero point of the social scale. Calamity is the occasion for the discovery of the "presence of extraordinary individuals in a group." The relation of them to a crisis is one of the most important points in the problem of progress.

At Halifax there were encountered many such individuals as well as families who refused assistance that others might be relieved. Individual acts of finest model were written ineffaceably upon the social memory of the inhabitants. There was the case of a child who released with her teeth the clothes which held her mother beneath a pile of debris. A wounded girl saved a large family of children, getting them all out of a broken and burning home. A telegraph

<sup>1</sup> Smith, Stanley K., *The Halifax Horror* (Halifax, 1918), ch. iv, p. 44.

operator at the cost of his life stuck to his key, sent a warning message over the line and stopped an incoming train in the nick of time.

Group heroism was no less remarkable. For the flooding of the powder magazine in the naval yard an entire battery volunteered. This was why the second explosion did not actually occur. Freight handlers too, as well as soldiers, revealed themselves possessors of the great spirit. A conspicuous case was that of the longshoremen working on board of a ship laden with explosives. Fully realizing the impending danger, because of the nearness of the burning munitioner, they used what precious minutes of life remained them to protect their own ship's explosives from ignition. A fire did afterwards start upon the ship but a brave captain loosed her from the pier, and himself extinguished the blaze which might soon have repeated in part the devastations already wrought.

No disaster psychology should omit a discussion of the psychology of helpfulness—that self-help to which the best relief workers always appeal, as well as of the mutual aid upon which emergency relief must largely depend. Mutual aid while not a primary social fact is inherent in the association of members of society, as it also “obtains among cells and organs of the vital organism.” As it insured survival in the earlier stages of evolution<sup>1</sup> so it reveals itself when survival is again threatened by catastrophe.

The illustrations of mutual aid at Halifax would fill a volume. Not only was it evidenced in the instances of families and friends but also in the realm of business. Cafés served lunches without charge. Drug stores gave out freely of their supplies. Firms released their clerks to swell the army of relief. A noteworthy case of com-

<sup>1</sup> Kropotkin, Prince, *Mutual Aid* (N. Y., 1919), ch. i, p. 14.

munity service was that of the Grocers' Guild announcing that its members would

fill no orders for outside points during the crisis, that they would coöperate with the relief committee in delivering food-stuffs free of charge to any point in the city, and that their stocks were at the disposal of the committee at the actual cost to them.<sup>3</sup>

By incidents such as these, Halifax gained the appellation of the City of Comrades.

Catastrophe becomes also the excitant for an unparalleled opening of the springs of generosity.<sup>4</sup> Communication has transformed mutual aid into a term of worldwide significance. As at San Francisco, when from all directions spontaneous gifts were hurried to the stricken city, when in a period of three months seventeen hundred carloads and five steamerloads of relief goods arrived, in addition to millions of cash contributions, so was it at Halifax. So it has always been, as is proven by Chicago, Dayton, Chelsea as well as by numbers of other instances. The public heart responds with instantaneous and passionate sympathy. Halifax specials were on every railroad. Ships brought relief by sea. Cities vied with each other in their responses. Every hour brought telegraphed assistance from governments and organizations. In about fifteen weeks approximately eight millions had been received, aside from the Federal grant. But it was not the totality of the gifts, but the number of the givers which gives point to our study. So many rushed with their donations to the Calvin Austin before she sailed from Boston on her errand of relief that

<sup>3</sup> Johnstone, *op. cit.*

<sup>4</sup> There is no better evidence of the response of the public heart to a great tragedy than the fact that at Halifax upwards of a thousand offers were received for the adoption of the orphaned children.

"the police reserves were called out to preserve order." A great mass of the contributions involved much personal sacrifice upon the part of the contributors, as accompanying letters testified. It could be written of Halifax as it was of San Francisco that:

all the fountains of good fellowship, of generosity, of sympathy, of good cheer, pluck and determination have been opened wide by the common downfall. The spirit of all is a marvelous revelation of the good and fine in humanity, intermittent or dormant under ordinary conditions, but dominant and all pervading in the shadow of disaster.<sup>1</sup>

Abridged and sketchy as the foregoing necessarily is, it is perhaps full enough to have at least outlined the social phenomena of the major sort which a great disaster presents. These are found to be either abnormal and handicapping, such as, emotional parturition; or stimulative and promotive, such as the dynamogenic reactions. In propositional form it may be stated that catastrophe is attended by phenomena of social psychology, which may either retard or promote social organization.

In addition this chapter has discussed the rôle of catastrophe in stimulating community service, in presenting models of altruistic conduct, in translating energy into action, in defending law and order, and in bringing into play the great social virtues of generosity, sympathy and mutual aid.

<sup>1</sup> Bicknell, Ernest P., "In the Thick of the Relief Work at San Francisco," *Charities and the Commons*, vol. xvi (June, 1906), p. 299.

## CHAPTER III

### CATASTROPHE AND SOCIAL ORGANIZATION

The organization of relief—The disaster protocracy—The transition from chaos through leadership—Vital place of communication—Utility of association—Imitation—Social pressure—Consciousness of kind—Discussion—Circumstantial pressure—Climate—Geographic determinants—Classification of factors.

We have seen something of the disintegration which followed what has been called the "stun of the explosion." It included the abrupt flight from, and the emptying of, all the houses and centers of employment, the division of families in the haste of the running and the rescue, and the utter helplessness of thousands in the three basic necessities of life—food, raiment and a roof. There was the dislocation of transportation, the disorganization of business, and the problem of unemployment aggravated because not only was the work gone, but also with it the will to work.

Social organization comes next in order and because its process was associated with the organization of relief—the first social activity—the sociological factors observed in the latter call for descriptive treatment. When the human organism receives an accident to one of its parts, automatic relief processes from within spring at once into being, and it is so with the body politic. This "*vis medicatrix naturæ*" assumes sovereign power over all the resources of the community. That part of the social sensorium which is most closely organized in normal hours, first recovers consciousness in disaster. In the case of Halifax it was



the army. So was it in San Francisco, and in Chelsea. The army has the intensive concentration, the discipline, the organization and often the resource of supplies instantly available. Its training is of the kind for the endurance of shock.<sup>1</sup> It so happened that at Halifax large numbers of men in uniform were stationed where they could quickly respond to call. They were very soon under orders. The military authorities realized before midday, the part which the army should play. The firemen too were a social group which largely remained organized, and responded to the general alarm soon after the explosion. Their chief and deputy-chief had been instantly killed so they were leaderless, until one of the city controllers assumed command, and in spite of the wild exodus when the alarm of a second explosion spread, these men remained at their posts.

Play actors also display similar traits of collective behavior. They are accustomed to think quickly, to live in restricted spaces, and to meet emergencies. Than the stage there is no better school. Each actor does his or her part and it alone. The Academy Stock Company, forsaking the school of Thespis for that of Esculapius, organized the first relief station established at Halifax. This was in operation about noon on the day of the disaster.

Thus it came about that the soldiers, firemen and play actors may be called the disaster protocracy.<sup>2</sup> They were "the alert and effective," the most promptly reacting units in emergency. And it would appear that the part of society which is most closely organized and disciplined in normal periods first recovers social consciousness in disaster.

<sup>1</sup> What has been said of soldiers is of course equally true of sailors.

<sup>2</sup> Giddings, Franklin H., "Pluralistic Behaviour," *American Journal of Sociology*, vol. xxv, no. 4 (Jan., 1920), p. 539.

It is the events of the first few hours which are of special interest to the sociologist. The word most descriptive of the first observable phenomenon was leadership. The soldiers were foremost in the work of rescue, of warning, of protection, of transportation and of food distribution. But the earliest leadership that could be called social, arising from the public itself, was that on the part of those who had no family ties, much of the earliest work being done by visitors in the city. The others as a rule ran first to their homes to discover if their own families were in danger. From this body in a short while however many came forward to join in the activities of relief.

As already said those with no social, family or property ties were among the first to begin relief work. But many of these started early simply because they were present where need arose. Many indeed of the uninjured folk at a distance seemed unable to realize the terribleness of the immediate need in the stricken area. In fact, owing to the collapse of communication they did not for an appreciable time discover that there was an area more stricken than their own, and devoted themselves to cleaning up glass and the like. But within a quarter of an hour a hospital ship had sent ashore two landing parties with surgeons and emergency kits. With almost equal dispatch the passengers of an incoming train—the railroad terminal at the time being in the north end of the city—were on hand, and were among the earliest first-aid workers. One, a Montreal man, was known individually to have rendered first aid to at least a half hundred of the wounded.

It was early afternoon, perhaps five hours after the catastrophe, when a semblance of coöperative action in rescue work began. Previous to this the work had been done in a rapid and random fashion, a single ruin being dug through a second or even a third time. Then came the

recognition of the utility of association.<sup>1</sup> Thereafter the searchers became parties each of which was detailed to go over a definite area. When a particular section had been covered it was so recorded. This process considerably expedited the work in hand. Meanwhile relief was organized in other important directions.

The vital place of communication in society was recognized at once. It is a major influence in association, and upon it in disaster depends the immediacy as well as the adequacy of relief. Connections had been cut by the explosion and the outside world could only wait and wonder. How little real information filtered through is shown by the fact that at Truro, only sixty-two miles distant, the announcement was made three hours after the explosion that the death roll would not bear more than fifty names. Nevertheless within an hour after the explosion a telegraph company had a single line established, and with news of the disaster, communities everywhere took up the rôle of the Samaritan.

While the great hegira was in progress another leader, a railroad official, drove rapidly out the Bedford Road and commandeered the first unbroken wire to Moncton. Thereafter all that the government railroad equipment could do was at the community's service. Meanwhile the dislocated railroad yards were being combed for a live engine and coaches in commission. A hospital train was put together and in less than four hours after the explosion a large number of injured people were being transported to Truro.

Even before the rushing of the wounded to the hospitals a few began to realize the great human needs which would soon be manifest among the concourse of thousands who waited in helpless suspense upon the Common and the hill. Here they were *en masse*, a typical social aggregation, re-

<sup>1</sup> Tenney, Alvan A., Unpublished lectures on Social Organization.

sponding to the primitive, gregarious instinct of the herd. "Like sheep they had flocked together too bewildered for consecutive thought."<sup>1</sup> Yet here ministrations of one sort or another came into spontaneous operation. Soon the military began raising white tents upon the field. One after another they rose, presenting the appearance of an huge encampment. The idea spread by imitation,<sup>2</sup> the repetition of a model,—“the imitative response of many minds to the suggestive invention of one.” One or two here and one or two there began to prepare the big church halls and other roomy institutional buildings for occupancy. Hastily the windows were patched up, the glass swept out, and no sooner had the danger of a second explosion passed, and the rumor of a possible roof reached the homeless, than they began to repair thither. At first each improvised shelter became a miniature clothing and food depot at well as a habitation. Then the idea spread of taking the refugees into such private homes as had fared less badly. Imitation is the foundation of custom. It became the thing to do. The thing to do is social pressure. It may be unwilling and unintended but it is inexorable. It worked effectively upon all who had an unused room. Many sheltered upwards of a dozen for weeks; some, more.

In the homes and shelters association of the like-minded soon came about through consciousness of kind. At first it was a very general consciousness which seemed to draw all together into a fellowship of suffering as victims of a common calamity. There was neither male nor female, just nor unjust, bond nor free. Men, women and little children lay side by side in the large sleeping rooms and “shared each other’s woes,” for “the consciousness of

<sup>1</sup> Bell, McKelvie, *A Romance of the Halifax Disaster* (Halifax, 1918).

<sup>2</sup> Tarde, Gabriel, *Les lois de l'imitation* (N. Y., 1903), translation by E. C. Parsons, ch. i, p. 14.

kind allays fear and engenders comradeship.<sup>1</sup> Then followed requests for changes of location in the dormitories, and for changes of seats at the dining tables. As various shelters sprang up, the religious element appeared. Applications came for transfers from Roman Catholic institutions to Protestant stations and *vice versa*. Even the politically congenial were only too ready to segregate when occasion offered.

Discussion and agreement must precede all wise concerted volition. There must be "common discussion of common action."<sup>2</sup> Propositions must be "put forth" and talked over. There must be a "meeting of minds" and a "show of hands," and decisions made. There had been no preparedness. The city possessed not even a paper organization for such a contingency as a sudden disaster; so that during the most precious hours citizens and civic officials had to consult and map out a program as best the circumstances allowed. It was late afternoon on the day of the disaster when a tentative plan had been formulated in the City Hall. The newly formed committees could do but little until the following dawn.

Men at best are largely creatures of circumstance. Innumerable causes, small and great, conspire to incite social action. But in catastrophe the control of circumstantial pressure<sup>3</sup> becomes almost sovereign in extent. The conditions it brings about, while often delaying measures of individual relief, account very largely for the rapidity of organization. While they limit they also provoke effort. The common danger constrains great numbers to "overlook many differences, to minimize many of their antagonisms and to combine their efforts." At Halifax the pressure

<sup>1</sup>Giddings, *op. cit.*, p. 396.

<sup>2</sup>Bagehot, Walter, *Physics and Politics* (N. Y., 1884), p. 159, *et seq.*

<sup>3</sup>Giddings, *op. cit.*, p. 390.

of indescribable suffering precipitated the medical and hospital arrangements which were the earliest forms of communal service. But it was the meteorological conditions which commanded the most prompt attention to the consideration of shelter and clothing. The months appeared to have lost station and February to have come out of season. The following table gives the weather record for the seven days which followed the catastrophe.<sup>1</sup> It is the record of a succession of snow, wind, cold and blizzard.

Thursday, Dec. 6th.	9 a. m. Fair. Frozen ground. Light N. W. wind. No precipitation. Temperature: max. 39.2, min. 16.8.
Friday, Dec. 7th.	9 a. m. N. E. wind, velocity 19. Snow falling. At noon N. W. gale. Afternoon, blizzard conditions. 9 p. m. N. W. wind, velocity 34. Precipitation 16.0 in. snow. Temperature: max. 32.2, min. 24.8.
Saturday, Dec. 8th.	9 a. m. N. W. wind, velocity 20. Intermittent sunshine. 9 p. m. N. W. wind, velocity 11. Precipitation 1.2 snow (in a. m.). Temperature: max. 29.8, min. 15.
Sunday, Dec. 9th.	9 a. m. S. E. gale, velocity 39. Streets icy and almost impassable. 9 p. m. S. W. wind, velocity 27. Precipitation .99 rainfall (1.40 a. m. till noon). Temperature: max. 50.41, min. 14.6.
Monday, Dec. 10th.	9 a. m. S. W. wind, velocity 11. Afternoon, blizzard (worst in years). Knee-deep drifts. 9 p. m. W. wind, velocity 20. Precipitation 5.6 snowfall (2 p. m. till 5.40 p. m.). Temperature: max. 34.2, min. 16.8.

<sup>1</sup> From information kindly supplied by D. L. Hutchinson, director of the St. John (N. B.) observatory, and F. B. Rousman, Halifax Station.

Tuesday, Dec. 11th. 9 a. m. Clear. W. wind, velocity 18.  
9 p. m. W. wind, velocity 11. No precipitation. Temperature: max. 18.2, min. 6.6.

Wednesday, Dec. 12th. 9 a. m. N. W. wind, velocity, 15. 9 p. m. N. E. wind, velocity 3. No precipitation. Temperature: max. 17, min. 2.

In consequence of otherwise unendurable conditions, the most rapid repairs were made to all habitable houses or those possible of being made so. The same was true of public buildings, hospitals, factories and warehouses. Moreover the same explanation accounts for the exodus of many who sought for shelter to the countryside nearby; and the many more who accepted the invitation of, and entrained for various Nova-Scotian towns which became veritable "cities of refuge" to hundreds. The climate<sup>1</sup> decided the question of reconstruction in favor of temporary structures; for it was a time of year when prompt rebuilding was out of the question. Climatic conditions also seriously delayed the arrival of relief supplies, allowed but scanty provision for many, kept some from the depots of relief, or from surgical aid; and others standing in line in the bitter cold. It also added seriously to the sanitation and shelter problem. But it speeded and spurred the workers to prevent the maximum of exposure and neglect. It called imperatively for the most effective system, and many of the workable methods were hit upon under the stress of storm. An illustration of this may be found in the adoption of many food depots instead of one central station. Regional influence thus "fixes the possibilities of organization and collective effectiveness."<sup>2</sup> The sociologist must

<sup>1</sup> Semple, Ellen, *Influences of Geographic Environment* (N. Y., 1911), p. 607, *et seq.*

<sup>2</sup> Giddings, *op. cit.*, p. 389.

study maps of lands and plans of cities. The location of the food stations at Halifax was a matter of topography as were the later administration districts. The city is widely spread out. It has fifty more miles of street than a city of similar population in a neighboring province. Six depots were established for the public distribution of supplies,<sup>1</sup> situated so as to touch the entire needy population most effectively, and to equalize the groups to some degree. So too, in the matter of dressing stations, accessibility was a deciding factor. But even this system had to be supplemented. Bread vans were driven hither and thither and when halted in the center of a street were usually immediately surrounded. Thus social reorganization in catastrophe witnesses to an urgency resident no less in space than in time and reemphasizes the importance placed upon the physical factors in sociology.

Thus may be said to have come about the transition from chaos to a semblance of community organization. Not the normal civil social order of pre-disaster days, but the establishment of a species of collective behavior, and the organization of relationships apparently of a quite different character. The difference was one which might be compared to that between a great relief camp and a city. But the difference was only superficial. Fundamentally there were to be seen the factors underlying all social organization. These have been already illustrated, and are classified as psychological, such as leadership, gregarious instinct, imitation, consciousness of kind, discussion, recognition of utility of association and custom; and as physical, including climate and topography.<sup>2</sup> The conclusion was drawn

<sup>1</sup> For a period of two weeks meals for 15,000 people were distributed every day.

<sup>2</sup> Other sociological factors might also be illustrated, namely, (a) the biological, including, besides the density of population, the heredity and



that the part of society which is most closely organized and disciplined in normality, first recovers consciousness in catastrophe, and the value of a militia organization in every community is a practical corollary. This follows not only because of the imperturbability and the promptitude of reaction, of an army in crisis, but also because of the rapidity with which it can be mobilized, its value in preserving law and order, its authoritative control and power to punish, and because of the attending psychological effects of orderly bearing and coolness in a time of general chaos, bespeaking a care that is at once paternal and sympathetic.

the physical and mental health of the inhabitants. (b) the equipmental factor, including available economic resources, general enlightenment, social surplus and institutional facilities for re-education, *etc.* (*Vide* ch. vii.)

## CHAPTER IV

### CATASTROPHE AND SOCIAL ORGANIZATION (Cont'd)

The reorganization of the civil social order—Division of labor—Resumption of normal activities—State and voluntary associations—Order of reestablishment—Effects of environmental change—The play of imitation—The stimulus of lookers-on—Social conservation.

It is not necessary to repeat the fact, which the reader has already seen, that the process of complete social organization was largely expedited by the organization of relief, and materially reacted upon by it. The community's "big men," the men of prominence, the men of broad experience in civic and philanthropic work, the men who knew the resources of the city and had the prestige to command them, were deeply immersed in the relief work while the businesses and the departments of the shattered body politic waited or went forward in a more or less indifferent way.

But this could be both economically and socially of a temporary nature only. "Business and industry must be set agoing. Church and school must resume the ordinary routine. One by one the broken threads of the former everyday life, the life of custom and habit must be reconnected." The division of social labor<sup>1</sup> is a law of society. It is traceable back to the primitive household itself, and is a result of underlying differences. The great "cause which determines the manner by which work is divided is diversity of capacity." With the advent of the social specialists at Halifax a major division of function

<sup>1</sup> Durkheim, Emile, *De la division du travail social* (Paris, 1893).

began. The responsibility for the relief work having been delegated to a special social group, public thought and public men were free to turn their energies to the restoration of a normal society.

But it was the reorganization rather than the organization of relations which the sociologist observes to have first taken place. The stage was all laid. It was necessary only for the actors in the drama to resume their places. The old "parts" awaited them, although many of the "properties" were no more. Or to use the more sociological jargon one might say, there was still the homogeneity of stock, still a dominating like-mindedness, still a protocracy, still a group of mores to serve as media of social self-control. Indeed most of the former complexities of social structure remained. But this was only potentially true. The social relations based upon the underlying factors had to be resumed. Moreover the resumption was accompanied by various changes the significance of which will appear in later discussion. The order of the resumption of normal activities is of unusual social interest as are also the influences which were in play and the changes which ensued. It may be objected that such a tabulation is unfair to the various socially component groups and that the special exigencies of each preclude comparison. But at least one index of the bent of the social mind is the separation of those activities which must needs be first rehabilitated, from those which can wait. Organizing genius was not entirely occupied with relief in the ordinary sense of the term.

Economic vigor is one of the most vital things in a community's life. It is in a sense fundamental not only to happiness and general well-being but accompanies and conditions the cultural institutions, religious, educational and aesthetic. It is not surprising then that commercial activity was in actual fact the earliest aspect of life to resume a

semblance of normality. Naturally public utilities were first on the list, for these include systems of communication without which society can hardly be. Reference has already been made to the speed with which a makeshift service was established, but our purpose here is to record the resumption of normal activity.

Wire communication is led out from the city by pole lines. Many of these had been demolished, or broken at the cross-beam. Clerks had been injured and instruments damaged. In spite of these odds one was reconnected within an hour, and by the evening of the day of the disaster six direct multiplex wires to Montreal, three to St. John and one each to Boston and New York, had been established. Upwards of a thousand messages an hour went forth the first week. The work became normal about December twentieth.

The telephone system suffered the loss of the entire northern exchange and of the harbor cable—broken through ships dragging anchor—a total material damage of one hundred thousand dollars. Its personnel was also depleted. Nevertheless telephone business may be said to have been generally resumed on the seventh, the day after the disaster, and the load of local traffic soon attained over one hundred and twenty percent above its average figure. Telephone service was absolutely suspended for only about two hours,—the period of prohibition from buildings,—and the cable telephone for about three days. Messages of a social character were tabooed for several weeks, when the work again became normal.

The illumination service was quickly restored. The company was able to give partial light and some service from noon on the sixth. Periods of intermittent darkness however, were not unusual. Gas service was off until December the ninth—the top of the gasometer having been broken and two hundred thousand cubic feet deflected from

the mains into the air—when repairs were completed and on the tenth the service resumed. On the fourteenth gas and electric light service became normal.

Railroad communication had been dislocated. The explosion occurred in the vicinity of the principal sidings and vital portions of the system. Three miles of the main road were buried in debris, the station wrecked, equipment damaged, and crews scattered searching for their dead. In spite of this, as already noted, a hospital train was sent out in the early afternoon of the disaster day and incoming trains were switched to their new tracks leading to the south end terminal. On the evening of the day following the disaster—Friday—the first regular train for Montreal left the city. Two days later the main lines were clear and the first train left the old passenger station on Saturday evening. By Monday the full passenger service was resumed, to and from the station. Eight days after the catastrophe all branches of the service were working and conditions were fairly normal.

The rolling stock of the street-car system sustained much damage. Some of the employees were injured and others were unavailable. A scant service was restored at noon on December the sixth. By six o'clock of the seventh, tram lines in the north section were able to resume an eight-car service. Then the blizzard came and tied up all lines. It was not until Sunday, December ninth, that it was possible to resume any semblance of car service. On the twenty-second of December, twenty-two cars were operating—twenty-seven is the normal number,—but the shortage of men made it difficult to operate the full number. The service was not entirely normal for some months owing to the severe storms all winter which tied up the lines and caused delays, and to the shortage of men to handle the cars.

The newspaper offices by the employment of hand com-

positors were able to produce papers on December seventh but in limited editions and of reduced size. This was owing to the dependency of the linotypes upon the gas service which had failed. The normal-size production recommenced in a week's time.<sup>1</sup>

The postal service was completely disorganized and was not restored to any extent until Monday the tenth of December. Owing to the innumerable changes of address, as well as many other reasons, it was weeks before there was a normal and reliable distribution of mails.

The banks were open for business the morning following the catastrophe, just as soon as the doors and windows were put in. Traffic of relief trains coming in affected the ordinary trade for three months, more or less, but principally outside of the city. In the city all business in the banks went on as usual the day after the explosion.

Two instances are selected at random to illustrate the resumption of general business activity. Out of much wreckage and a forty-thousand-dollar loss one company restarted paint and varnish making on January second. A large clothing establishment, had been badly damaged. The factory and all branches of the business were running in five weeks—January tenth. Machines were in operation with shortened staffs at an earlier date.

The regular meetings of the City Council recommenced on December twentieth, and were held regularly from that time on. The Board of Trade rooms were not badly damaged and there was no cessation of work or meetings. The theatres were speedily repaired and resumed business on Friday, December the twenty-eighth. The Citizen's Library was a few weeks closed for the circulation of books,

<sup>1</sup> In the great Baltimore fire of 1904 the *Baltimore Sun*, by remarkable enterprise was gotten out at Washington, 45 miles distant, and did not miss a single issue.

and used in relief service as a food depot, thus ministering to a hunger which is more imperious than that of mind in the hour of catastrophe.

Of the churches several were entirely destroyed. In all cases the edifices were injured, organs disordered and windows shattered. Parishes were in some instances almost wiped out. In a single congregation four hundred and four perished. In another nearly two hundred were killed, the remainder losing their property. In a third, of the one hundred and eight houses represented in the congregation only fourteen were left standing. Hurried efforts were made to safeguard church property, but church services were not generally resumed until the second Sunday.<sup>1</sup> Even then the congregations were small and the worshipping-places were not in all cases churches. Theatres, halls and other buildings housed many a religious gathering. While the restoration of churches waited, clergy and church workers gave themselves unremittingly to the relief of the needy, the succor of the injured and the burial of the dead. Their intimate knowledge of family conditions was of inestimable value in the relief administration. Sunday schools were reassembled as accommodations permitted, but it was many months before the attendances approximated the normal.

The school system was badly disorganized. Three buildings were totally destroyed, and all were rendered uninhabitable for some time. The loss was approximately eight-hundred thousand dollars. The members of the staff were given over to relief committees, registration, nursing and clothing service. Early in March, about three months after the explosion, arrangements were completed whereby

<sup>1</sup> On the first Sunday, December ninth at eleven o'clock Archdeacon Armitage conducted Divine service in St. Paul's Church, and the same afternoon this edifice was used by the congregation of All Saints Cathedral.

nearly all the children in the city could attend classes. The double-session system was introduced to accomplish this. Rooms were necessarily over-crowded and ventilation impaired. By May eighth, fifteen school buildings were in use.<sup>1</sup>

Progress in reopening schools is indicated by the following schedule.

Dec. 10 .....	classes in one institution
Jan. 7 .....	" " three emergency shelters
Jan. 8 .....	" " a church hall
Jan. 14 .....	" " five school buildings
Jan. 17 .....	" " one institution
Jan. 21 .....	" " two school buildings
Jan. 22 .....	" " one school building
Jan. 24 .....	" " one school building
Feb. 1 .....	" " one institution
Feb. 25 .....	" " two school buildings
Mar. 16 .....	" " one school building
Apr. 8 .....	" " one school building
May 8 .....	" " one school building
May 20 .....	" † two portable schools

The community as finally reorganized differed materially from that which had preceded. The picture of the conditions at a considerably later period will be fully presented elsewhere. Here will be noted only a few social effects immediately apparent and due to the temporary environmental conditions.

Owing to the number of men required for reconstruction work the Tramway Company found it very difficult to get a full complement of men back into the service. As a result they took into consideration the advisability of employing women conductors, and finally adopted this plan.

At the time of the explosion a heated election campaign was in progress. Then representative men of both political

<sup>1</sup> Quinn, J. P., *Report of Board of School Commissioners for City of Halifax, 1918*.



parties urged their followers to drop the election fight and the election was deferred and later rendered unnecessary by the withdrawal of one of the candidates.

The darkening of the water-front, the shading of windows, and other war-protective measures against the submarine menace, were given little attention for many weeks, and the coming into operation of the Military Service Act was postponed.

The establishment of relief stations, and later, of the temporary relief houses in the central and southern portion of the city brought about a very unusual commingling of classes, as well as a readjustment of membership in schools, parishes and various institutions.

Club life, social life, lodge and society "evenings" were for a considerable period tabooed, because of a general sentiment against enjoyment under the existing conditions as well as to lack of accommodation and of time.

The clamor for arrests, for the fixing of responsibility for the disaster, and for the meting out of punishment was for a long time in evidence, but never received complete satisfaction.

The difficulties of restoration of school attendance repeated the experience of the Cherry disaster, and the Truant Officer had a very strenuous time owing to the fact that so many people had changed their addresses.

A number of "special policemen" were recruited from citizens of all ranks, and this force materially assisted the members of the regular department. Owing to the large influx of workmen following the catastrophe, as well as for other reasons the work of the detectives was greatly increased.<sup>1</sup>

The survivors of two neighboring congregations, although belonging to different denominations, united in erecting a

<sup>1</sup> Hanrahan, F., *Report of Chief of Police*, Halifax, 1918.

temporary church building—their respective churches having been destroyed—and have since worshipped together—a demonstration of the practicability of church union under circumstantial pressure.

The display apartments of a furniture concern were utilized as actual living rooms by refugees for a period, while at the same time business was in operation throughout the rest of the establishment.

The necessary functioning of relief activities, seven days in the week, the keeping of stores open on Sundays and the general disorganization of the parishes was reflected for a long period in a changed attitude upon the part of many towards Sabbath observance.

German residents of the city were immediately placed under arrest when the disaster occurred, but all were later given their freedom.

The citizens of Halifax were almost entirely oblivious to the progress of the war and other matters of world interest, for many days after the disaster.

The reversion to the use of candles, oil lamps and lanterns was an interesting temporary effect.

The rapidity of the reorganization, as well as the subsequent expansion, noted later, was largely effected by the social law of imitation already noticed. Many of the conditions affecting the rate of imitation were present. There was a crisis, there was necessity, there was trade and business advantage, social pressure, public demand, shibboleths—"a new Halifax" for example—but above all there was a multitude of models. The extent and scale of the rebuilding program in one area, the civic-improvement plans which accompanied the work in that district, the record time in which relief houses were completed, the marvellous speed at which the demolition companies cleared away the debris acted as models and stimuli to all inhabitants. The

process of speeding-up spread like a great contagion, until the most hardened pessimist began to marvel at the recuperation daily enacted before his eyes.

Among the models thus presented may be mentioned that of the rapid establishment of the morgue. This, the largest ever organized in Canada, was fitted up by forty soldiers and mechanics in the brief period of a day and a half. Another instance was that of the American Hospital. "At nine a. m. Bellevue was an officer's mess. By ten p. m. the same day it was a first-class sixty-six bed hospital, stocked with food and medicine and, in charge of Major Giddings;" it expressed a veritable "triumph of organizing ability." In the record time of three months, Messrs. Cavicchi and Pagano, with a maximum strength of nine hundred and fifty men and two hundred and seventy horses working ten hours a day removed every vestige of the debris in the devastated area. Apartments were built at the rate of one an hour. Motor lorries multiplied so rapidly that visitors said there had been an outbreak of "truck fever" in the place.

By the stimulus of models, such as these, fresh vitality and motive were imparted to the members of the community. Halifax became busy as never before. New homes, new stores, new piers, new banks, replaced the old as if by magic. Men worked desperately hard.

An influence which must not be left unrecorded because of its continuity of functioning is that of the stimulus of lookers-on. More than two hundred cities in all parts of the world had contributed to the reconstruction, and citizens of Halifax knew they were not unobserved. Articles, lectures and sermons were telling forth to interested thousands how a city blown to pieces, swept by fire, buried under ice and snow, and deluged by rain, was a city courageous beyond words. During the month of December, five leading periodicals in Canada and twelve in the United States

arranged for articles and photographs descriptive of the city's advantages commercial and residential.<sup>1</sup> Halifax became a world-known city. This added still further spur to action. Halifax simply had to make good. She was bonded to the world.

There are two considerations which may appropriately bring this chapter to a close. The first arises naturally from what has been said, namely, that in catastrophe it is only after division of function delegates to a special group the responsibility for relief work that public thought is directed to the resumption of normal society. The second is a practical deduction—that of social conservation. Every community should possess a permanent vigilance committee. There should be an emergency procedure on paper with duties outlined to which pledged men may be immediately drafted. Only in this way can social economy be preserved until the arrival of experienced disaster authorities from a distance.

<sup>1</sup> Saunders, E. A., *Report of Halifax Board of Trade*, 1918.

## CHAPTER V

### CATASTROPHE AND SOCIAL ECONOMY

The contribution of social service—Its four-fold character—The principles of relief—Rehabilitation—Phases of application—Criticisms—A new principle—Social results—Summary for future guidance.

WE have already seen that there are certain determining factors in catastrophe and its social results. There is not only the level of the general capability and culture of the community, its power to meet crises and to readjust itself, the scarcity or plenitude of its resources, but also the presence or absence of "men skilled in dealing with crises."<sup>1</sup> In the past, disaster-stricken communities have had such men or have had them not. The disasters of the future—with the exception of those far remote from civilization—may depend on the presence of such leaders. They will come from near and far. The contribution of social service is the contribution of men skilled in dealing with crises. Relief thus becomes "an incident of progress and a social policy." We are now to notice this further determining factor in catastrophe as it applied itself to Halifax.

During the first week at Halifax not only did each day bring its contribution of relief supplies in the way of food and clothing, but each day brought also men and women of skill and experience in social work to place freely their vision and ability at the service of the community.\*

<sup>1</sup> Thomas, William I., *Source Book of Social Origins* (Chicago, 1909), Introduction, p. 18.

\* J. H. Falk, an expert in charge of the social welfare work in Winnipeg; Miss Rathburn of Toronto, Mrs. Burrington of the Y. W.

The Halifax disaster was one of the first of great extent which has occurred since the principles of relief have been authoritatively written. No other community has experienced their application so fully or so promptly. One of the workers publicly stated that "Halifax was further ahead in relief work in two weeks than Lynn had been in a month." It was said that:

Never before in any extensive disaster were the essential principles of disaster relief so quickly established as at Halifax. In less than twelve hours from the time the American Unit from Boston arrived, the necessary features of a good working plan were accepted by the local committee.<sup>1</sup>

This was, it is true, sixty hours after the disaster, but nevertheless the advent of the social specialists brought to Halifax that something which was wanting when the citizens, astounded at the magnitude of their task, wondered just how and where to begin. When Mr. Ratschky<sup>2</sup> of the Public Safety Committee of the State of Massachusetts, came into the room in the City Hall where a dozen or so were gathered in counsel, already overwrought with fatigue,

C. A., Toronto. Christopher Lanz, under whose guidance the rehabilitation work after the Salem fire was brought to a successful conclusion; Katherine McMahon, Head worker of the Social Service Department of the Boston Dispensary, Lucy Wright, formerly Superintendent for the Mass. Commission for the Blind; Elizabeth Richards Day, Organizer and for many years Head Worker of the Social Service Department of the Boston Dispensary; E. E. Allen, Superintendent of the Perkins Institute for the Blind, C. C. Carstens, Superintendent of the Mass. Society for the Prevention of Cruelty to Children; John F. Moors, president of the Associated Charities of Boston, who was in charge of the Red Cross relief following the Salem and Chelsea fires; William H. Pear, Agent of the Boston Provident Association; J. Prentice Murphy, General Secretary of the Boston Children's Aid Society; A. C. Ratschky, Vice-chairman of the Public Safety Committee of the State of Massachusetts.

<sup>1</sup> Carstens, C. C., "From the Ashes of Halifax," *Survey*, vol. xxxix, no. 13 (Dec. 28, 1917), p. 361.

<sup>2</sup> With Mr. Ratschky were Mr. John F. Moors, and Major Giddings.

it was the coming of a friend in need. It was soon clear that the new-comers had had unusual experience in dealing with other disasters. At once everyone took new heart. Only nine hours later, the Citizens' Relief Committee was ready, and a working plan adopted; and from it grew up a wonderful system worthy of study by all students of emergency relief. Thus social service broke into the midst of the great calamity not as a mere adjunct to what was already well devised, but as a central and deciding element, justifying its faith by its work, and its presence by its wisdom in grappling with an inexorable need.

Of course there had already been a commendable essay toward the solution of what had to be done. Applications for relief came pouring in two hours after the explosion, and industrious workers had already been dispensing to hundreds. On Friday morning volunteers were early at the City Hall, among them many of the public school teachers. A species of organization had already begun, but under congested and the least favorable conditions. A large number of investigators had gone forth, giving information and relief and bringing back reports of the missing, needy, helpless and injured. The Salvation Army had commenced a program of visits to follow up appeals. Clothing of all kinds was pouring into every station where the refugees were gathered together. The Canadian Red Cross was already active. But with the coming of the American Unit,<sup>1</sup> the transfer of the work to a new headquarters upon their advice, and the adoption of a complete plan of organization,<sup>2</sup> the systematic relief work may be said to have in reality begun.

<sup>1</sup> The Public Safety Committee of Massachusetts and the Boston Unit of the American Red Cross.

<sup>2</sup> The scheme as finally decided upon consisted of a small managing committee with sub-committees in control of food, clothing, shelter, fuel, burial, medical relief, transportation, information, finance and rebuilding.

There was a four-fold contribution made by those experienced in relief and disaster organization. The initial service was the establishment of a policy of centralization of authority and administration into one official relief organization. This policy comprised first the coördination of the relief work into one central relief committee, second the placing of the relief funds from all sources into the hands of one finance committee, third the granting of relief by one central management, all records being cleared through one registration bureau, fourth the giving of emergency relief in food, clothing and other things immediately without waiting for the perfection of the relief organization, and fifth, the appointing of a small managing committee to carry out and interpret the general policy determined upon by the executive committee.

If the first great service rendered was that of centralization, the second was that of effecting coöperation. The latter was only partially successful. There was at first an inevitable overlapping, especially in the matter of visiting, some families being visited and subjected to interview a dozen times. Failing to achieve complete coördination, the central committee endeavored to limit duplication so far as possible. An invitation extended to the Salvation Army about December eleventh, to place their visitors at the disposal of the general staff of visitors was declined and it was not until January first that this organization fully coördinated with the rehabilitation committee. It was about this time also that the Roman Catholic clergy agreed to coöperate in the registration plans. On December eighteenth the School Board gave official coöperation by assigning fifteen school teachers as volunteer visitors under the direction of the rehabilitation committee. Another obstacle to the complete systematization of the relief work was the most generous but independent distribution of clothing and sup-



plies from the Eaton Center, and from the station established by a charitable Boston lady. The Protestant and Roman Catholic clergy, as well as the Salvation Army and other organizations received supplies in bulk and distributed to their constituents often with hasty or inadequate investigation.

There was also at times lack of coöperation among the official committees themselves. Friction and crises arose from time to time, which were only stopped short of scandal. They were the consequence either of assumption of authority upon the part of the under-committees, of ineffectiveness of leadership, or of unfamiliarity with the principles of relief. There were also other problems, some of which it may be useful to note. One of these was the problem of the wisest use of local leaders who knew and could interpret the local point of view and method of doing things. Another that of the absorption of volunteers, many of whom could not be expected to understand the nature of scientific relief service.

A third great contribution of social service was that of education in the principles of disaster relief. It was the problem of getting the idea of social conservation understood and established in a community which had not given the subject any thought, and which was quite unfamiliar with the ideals and purposes in view. This was the cause of much delaying of plans, overlapping in giving relief, and giving without substantial inquiry. It explained also the reason for the abundant criticism which arose. When criticism came there was, consequently, no well-informed body of public opinion to which to anchor the committee's work.

Educational effort on this subject may be said to have begun with a masterful presentation of the nature of rehabilitation at the meeting of the managing committee six

days after the disaster. Here was set forth and illustrated the kind of service required and the desirability of such work was at once recognized and inaugurated. Thus the idea of rehabilitation filtered through to the various departments. Trained leaders imparted it to the untrained volunteers. Church, school and club caught something of its spirit and one of the permanent social results of the disaster remains in the partial socialization of institutions. It was this original absence of socialization, this lack of understanding of the true nature of disaster psychology and of the accepted methods of relief that at first made the community so utterly dependent upon the visiting social workers. It may be safely concluded as a fundamental principle that the self-dependence of a community in adversity is furthered by the socialization of existing institutions.

The principles of disaster relief cover three stages, first, that of the emergency period; second, that of the period of transition; and third, that of rehabilitation. These principles in order of application may be thus briefly summarized:

1. The coördination of all the relief agencies arising, into one central relief service.
2. The directing of relief funds from all sources to one bonded finance committee.
3. The establishment of a temporary committee only, at first,—the more permanent organization to await the counsel of specialists in disaster relief, an early call having been sent for experienced workers.
4. The avoidance of, or the early abolition of mass treatment, *e. g.* bread lines, food depots, *etc.*, as detrimental to a psychology of helpfulness and as calculated to delay a return to self-support.
5. The issuing of orders for supplies on local merchants to follow mass-provisioning.

6. The establishment of a policy of renewable cash grants for short periods until temporary aid is discontinued.

7. Continuance of relief upon a temporary basis until all claimants are registered and the aggregate of available aid ascertained, and the needs, resources and potentialities of self-help studied.

8. An early effort to influence public opinion as to the wisdom of careful policies and critical supervision.

\* 9. The family to be considered the unit of treatment.<sup>1</sup>

10. A substitution of local workers wherever wise, and the use of local leaders in responsible positions.

11. The publication of a report, including a critical survey of policies and methods employed, and a discriminating record of the social results arising therefrom, the mistakes made and other information of value for future emergencies. This report in justice to contributors to include a financial statement.

The fourth great service rendered was that of the establishment of rehabilitation policies and methods. The work of organizing for rehabilitation, as noted above, did not begin until the sixth day after the disaster. On the eighteenth of December the first chairman was appointed. There followed a developmental period during which little progress was made, save in the familiarizing of committees with the object of rehabilitation. "The object of rehabilitation" says J. Byron Deacon "is to assist families to recover from the dislocation induced by the disaster, and to regain their accustomed social and economic status. Emergency aid takes into account only present needs; rehabilitation looks to future welfare."<sup>2</sup> This was the purpose constantly kept

<sup>1</sup> "During the emergency stage of relief the people are dealt with in large groups with little attention to the special needs of individuals . . . in the rehabilitation stage the family or the individual becomes the unit of consideration."—(Bicknell, E. P., "Disaster Relief and its Problems," *National Conference of Charities and Corrections*, sess. xxxvi, 1909, p. 12.)

<sup>2</sup> Deacon, J. Byron, *Disasters* (N. Y., 1918), ch. v, p. 137.

in view. The division of work indicates the nature of the task attempted. The division provided for an advisor, a chief of staff, a supervisor of home visitors, a bureau of application and registration, an emergency department, a department of medical social service and a visitor in children's work. Later a children's sub-committee was included.

There was first the record and registration made and verified of all the sufferers and those in need. Over six thousand names of registrants resulted. Five districts or divisional areas were arranged for convenience and thoroughness of administration. One of these covered all cases outside of the city itself.<sup>1</sup> In charge of each district was a supervisor, and under the supervisor the various department heads. Trained workers were drawn into the service and their work and that of the volunteer visitors was directed by capable supervisors. The administration of relief was put upon a discriminating "case system."

There were four important phases in which the work developed; the work of general rehabilitation, the medical social work, the children's problem and the problem of the blind.

The general rehabilitation service was carried on with varied success. It secured valuable intelligence for all committees and gradually increased in working power and efficiency. How many were put upon their feet again through its kindly counsel and careful cooperation cannot be estimated or told in figures.

The problem of medical social service is to learn the social condition of the patient, and to relate that knowledge

<sup>1</sup> The town of Dartmouth on the Eastern side of Halifax harbor also suffered very seriously in the explosion. It had its own relief organization under the very capable chairmanship of ex-mayor A. C. Johnstone. The nature of the relief work there did not differ essentially from that in Halifax.

to his medical condition in order that restoration to health and return to normal family and community relationships shall go hand in hand. A division of medical social service became active a week after the disaster, its workers becoming attached to the several emergency hospitals within the city itself and those established in nearby towns. It had as well a working relationship with the military and the permanent Halifax hospitals. Three thousand patients were cared for in twelve Halifax hospitals alone. Trained medical social workers interviewed eight hundred. The one question to which they sought an answer was: "How shall these patients be brought back again as fully as possible into normal lives and relationships?" Having obtained an answer as best they could, the effort was made to help and relieve to the fullest extent that service and science made possible.

The contribution of medical social service was two-fold, immediate assistance and education. By the latter service, which represents the more permanent value to the community, very valuable information and guidance was given to the Halifax Medical Society and the children's and nursing interests. The improvements resulting from these efforts cannot fail to make "follow-up" and "after-care" important considerations in the public health and dispensary work of the future.

Immediate assistance was given by the medical social service in six ways:

1. Arranging for clothing and shelter prior to discharge from hospital.
2. Interviews to understand medical social needs.
3. Arranging about eye problems with the committee on the blind, children's problems with the children's committee, family problems with the rehabilitation committee, *etc.*

4. Making a census of the handicapped, and classifying the returns.
5. Placing responsibility for follow-up and after-care.
6. Intensive case work where social problems involved a medical situation.

Dr. M. M. Davis, Jr. Director of the Boston Dispensary, writes of the medical social service as follows:

It may well be concluded that no organization or "unit" formed to deal with a flood, fire or explosion or disaster, can hereafter be regarded as complete unless in addition to doctors, nurses, relief workers and administrators there is also a due proportion of trained medical social workers. If twelve years ago medical social service received its baptism, Halifax has been its confirmation day.<sup>1</sup>

The children's service was thorough, as it should have been. If the measure of success in disaster relief is the treatment which the children receive, Halifax relief was above reproach. The children's laws of the province are carefully drawn and adequate, the Superintendent of Neglected and Delinquent Children is a man of singular ability and has wide powers. He became chairman of a strong children's committee with which were associated, besides representatives of the children's institutions, two child-welfare workers of high reputation. This committee came in contact with upwards of five hundred families, including more than fifteen hundred children. Their work dealt with the special problems listed below. More permanent supervision was assumed by the Government Commission about five months after the disaster. The modern principle of the widest possible child-placing was encouraged, the effort being to keep children with parents

<sup>1</sup> Davis, Michael M., Jr., "Medical Social Service in a Disaster," *Survey*, vol. xxxix, no. 25 (March 23, 1918), p. 675.

and wherever necessary to subsidize families rather than institutions.

The work of the children's committee consisted of

1. Getting urgent temporary repairs made to existing children's institutions.
2. Investigating cases to ascertain if children were in proper custody and receiving proper care.
3. Procuring necessary articles of clothing, *etc.*, for children.
4. Hunting for "missing" children, identifying "unclaimed" children, and restoring children to their parents.
5. Interviewing hundreds of people who were: (a) hunting for lost children; (b) wishing to adopt homeless children; (c) arranging for the care of children.
6. Attending to a large correspondence, mostly regarding the adoption of children, for which upwards of a thousand applications were received.
7. Arranging for and supervising the transfer of children from hospitals, shelters, *etc.*, the committee in most cases having sent some one to accompany the children.
8. Arranging for temporary maintenance, permanent care, pensions and compensations or allowances for children, including the finding of permanent homes.
9. Locating and referring to the proper agencies a number of wounded children.
10. Getting possession of children unlawfully taken possession of by improper persons.
11. Arranging for the proper guardianship of certain children.<sup>1</sup>

The problem of the blind, was a special feature of the Halifax disaster. Blindness frequently resulted from the

<sup>1</sup> Blois, Ernest H., *Report of Superintendent of Neglected and Delinquent Children* (Halifax, 1918), p. 110.

blizzard of glass which caused so great a percentage of the wounds. In large proportion the wounded were women who were engaged in their household duties. The rehabilitation of the blind presented problems of care and retraining upon which was concentrated the skill of three superintendents of important institutions for the blind as well as other specialists and workers. The presence in Halifax of a school for the blind with a capable president facilitated greatly an early grappling with the problem. The contributions of the social workers were chiefly of the character already indicated such as that of general medical social service. There were reported on March first, six hundred and thirty-three registrants,<sup>1</sup> but owing to the difficulties of registration this figure remains inexact.

Rehabilitation "takes into account the feelings as well as the material requirements of the bereaved families." An additional phase for social workers is therefore mortuary service. Here is required an exceedingly delicate ministry for which few are qualified. It includes quiet coöperation in the painful process of identification, a sympathetic care for those who succumb to shock or grief, and helpful direction regarding the necessary steps to be taken, in interment. At Halifax this presented a remarkable opportunity for service, and an experienced Young Women's Christian Association worker from Toronto attended in such capacity.

There is still another secondary phase which must be referred to as not being without social and moral results,—that of relief of animals. For the sheltering of homeless animals, the dressing of wounds, and the humane dispatch of the badly injured, specially designated gifts had been received. This work received the attention of the Society for the Prevention of Cruelty.

It will be useful as reference data to present here the

<sup>1</sup> Fraser, Sir Frederick, *Report of*.



nature of the criticism to which careful supervision gave rise. It was of the most trenchant character, and it centered about the alleged over-emphasis which seemed to be placed on system<sup>1</sup> and detailed investigations inflicted upon persons of whom many were still suffering from deprivation and from shock, and who were unused to the cross-examination methods of expert social diagnosticians. Often the thoroughness of the records seemed to the sufferers to be the more emphasized part of the proceedings. When all classes of people found themselves in need, there were naturally many who deeply resented being treated so palpably as "cases." But theirs was a choice which left but little regard for personal wishes or sensibilities. It is regrettable however to have to say that the cause of social service did not receive in the community the much larger repute which its magnificent work justified, chiefly because the innumerable "typewriters, card catalogues, involved indexes, and multifarious office equipment"<sup>2</sup> were not made less obtrusive. The merest touch of "cold professionalism" soon became fuel for the burning disapproval which spread through the city regarding the methods of relief.<sup>3</sup> Letters to the press gave vent to the indignation of the sufferers. One of the judges of the Supreme Court was as outspoken as anyone. In criticizing the food-distribution system he wrote very plainly of the "overdose of business efficiency and social service pedantry." Why should needy families

<sup>1</sup> The reader may contrast with this the early days of the relief at the Johnstown flood "where two windows were set apart from which clothing and boots were being thrown over the heads of the crowd, and those having the longest arms and the stoutest backs seemed to be getting the most of it"; and where almoners passed through the streets handing "ten dollar bills to everyone whom they met."

<sup>2</sup> Johnstone, Dwight, *The Tragedy of Halifax* (in MS.).

<sup>3</sup> There was however no definite organization of the dissatisfied as actually took place at the Slocum Disaster.

be required, he asked, to go through a personal visit and reëxamination at the office every week, before receiving a renewal order for food. Such things were not easily understood or explained. It became increasingly felt that such discriminating and tardy administration of provisions was not the will of the innumerable donors who so spontaneously forwarded the generous aid. It was not, so the criticism ran, for the committee to detain and delay the needy recipients for the mere sake of preventing duplication and for the sake of the niceties of case records. At a public meeting in Wards Five and Six, it was charged that "too much red tape had been insisted upon by those in charge of the relief and in consequence of this and other objectionable features of management, there had been many cases of hardship and much unnecessary suffering."

As to the justice of this it has been already indicated that criticism was inevitable because there existed no well-grounded body of public opinion to which could be anchored the wisdom of sound and thorough social methods. The passing of time has reënforced the rightness of the course taken, and not a few former critics would now be ready to condemn the methods used as not having been radical enough. Still there was an element of justice in what was said, and social workers of the future when thrown into a similar situation should curtain their machinery a little closer, at least until the community can realize the principles which organization must conserve.

The principle on which rigid procedure is justified is based upon disaster psychology itself, and is the fruit of a long series of trials and errors. On the first few days after disaster the finer sensibilities of human nature appear. Men and women say "others have lost more, we will get on with a minimum of help." About the fifth day when the poignancy of the horrors has passed and the dead are buried,

these same people suddenly discover that there are thousands of dollars available. Then another aspect of human nature comes into evidence. Every device is utilized by each to out-distance the other in the scramble. There has not been a single disaster where this state of mind has not shown itself. The way to deal with it without complete records as yet has not been suggested. The only way a committee can protect itself against disgruntled criticism is to know what it is doing. This is the justification of rigid desk procedure. It is a way to detect and to defeat imposture; though it serves also many other purposes. It was not, however, all adverse criticism which developed at Halifax. There were many who were able to see the beneficent purpose behind the careful service, and as months passed on the value of this experienced administration came to be more generally realized. Indeed

so large a place did the Social Service workers eventually fill in the community that many reestablished families begged for the continuance of the department's supervision even though its aid was no longer required. No greater testimony to the value of this rehabilitation work could be given.<sup>1</sup>

When on January twenty-first the Federal Relief Commission took charge of the entire system, it may be said that there was a change not only of hands, but of policy as well. The large amounts made available by the Imperial and Dominion governments and by public subscription made it possible to substitute for rehabilitation the principle of modified restitution. This change of policy the government adopted because of the conviction upon the part of the people that they were suffering from the vicissitudes of war, and that full restoration was in law and equity of national obligation. The step is of special social

<sup>1</sup> Johnstone, *op. cit.*

significance for Halifax is the first instance where on any large scale<sup>1</sup> the principle of restitution became the guide, rather than that of rehabilitation. This principle of indemnity

implies the reinstatement of the beneficiary as nearly as possible into the position from which he was hurled by the calamity which has befallen him. It implies that to the householder shall be given the use of a house, to the mechanic his tools, to the family its household furniture. For the community as a whole it means a speedy restoration of such economical and industrial activities as have been temporarily suspended, the rebuilding of bridges, the reopening of streets, the reestablishment of banks, business houses, churches, schools. It requires that protection shall be given the defenseless, food and shelter to the homeless, suitable guardianship to the orphan and as nearly as possible normal social and industrial conditions to all.<sup>2</sup>

It must be made clear that while in no case was the Halifax policy denominated restitution, but rather "generous relief," in actual practice a large proportion of claims were verified and paid on a percentage basis of the loss suffered, rather than that of ascertained need. The Commission was granted power to "pay in full all personal property and real estate claims duly established to an amount not exceeding five thousand dollars. And while in case of the larger claims of churches, schools, business properties and manufacturing establishments, and the property of the more prosperous classes, there was a policy of just and adequate relief declared, the agitation continued and continues that "every dollar of loss shall be paid in full."

Of such a policy in disaster relief Deacon writes: "It is

<sup>1</sup> Both in Chicago and Johnstown many families were placed in a position practically as good as that which they had occupied before. Carnegie once completely reimbursed the sufferers from a bank failure.

<sup>2</sup> Devine, Edward T., *Principles of Relief* (N. Y., 1904), pt. iv, p. 462.

not the policy of disaster relief to employ its funds in restoring losses and compensating for death or personal injury." Commenting on this statement John R. Moors says: "It is interesting to note that at Halifax, the latest scene of serious disaster, such full compensation is intended."<sup>1</sup>

What were the social results of this policy? This question is one of no less interest to the community itself than to the student of sociology. It is perhaps too early for adequate examination and comparison with the policy which formerly held sway. While still a vital question there are observers who have grown dubious, if not of restitution certainly of the lump-sum method of restoration.<sup>2</sup> They assert that for many it proved simply a lesson in extravagance and did not safeguard the economic future of the recipients. Unused to carrying all their worldly goods in their vest pockets, these same pockets became empty again with uncommon rapidity. Victrolas, silk shirts and furbelows multiplied. Merchants' trade grew brisk with "explosion money." There seemed to be a temporary exchange of positions by the social classes. The following statement made by one closely associated with social conditions in Halifax and written over two years after the disaster, shows only too well the danger involved in the application of such a principle. After referring to "the spirit of passive criticism directed chiefly against the few who have borne the burden of restoration" the statement continues:

The individuals who after all make up a community have been blinded to the bigger interests by their own individual ma-

<sup>1</sup> Moors, John F., Book Review, *Survey*, vol. xxxix, no. 17 (Jan. 26, 1918), p. 472.

<sup>2</sup> The courts of small claims devoted ten minutes to each case. The amount awarded was paid on the day the case was heard.

terial losses, and the idea of material compensation on a dollar for dollar basis. As some of us earlier foresaw, the disaster wrought much moral damage, for which no "claims" were even presented, even by those to whom we might look for special moral teaching in such an experience. In the course of our work we come daily upon evidences of this condition lingering in our midst.

Upon the whole disaster-study inclines to the unwisdom of "the disposition to proceed as though the relief committee were a compensation board or an insurance society, and to indemnify for loss." But as already said it is early to appraise. What in ordinary times might be condemned might conceivably under the abnormal conditions of war be less morally dangerous. The system may have been at fault and not the principle.<sup>1</sup> Partly for reasons connected with the war it was desired to conclude the business with dispatch, and not to set up a banking house or a training school in thrift. There remains also the final test, the residuum of relief, the number of those who will remain permanently upon the charity list of the community. Will it be said of Halifax as formerly of Johnstown, that "probably so large a sum never passed into a community of equal size with so little danger to the personal character of the citizens and so complete an absence of any pauperizing or demoralizing influences?"

The lessons which come out of this experience at Halifax may easily be summarized.

1. The socialization of all communities should be promoted if for no other reason than for protection.
2. More technical methods of coördination are desirable.
3. To display the machinery of organization is unwise.

<sup>1</sup> The policy to be pursued in disaster relief cannot yet be finally stated. It may ultimately be found necessary to distinguish between the loss of property socially owned, and that of private ownership.

4. The supervision of voluntary services should be in the hands of one vocationally trained for the purpose.

5. Further consideration is required as to the policy of restitution and its administration.

6. The wisdom should be considered of establishing a secret relief distribution service, such as fraternal societies conduct for those who though in need will not publicly accept assistance.

7. The necessity of using trained searchers for the dead, who will note the precise spot where bodies are recovered, the centralization of all morgue service, the use of metal tags instead of paper, the sterilization and preservation of clothing and effects for purposes of identification, and in addition the development of a morgue social service with training and qualifications of a special character.

8. The complete organization of a social relief reserve with members beforehand definitely assigned to special tasks, with requisite printed supplies in readiness would render the most effective social economy in emergency. This reserve should be trained in the general organization of shelter, food and clothing, in the shaping of a policy of general rehabilitation, in medical social service, in children's work and in the use of volunteers.

To answer the requirements of what could be called in any sense a sociological treatment of the disaster, the foregoing chapter on the contribution of social service could with difficulty be omitted. Social service introduces a relatively new element of leadership and control upon which disaster sufferers of the future may rely and which assures to any community the presence of those who have special skill in dealing with crises. The "relation of the great man to the crisis is indeed one of the most important points in the problem of progress"<sup>1</sup> in catastrophe. The

<sup>1</sup> Thomas, *op. cit.*, p. 19.

subject also assumes special importance in the development of the thesis itself. No accounting for social changes which may hereafter be enumerated can be accurately undertaken without full consideration of the major influences which were present. Thus by elimination we may be able to better gauge the strength of the factor of catastrophe itself. The place of government and other social factors, however, has yet to be discussed.<sup>1</sup>

<sup>1</sup> The author regrets that it has been necessary to omit special mention of the many institutions, societies and voluntary agencies, which were actively engaged in the relief work, and to confine the chapter to the principles employed by those mainly responsible for relief and administration.



## CHAPTER VI

### CATASTROPHE AND SOCIAL LEGISLATION

Governmental agencies in catastrophe—What seems to be expected of governments—What they actually do—Social legislation—A permanent contribution.

WE have thus far been tracing certain of the major influence which are brought to bear upon a community when, after having been overtaken by catastrophe, it is settling back into its former habitistic channels,—channels which not even catastrophe can altogether efface. Some of these influences are intra-communal and self-generating, such as the reconstructive impulses already examined. Others are ultra-communal, such as those vigorous social forces which sweep in upon a disaster city with the suddenness of catastrophe itself.

There is a further influence which is of a community yet in a sense not of it alone, but of all communities—government—that institution of society which expresses its will by legislation, a will which may or may not be the will of the community concerned. And because legislative action is responsible action, and precedent-setting action, it is apt to be deliberative action. Perhaps this is especially true of the new and less familiar field of social legislation. While it may be that the latest group to function effectively at Halifax was government, social legislation when forthcoming contributed an important and deciding influence, and was in turn itself enriched by the calamity.

The boundaries of social legislation are still in the mak-

ing and daily enclosing a wider and wider field. But not all governments are sympathetic with this process. There are two standards of legislation—the one conserves above all things the rights and privileges of the individual, the other considers first the community as a whole. The superiority of the new ideals of legislation rests here, that it is the general interest which is primarily consulted and becomes the norm, rather than the rights of the individual citizen. Progress in legislation includes its extension into all the affairs of life, retaining as much as may be the liberty of the individual while progressively establishing the interests of all.<sup>1</sup> Its evolution is traceable from the first poor laws, all down the long succeeding line of those dealing with education, health, labor and recreation. However much agreement or disagreement there may be and is as to the wisdom of this mutable sphere of ameliorative legislation, changing just as one ideal or the other happens to be in the ascendancy, there is at least no doubt as to the duty of the government to protect and safeguard its citizens.

The one duty of the state, that all citizens, except the philosophical anarchists, admit, is the obligation to safeguard the commonwealth by repelling invasion and keeping the domestic peace. To discharge this duty it is necessary to maintain a police force and a militia, and a naval establishment. Such dissent from this proposition as we hear now and then is negligible for practical purposes.<sup>2</sup>

In this duty all governments alike share, be they imperial, federal, provincial or municipal, according to their respective powers.

At Halifax authoritative control following the disaster was not wholly municipal or wholly martial, but rather an

<sup>1</sup> Lindsay, Samuel M., *Unpublished Lectures on Social Legislation*.

<sup>2</sup> Giddings, Franklin H., *The Responsible State* (N. Y., 1918), ch. iv, p. 81.

admixture of authorities. Policeman and soldier joined hands as agents of general protection. This service government did and did at once.

One of the activities of the disaster relief first taken<sup>1</sup> was that by the Lieutenant-Governor of the Province of Nova Scotia, when he sent to the Chief of Police of Halifax the following order:

You are hereby authorized to commandeer and make use of any vehicle of any kind that you find necessary for the purpose of removing the injured and the dead of this city.

The service of the police of Halifax was highly commendable. They worked for long periods with little rest to maintain public peace and order. The splendid service of the King's soldiers and sailors has already been considered. They were first and foremost in the work of rescue and of warning. Military orders to vacate the North End district as a precautionary measure followed hard upon the explosion. Military orders permitted the people to return. Within a few hours after the disaster the military established a cordon around the devastated district which no one was allowed to pass without an order, which citizens having business obtained at the City Hall. This was to prevent looting as well as to facilitate the search for the wounded pinned under the debris, and to permit the removal of the bodies of the killed. The burned and devastated area was policed by the military for about two months with the concurrence of civic authority.

But catastrophe calls for much more than protection. It calls for a procedure, a guidance, a paternal care, and it calls for it at once. If we ask whether it be the function of government to take the foremost step of leadership in this

<sup>1</sup> Reference has already been made to the good work of the Government railroad officials in the quick restoration of service.

care, the question is one for Political Science. If we ask the more sociological question whether governments actually and always do so, the answer is unhesitatingly—they do not. Says Cooley: "Like other phases of organization, government is merely one way of doing things, fitted by its character for doing some things, and unfitted for doing others."<sup>1</sup> This proved one of the things for which it was unfitted. Not one of the governmental authorities, civic, provincial, or federal, at once assumed and held authoritatively and continuously the relief leadership. Indeed it is a peculiar commentary that they were scarcely thought of as likely immediately to do so. It should be said, however, that the Deputy-mayor—the Mayor being absent from the city—was very active personally. While one of the controllers was himself replacing the dead fire-chief, the Deputy-mayor called an emergency meeting of citizens on the morning of the disaster, and another at three in the afternoon to consider what to do. This meeting of citizens was presided over by the Lieutenant-Governor, and at it, as already noticed, a beginning in relief organization was made. The committees, it will be remembered, were afterwards reformed upon a new basis on the advice of the American unit. But no civic resources were pledged to the people as was done at the Chicago fire. No moneys were then or subsequently appropriated. The Board of Health did not assert or assume the leadership in the unprecedented situation. The City Hall was indeed set up as the relief center temporarily, but the advice to remove it elsewhere was not successfully opposed. How little civic authority was retained under the disaster circumstances is evidenced by the following complaint. The Board of Control which was then the legal representative body of the city had no member

<sup>1</sup> Cooley, Charles H., *Social Organization* (N. Y., 1912), ch. xxxv, p. 403.

on the executive committee of the disaster administration. One of these controllers publicly criticised the method of the Citizens' Committee as autocratic. He "almost had to have a page to reach the Committee as representative of the Board of Control." When the cabinet ministers from Ottawa were sitting in session in the legislative council room, and giving a hearing to a representative public gathering, the Mayor entered a complaint that the City Council and Corporation had been ignored by the acting committees. The Citizen's Committee exercised the general control. They were entrusted with the special grants and the civic authorities, Board of Health, police, *etc.*, so far as emergency matters went, coöperated with them. But the various civic officers were not idle. No one was idle at Halifax. They were occupied with the rehabilitation of the various departments at City Hall and with individual programs of relief. What the civic government continued to do officially was rather in the way of providing the stiff formality of proclamation to the carefully weighed suggestions of the Citizens' Committee. Several of these proclamations were issued. Among them was one urging all people excepting those on relief work or upon especially urgent business to stay away from Halifax for two weeks. Another proclamation was a warning to merchants with regard to demanding exorbitant prices. Over the Mayor's signature went out the nation-wide appeal for aid that "a sorely afflicted people should be provided with clothing and food." The subsequent time, thought and help which City Hall contributed is of less sociological importance to this study. It is sufficient if we have faithfully described municipal aid in disaster as falling under the general category of service, rather than direction.<sup>1</sup>

<sup>1</sup> This is not to be considered as without exception in catastrophes. A special Citizens' Committee led the operations at the Paterson fire

Turning briefly to the provincial and federal spheres of activity in disaster we note that no special session of the provincial legislature was called, as was done by the Governor of Illinois after the calamity which overtook Chicago in 1871. Yet when the legislature of Nova Scotia convened a fully considered and detailed act was passed incorporating the Halifax Relief Commission, and designating and defining its powers.<sup>1</sup> The several articles defined its establishment as a rehabilitation and reconstruction committee, a town-planning board, as well as its powers of expropriation, its relationship to the city charter, certain parts of which it could amend or repeal; its powers to enforce attendance at its courts and boards; its relationship to the Workmen's Compensation Act and to the insurance problem. Besides, the Commission was also invested with full and adequate discretion regarding schools, churches and business properties.

Some of the disaster legislative powers and procedures are of special interest to social legislation. Among these were the power to repair, rebuild or restore buildings, the power to repair and carry out a town-planning scheme, the power to amend, repeal, alter or add to provisions in the city charter, the automatic assumption of rights of owner to insure to the extent of the amount expended in repair, and the automatic cancellation of workmen's compensation claims. The act incorporating the commission with powers to make investigation, and administer all funds and properties constitutes Chapter VI of the year 1918. The local legislature also passed Chapter XVIII authorizing the

and flood, but at the Chicago fire the City government took immediate and responsible action. This was also the case at Baltimore when the Mayor was the "key to the situation." It should however be added that both at Halifax and Dartmouth the chairmen of the Citizens' Committees were ex-mayors.

<sup>1</sup> *An Act to Incorporate the Halifax Relief Commission, Halifax, 1918.*

provincial loan of one hundred thousand dollars for the benefit of the sufferers; and Chapter XIX authorizing cities, towns and municipalities to contribute for the relief of sufferers.

The action of Premier Borden of Canada for promptitude and wisdom is comparable to that of President Harrison of the United States at the time of the Johnstown flood. The Canadian Premier at the time of the disaster was in Prince Edward Island, an island province lying near Nova Scotia. He at once left for Halifax and arrived the following day. He immediately placed resources from the Federal government at the disposal of the local authorities to assist them in coping with the situation. The third day after the disaster he attended an important meeting regarding the harbor, and strengthened greatly the morale of the city by assuring a complete and rapid restoration of the harbor. Following the Premier came the Minister of Public Works and he too gave much administrative assistance. Then came five members of the Federal Cabinet, each announcing such programs of restoration as to give the community new heart and inspiration. Among these announcements was that of the establishment of a large ship-building plant upon the explosion area. The Canadian government had already as its first act made a grant of one million dollars, toward the sufferers' relief. It was then forcibly urged upon the government that it assume a responsibility towards Halifax such as the British government accepts in "its policy of holding itself responsible for loss and damage by air-raids and explosions." Public opinion seemed to demand that the work of restoration and reparation be undertaken by the government of Canada as a national enterprise. The government while disclaiming all legal liability, acceded to the request. On January twenty-first there was announced the formation of a Federal Halifax Relief Com-

mission to take over the whole work of rehabilitation and reconstruction,—an announcement which brought a feeling of relief to the already discouraged workers.

Another interesting contrast may be noted in the fact that while the Governor of Ohio appointed the Ohio Flood Commission to receive and administer relief funds and supplies, the Halifax Relief Commission was appointed by the Governor-General of Canada in Council. This was done under the "Enquiries Act of Canada, being Chapter CIV of the Revised Statutes of Canada, 1906, and under the War Measures Act, 1914, being Chapter II of the Acts of Canada for the year 1914." The Federal grant was later increased to five million dollars, and subsequently to eighteen millions.

There should also be here recorded the timely succour afforded by the Imperial Government at Westminster. Following the King's gracious cable of sympathy, the sum of five million dollars was voted by the British Government to the relief of Halifax. The King's words were:

Most deeply regret to hear of serious explosion at Halifax resulting in great loss of life and property. Please convey to the people of Halifax, where I have spent so many happy times, my true sympathy in this grievous calamity.

Reference has already been made to the policy to which the Commission was committed. This policy may be more exactly stated by an extract from the act incorporating the commission:

*Whereas*, the said Halifax Relief Commission as heretofore constituted has recommended to the Governor-General of Canada in Council, that reasonable compensation or allowance should be made to persons injured in or by reason of the said disaster and the dependents of persons killed or injured in or by reason of the said disaster and the Governor-



General of Canada in Council has been pleased to adopt said recommendation; *etc.*

In the provision of material assistance, the strengthening of morale and the eventual establishment of a Relief Commission, government may be said to have contributed an important and deciding influence in the reorganization of the community of Halifax and its restoration to normal conditions.

Not only must social legislation be acknowledged to have had a very direct determining influence upon whatever picture of the community is subsequently drawn, but social legislation itself was enriched by the catastrophe. The association of catastrophe with progress in social legislation has already been noticed in our introduction, the mass of facts in support of which no writer has yet compiled. In this introduction we noted how on many occasions disasters have been the preceding reagents in effecting legislation of permanent social value. It is instanced that city-planning in America took its rise from the Chicago fire, that the origin of labor legislation is traceable to a calamitous fever at Manchester and that the Titanic disaster precipitated amendment to the Seamen's laws.<sup>1</sup> It has been said that "the vast machinery of the Public Health Department in England has rapidly grown up in consequence of the cholera visitations in the middle of the last century;"<sup>2</sup> and also that public health work in America practically began with yellow fever epidemics. Writing of mining disasters, J. Byron Deacon says in this connection

If it can be said that any circumstance attending such disasters is fortunate, it was that they exercised a profound

<sup>1</sup> Parkinson, Thomas I., "Problems growing out of the Titanic Disaster," *Proceedings of the Academy of Political Science*, vol. vi, no. 1.

<sup>2</sup> Rosa, Edward A., *Foundations of Sociology* (N. Y., 1905), ch. viii, p. 254.

influence upon public opinion, to demand new effort and legislation both for the prevention of industrial accidents and for the more equitable distribution of the burden of individual loss and community relief which they involved.<sup>1</sup>

Again E. A. Ross writes :

A permanent extension to the administration of the state has often dated from a calamity,—a pestilence, a famine, a murrain, a flood or a tempest—which, paralyzing private efforts has caused application for state aid.<sup>2</sup>

The student of social legislation who reads this book will turn first to this chapter, and ask what permanent legislation will the future associate with so dire a calamity as that suffered at Halifax. It may be said that not only has special disaster legislation of precedent-setting value been enacted serving in a measure to standardize relief legislative procedure, but social legislation of wider application and more general character ensued. And this was along the line which the student of social law should be led to expect.

As calamitous epidemics bring forth regulations of sanitation; as marine disasters foster regulations ensuring greater safety at sea, it might well be expected that a great explosion would bring about regulations controlling the handling of explosives. And this is in reality what has occurred. There were approved on the twenty-fifth day of June, 1919, by the Parliament of Canada, regulations respecting the loading and handling of explosives in harbors, applicable to all public harbors in Canada, to which the provisions of Part XII of the Canada Shipping Act apply; and to all other public harbors insofar as the same are not inconsistent with regulations already or hereafter made applicable.<sup>3</sup> They cover

<sup>1</sup> Deacon, J. Byron, *Disasters* (N. Y., 1918), p. 43.

<sup>2</sup> Ross, *op. cit.*, p. 253.

<sup>3</sup> *Regulations for the Loading and Handling of Explosives in the Harbors of Canada* (Ottawa, June, 1919).

1. The provision of special areas for berth, for explosives-carriers.
2. Regulations of ship control to be observed in the navigation in harbors of explosives-laden vessels.
3. Regulations to be observed upon vessels carrying explosives.
4. Regulations governing the handling of explosives.

"The enactment of these regulations" writes the Under-Secretary of State for Canada<sup>2</sup> "was suggested in large measure by the Halifax disaster." Had these regulations been in effect and observed in Halifax Harbor it is hardly conceivable that the great disaster of 1917 could have occurred.

It should be borne in mind that the recommendation for this general legislation of social utility originated with the Drysdale commission—a board of enquiry appointed by the Federal Government to determine the cause of the disaster and whose judgment, was issued on February fourth, 1918. In Section XIII of this judgment, the following occurs:

that the regulations governing the traffic in Halifax harbor in force since the war were prepared by competent naval authorities; that such traffic regulations do not specifically deal with the handling of ships laden with explosives, and we recommend that such competent authority forthwith take up and make specific regulations dealing with such subject.

We, therefore, conclude that the function of government in disaster is of primary importance, and that social legislation when forthcoming constitutes an important and deciding influence and is itself in turn enriched by calamity. Brought to the test of comparison with observed facts the statement in the Introduction, that catastrophe is in close association with progress in social legislation receives abundant justification.

<sup>2</sup> In a letter to the author.

## CHAPTER VII

### CATASTROPHE AND SOCIAL SURPLUS

Mill's explanation of the rapidity with which communities recover from disaster—The case of San Francisco—The case of Halifax—Social surplus—The equipmental factors—Correlation of tragedy in catastrophe with generosity of public response—Catastrophe insurance—A practical step.

John Stuart Mill offers a very interesting explanation of what has so often created wonder, the great rapidity with which countries recover from a state of devastation, the disappearance in a short time of all traces of the mischiefs done by earthquakes, floods, hurricanes and the ravages of war.<sup>1</sup>

This "*vis medicatrix naturæ*" he explains on an economic principle. All the wealth destroyed was merely the rapid consumption of what had been produced previously, and which would have in due course been consumed anyway. The rapid repairs of disasters mainly depends, he says, on whether the community has been depopulated.

But this is not an all-sufficient explanation, and indeed applies particularly to countries which have not been bereft of the raw materials of industrial machinery. San Francisco recovered exceedingly rapidly from her terrible experience of 1906. Indeed her quick recovery has been called one of the wonders of the age. San Francisco was not depopulated. Her actual losses of life were but four hundred and ninety-eight, and those injured four hundred and fifteen.

<sup>1</sup> Mill, John Stuart, *Principles of Political Economy* (London, 1917), ch. v, p. 74.

The loss of life on the other hand was about two thousand in Halifax, a city of fifty thousand population—but one-eighth that of San Francisco—and her list of injured ran into many thousands. And yet the same phenomenon appeared.

There are other factors both social and economic which must not be omitted from an account of the influences of recuperation, namely the equipmental and other factors which produce social surplus. Disaster-stricken communities cannot survive unless their "surplus energy exceeds their needs." They cannot become normal until the social surplus is restored. The social surplus, according to Professor Tenney, is "merely the sum-total of surplus energy existing in the individuals composing a social group, or immediately available to such individuals."<sup>1</sup> It includes not only "bodily vigor" but "such material goods also as are immediately available for the restoration of depleted bodily vigor." It is not only physiological, as life energy, and social, as conditions of knowledge and institutional facilities, but also socio-economic, as equipment for the maintenance or restoration of physiological and social needs. In catastrophe bodily vigor may have been depleted, and material goods been consumed. No period of recuperation or rapid gain can ensue unless such equipment is in some degree replaced and a balance of social surplus restored. This is the *conditio sine qua non* of recuperation, and of the transition from a pain-economy to a pleasure-economy,<sup>2</sup> after disaster. Certainly the maintenance of the standard of living demands it. The standard of living has been defined as the "mode of activity and scale of comfort which a person has come to regard as indispensable to his happiness and to secure and retain which he

<sup>1</sup> Tenney, Alvan A., "Individual and Social Surplus," *Popular Science Monthly*, vol. lxxxii (Dec., 1912), p. 552.

<sup>2</sup> Patten, Simon N., *Theory of the Social Forces* (Phil., 1896), p. 75.

is willing to make any reasonable sacrifice." Following Professor Seager's association of the standard of living with population, the reduction of population in catastrophe of a certain character might conceivably operate to automatically heighten the standard of living, just as the growth of population often brings about its fall. But catastrophe often consumes great quantities of material goods and brings about a change in incomes and in occupations.<sup>1</sup> Seager notes that:

Actual starvation confronts more rarely those belonging to the class of manual workers, but for them also under-nutrition is a possibility which prolonged illness or inability to obtain employment may at any time change into a reality. The narrow margin which their usual earnings provide above the bare necessities of life, coupled with their lack of accumulated savings, makes them especially liable, when some temporary calamity reduces their incomes, to sink permanently below the line of self-support and self-respect.<sup>2</sup>

It must be remembered that at Halifax while the equipmental damage was stupendous, still the heart of the downtown business section remained sound. The banking district held together, and the dislocation of business machinery was less protracted on that account. To this it is necessary to add how to a very considerable extent the material losses were replaced by communities and countries which not only supplied the city with the material of recuperation but with men and means as well. Were her own workmen killed and injured? Glaziers, drivers, repair men and carpenters came by train-loads bringing their tools, their

<sup>1</sup> At San Francisco "after the fire, the proportion of families in the lower income groups was somewhat larger, and the proportion in the higher income groups somewhat smaller than before the fire." (Motley, James M., *San Francisco Relief Survey*, New York, 1913, pt. iv, p. 228.)

<sup>2</sup> Seager, Henry R., *Economics, Briefer Course* (N. Y., 1909), ch. xiii, p. 210.

food and their wages with them. The city's population was increased by thirty-five hundred workmen, twenty-three hundred of whom were registered with the committee at one time. Was her glass destroyed? Eighty acres of transparencies came for the temporary repairs and had been placed by January the twenty-first. Were her buildings gone? Seven million, five hundred thousand feet of lumber were soon available to house the homeless. Were her people destitute? Food and clothing were soon stacked high. Were her citizens bankrupt because of losses? Fifty thousand dollars came from Newfoundland, another fifty thousand from New Zealand, one hundred thousand from Quebec, one hundred thousand from Montreal, two hundred and fifty thousand from Australia, five million from Great Britain. In merchandise, clothing and cash a million came from Massachusetts. In about fifteen weeks, aside from the Federal grant, eight millions were contributed. The total contributions from all sources amounted finally to twenty-seven million dollars.

Factors such as these must not be omitted in examining the sociological recuperation of a smitten city. And when the experience of Halifax is set side by side with the related experiences of other cities a conclusion may be drawn that disaster-stricken communities can always count upon public aid, for the reasons which have already been discussed. But there is found to be strongly suggested a correlation between the striking character or magnitude of a disaster and the generosity of the relief response,<sup>1</sup> as there is also with the immediacy of the appeal. "It is not the facts themselves which strike the popular imagination" says Le Bon, "but

<sup>1</sup> At the time of the tragic Martinique disaster the New York committee received \$80,000 more than it could disburse. (Devine, Edward T., *The Principles of Relief*, N. Y., 1904, pt. iv, ch. vii, p. 468.)

the way in which they take place."<sup>1</sup> There have been disasters relatively serious, such as the St. Quentin forest fire, where repeated appeals met with astonishingly little response from the people. "A single great accident" continues Le Bon, "will profoundly impress them even though the results be infinitely less disastrous than those of a hundred small accidents put together." It was in recognition of this principle that "it was decided to transfer the residue of the amount contributed [after the Triangle fire] to the contingent fund of the American Red Cross, to be used in disasters, which in their nature do not evoke so quick or generous public response, but where the suffering is as grievous."<sup>2</sup>

Besides the relation of the tragic in catastrophe to generosity and other expressions of sympathy, the experience at Halifax suggests also a relationship between the aid furnished by a contributing community and that community's own previous history in regard to calamity. As an instance may be cited the quick and splendid response which came from St. John and Campbellton, two New Brunswick cities with unforgettable memories of great disasters which they themselves had suffered. It is also not improbable that the study of comparative catastrophe would reveal a correlation between the relative amount of aid given and the distance of those who give. Indeed there are reasons which suggest that the relationship might be written thus: that relief in disaster varies inversely as the square of the cost distance. The association here suggested is given additional plausibility from the fact that attention to certain types of news seems to vary according to this principle, and news notice is no inconsiderable factor in disaster aid.

Enough has been said to make it clear that at the present

<sup>1</sup> Le Bon, Gustave, *The Crowd: A Study of the Popular Mind* (London), ch. iii, p. 79.

<sup>2</sup> Deacon, J. Byron, *Disasters* (N. Y., 1918), ch. v, p. 120.



time, in the absence of any scientific method of socially ameliorating the consequences of catastrophe, relief is a fluctuating quantity, and is poorly apportioned from the point of view of need. While such conditions obtain, disasters must inevitably contribute to the inequalities which break the hearts of men. It is alas true, that after all our generousities and philanthropies

many people lose their normal position in the social and economic scale through earthquakes, tornadoes, floods, droughts, railway wrecks, fires, and the common accidents of industrial life. These accidents naturally have a vast influence over the lives of their victims; for they often render people unfit to struggle along in the rank and file of humanity.<sup>1</sup>

The only socially defensible way of doing is to spread the economic results of these disasters over the entire community in some form of intra-city catastrophe insurance administered by the Federal government. This alone will overcome the irrationality of an inequitable levy upon the more sympathetic, and the fluctuations of disproportionate relief. And even beyond this step is there not the possibility of an international system in which each nation will insure the other? Certainly at Halifax the aid contributed came from many nations and tongues. But while we are discussing what ought to be and eventually will be done, one very practical step remains which may be taken at once. At the Halifax disaster, we have seen that much of the direction and technical leadership, welcome at it was, and saving the situation as it did, yet came from without rather than from within the country. There is no Canadian who will close these pages without asking whether this must always be. May it not be respectfully suggested, as a concluding result

<sup>1</sup> Blackmar and Gillin, *Outlines of Sociology* (N. Y., 1915), pt. iv, ch. v, p. 402.

of this study, that the Canadian government, take immediate steps to develop a staff of experts, a reserve fund, and stations of relief strategically located in Canada—these stations to have in their keeping left-over war-material, such as tents, stores, and other equipment together with records of available experts who have had experience in disasters and who may be subject to call when emergencies arise.

And now to return to our thesis, and its special enquiry, namely, wherein is the specific functioning of catastrophe in social change? We have thus far concerned ourselves with the major factors of recuperation, intra-social forces, social service, and legislation.

We find it necessary now to add that the socio-economic constitutes a no less important factor. But the effects may not stop with mere recuperation. Suppose a city becomes in a trice more prosperous and progressive than ever. Suppose she begins to grow populous with uncommon rapidity; her bank clearings do not fail but rather increase; her industries rebuild and grow in numbers; new companies come looking for sites as if dimly conscious that expansion is at hand! Suppose a city rises Phoenix-like from the flames, a new and better city, her people more kind, more charitable, more compassionate to little children, more considerate of age! Suppose there come social changes which alter the conservatism and civic habits of many years—changes which foster a spirit of public service, and stimulate civic pride! Then there is clearly some further influence associated with the day of disaster. Perhaps we shall find progress innate in catastrophe itself.

## CHAPTER VIII

### CATASTROPHE AND SOCIAL CHANGE

The unchanging Halifax of the years—The causes of social immobility—  
The new birthday—The indications of change: appearance, expansion  
of business, population, political action, city-planning, housing, health,  
education, recreation, community spirit—Carsten's prophecy.

HALIFAX has had her fair proportion of tribute in her time. Kipling has called her "the Warden of the Honor of the North." Pauline Johnston sings of her pride of situation. As Edinburgh, "it is a city of many charms; beautiful for situation, beyond most of the cities of the world; vocal with history beyond most, for at every turn of its streets some voice from the past 'comes sounding through the toon.'" Her public gardens are the envy of all. Her vistas of the sea are without compare. Her North-west Arm is a veritable joy. Birds sing in her homes. Cheery wood-fires burn brightly in her open grates. No city of her size is more hospitable than she.

But she has always been a city which has never quite entered into her heritage commercially. Situated where by nature she might well be great, she has always been small. Unambitious, wealthy<sup>1</sup> and little jealous of the more rapidly-growing cities, she has prided herself on being a lover of better things. Commerce and industry were things alien<sup>2</sup> and secular. She devoted herself to

<sup>1</sup> Halifax is the wealthiest city per capita in the Dominion of Canada.

<sup>2</sup> For years real estate was marketed "quietly." In fact, real property was in the hands of one or two specialists only.

standards of art, music, learning, religion and the philanthropies. Charitable and philanthropic institutions abounded. She has had her own conservative English ways. She affected homage to "old families," and to that illusory element "social prestige." She welcomed each new knight, which the favor of the king conferred, and grew careless of civic prosperity and growth. She had leaned "too long upon the army and the navy" and her citizens had become "anaemic," "lethargic" and standstill; their "indifference" and "inertia" were a commonplace. Halifax had been complacent and academic rather than practical in her outlook upon the world and her general attitude toward life.

Geographically she suffered by her situation on the rim of the continent. She experienced not a little neglect and isolation because she was an undeveloped terminal, and not a junction point. Travellers and commercial men could not visit her *en route* but only by special trip.

Again "the government has had altogether too many interests in Halifax for the good of the place." "Government-kept towns" are not as a rule "those which have achieved the greatest prosperity." Halifax as a civil-service headquarters and a government military depot was perhaps open to the charge of being at least "self-satisfied." Valuable acres of non-taxable land have been far from stimulating to civic enterprise.

An historic city too, Halifax fell under the blight of overmuch looking backward, and sociologically the back look has been always recognized as the foe of progress. But she has had a past to be proud of—one which throbs with incident and interest. Born as a military settlement, she has been a garrison city and naval station for more than a hundred and fifty years. She has been called "the stormy petrel among the cities—always to the front in troublous

times." She has served and suffered in four hard wars. She has gloried in this wealth of years and storied past. Her traditions have been traditions of royalty, blue blood, dashing officers, church parades, parliamentary ceremonies, fêtes, levées and all the splendor and spirit of old colonial times. A newspaper has published daily items of a generation before, and weekly featured a reverie in the past.<sup>1</sup> Old in her years she remained old in her appearance, old in her ways, and in her loves. She boasted old firms which have kept their jubilees, old churches wherein was cradled the religious life of Canada, an old university with a century of service. Each noon a cannon boomed the mid-day hour, and like a curfew sounded in the night.

Search where one will, it would be difficult to find another city which has more completely exhibited the causes of social immobility as set forth by sociology. For there are, it must be remembered, causes of immobility as well as factors of social change. They may be geographical difficulties, or elements more distinctively social—an over-emphasis of government, discouraging innovation, too great a "volume of suggestion," the drag of "collective customs and beliefs," a "traditionalist educational system," the "inheritance of places and functions" tending to arrest development, "government, law, religion and ceremony, hallowed by age."<sup>2</sup> All these reënforce the conservative tendencies in society and preserve the *status quo*.<sup>3</sup>

<sup>1</sup> *The Acadian Recorder*, C. C. Blackadar, editor.

<sup>2</sup> Ross, Edward A., *Foundations of Sociology* (N. Y., 1905), ch. viii, p. 197.

<sup>3</sup> There are other causes of conservatism. A comparative freedom from disasters in the past is one. Halifax has suffered few in her entire history. Indeed the cholera epidemic is the only one of any consequence. She remained one of the last large wooden cities. Her sister city, St. John, was stricken by a disastrous fire and stands to-day safer, more substantial, more progressive in every way.

Again communities are generally conservative in character when a

Diagnosis in detail is not essential here. Up to the time of the disaster Halifax had certainly preserved the *status quo*. We need not labor the how and why. Tourists had returned year after year and found her unaltered. "Dear, dirty old Halifax" they had called her. They had found business as usual,—old unpainted wooden houses on every side, unswept chimneys, an antiquated garbage system and offensive gutters; the best water and the poorest water system an inspector ever examined; the purest air but the most dust-laden in a storm; an obsolete tramway,<sup>1</sup> a "green market," ox-carts on the main streets, crossings ankle-deep with mud, a citizenship given over to late rising. Instead of making the city they had been "letting it happen." The "transient, the good-enough, the cheapest possible" had been the rule of action.

Such has been the unchanging Halifax of the years. But the old order changeth. The spell of the past is broken. A change has come over the spirit of her dreams. There are large percentage are property-holding people. It was one of the surprises of the Halifax catastrophe that so large a number of citizens were found to own at least in part the homes they lived in.

There are other questions which the sociologist would ask if it were possible to carry the investigation further. Is the community loath to disturb the existing relations or to resort to extreme means to achieve desired ends? Or is it eager to sweep away the old, to indulge in radical experiment and to try any means that give promise of success? He would study too the distribution of people relative to their interests. Is there a majority of those whose experiences are narrow and whose interests are few? Or is there a majority of those who have long enjoyed varied experiences and cultivated manifold interests, that yet remain harmonious? He studies the character of the choices, decisions, selections in a people's industry, law-making, educational and religious undertakings. It is thus that he proceeds in diagnosing a population as to the degree of conservatism and to discover what the ideal community should be.—Giddings, Franklin H., *Inductive Sociology* (N. Y., 1909), p. 178, *et seq.*

<sup>1</sup> Halifax has now one of the best equipped tramway systems to be found anywhere. There has recently been appropriated the sum of \$200,000 for sewers, \$150,000 for water, \$300,000 for street paving.

signs that a new birthday has come. The twenty-first day of June was the old Natal Day, kept each year with punctilious regularity. But Halifax is now just beginning to realize that there was a new nativity, and that it dates from December—that fatal Sixth. “Sad as was the day, it may be the greatest day in the city’s history.”

Almost instinctively since the disaster Halifax has come to see the sources of her weakness and of her strength. Her geographical position which once meant isolation<sup>1</sup> will henceforth be her best asset. Just as the geographical expansion of Europe made the outposts of the Old World the entrepôts of the New, so the expansion of Canada and of Nova Scotia—the province with the greatest number of natural resources of any in the Dominion—to the newly awakening city appears full of substantial promise. It will be largely hers to handle the water-borne commerce of a great country. Henceforth the ocean will become a link and not a limit. World-over connections are the certainties of the future, bound up inevitably with the economic and social solidarity of nations. Closer to South America than the United States, closer to South Africa than England, closer to Liverpool than New York, Halifax sees and accepts her destiny, forgets the inconvenience and loss she has undergone and the many annoyances of blasting and of digging, that the facilities of her “triple haven” might be multiplied and the march of progress begin. “The new terminals with their impressive passenger station, will not only be an attractive front door for Halifax, but will fit her to be one of the great portals of the Dominion.”

There has come upon the city a strange impatience of unbuilt spaces and untaxed areas sacred for decades to military barracks and parades. She has urged for some

<sup>1</sup> Halifax long felt herself to have been commercially a martyr to Confederation.

immediate solution, with the result that military property will be concentrated and many acres released to the city for its own disposal.

Whether the pendulum will swing so far as to imperil the retention of old historic buildings, time-stained walls, and century-old church-yards is not yet apparent; although suggestions have been made which would have astounded the Halifax of a generation ago. Certain it is that a period of orientation is at hand. There is a stirring in the wards and clubs for progressive administration and modern policies. "Here as elsewhere the time has now come for clear thinking and the rearrangement of traditional thought."

Indications of change are already abundant. The first to note is that of appearance. For illustration may be quoted an editorial published near the second anniversary of the explosion:

Halifax has been improving in appearance since the explosion, exhibiting very sudden changes at particular points. One almost forgets what the city was like about ten years ago. Still there is a great deal to be done in the way of improvement to our streets. The move in the direction of permanent streets is an excellent one and if carried out as designed will be an improvement and saving to the city.

The report of the Secretary of the Board of Trade makes the following reference to the change in appearance of the city:

One of the pleasing features in reference to both the wholesale and retail business of Halifax is the improved condition of premises over a few years ago; retail stores are now having up-to-date and attractive fronts, while wholesalers are improving their show-rooms and thereby increasing their sales.

The Mayor writes regarding the sidewalk improvement:

Some twenty miles of concrete sidewalks to be constructed



are on the order paper to be taken in turn so as to be as uniform as possible. This will go a long way toward improving the appearance of the city.

As to the change in the style of houses the Mayor states:

A pleasing feature of the new construction is the departure from the former square box style of dwelling, also the method of placing rows of houses exactly in the same style. Today homelike houses of modern design, set back from the street with lawns in front are the order of the day—bungalows are particularly in favor.

Fine new residences are being built, apartment ideas are spreading, new lights are being tried out, a new tram company has taken hold. Indeed one citizen is credited with the words: "It is almost a sacrilege that Halifax should be so changed."

The consciousness of change is seen in an altered public opinion and the beginnings of a new civic outlook. Evidence of the new note is a statement by one of the progressive Halifax firms:

Halifax is going to make good. Outside firms are taking up valuable sites in our business districts. The banks are increasing their activities. Some of the biggest industries are coming our way. Surely everything points toward prosperity.

Another feature indicative of the changing consciousness, which has infected a much wider region than Halifax itself is the plan now making rapid progress for an Old Home Summer, to be held from June to October, 1924. The project has already received legislative recognition. An effort will be made to recall former residents on a scale such as has never been attempted before. The committee in charge is made up of many prominent citizens and the "1924 Club" grows. One may observe still another indica-

tion of the determination to progress in the recent completion of a system linking-up Halifax by telephone with Montreal, Toronto, New York and Chicago.

Indices of business conditions are far from satisfactory, yet the items used in their computations are the only ones upon which variations may be even roughly gauged. Roger Babson puts as the leading considerations: (1) Building and real estate; (2) bank clearings; (3) business failures. Other symptomatic facts are postal revenues, tramway receipts, exports, taxes, interest rates, insurance, wages and hours, commodity prices, unfilled orders, immigration and unemployment.<sup>1</sup>

With regard to the first the following statement issued by the Mayor is significant. He says:

The year 1919 has been one of exceptional prosperity in the City of Halifax. It has been a record year for building. Permits to the approximate value of \$5,000,000 have been issued to the engineer's office, the largest amount by far in its history, the amount being practically ten times that of 1913, or the year before the Great War commenced. A part of this only can be attributed to the terrible explosion of 1917.

He refers to the great amount of construction going on in the western and northwestern parts of the city which were relatively untouched by the disaster. The Mayor further states:

It must be remembered that it is only two years since the devastation caused by the explosion and strangers in the city have considered it wonderful that we are so far advanced in building up that portion which only a year ago had not a house upon it.

The following tabulation gives the building figures according to the permits issued at the City Hall. It shows a remarkable recent increase.

<sup>1</sup> Chaddock, Robert E., Unpublished Material.

## BUILDING PERMITS

1910 .....	\$471,140
1911 .....	508,836
1912 .....	589,775
1913 .....	839,635
1914 .....	874,320
1915 .....	1,066,938
1916 .....	1,177,509
1917 .....	844,079
1918 .....	2,955,406
1919 .....	5,194,806

With regard to real estate the Mayor writes in December 1919

The increase in the selling values of properties is remarkable. Business property has taken a jump in value, and it is difficult to get for business purposes property well situated unless at very high prices. Property has been known to change hands within a year at approximately double the amount originally paid.

The Secretary of the Board of Trade reports:

Real estate has been active, and prices have been obtained greatly in excess of what properties were valued at in pre-war days.

In the matter of bank clearings<sup>1</sup> the following table indicates a very considerable change:

## BANK CLEARINGS

1910 .....	\$95,855,319
1911 .....	87,994,043
1912 .....	100,466,672
1913 .....	105,347,626
1914 .....	100,280,107
1915 .....	104,414,598
1916 .....	125,997,881
1917 .....	151,182,752
1918 .....	216,084,415
1919 .....	241,200,194

<sup>1</sup> The reader will of course remember the general inflation of currency.

As to business failures the Secretary says:

Business failures have been few—practically the whole amount of the liabilities will be made up of one failure, and it is believed the loss to creditors in this particular case will be slight.

#### ADDITIONAL INDICES

	<i>Gross Postal Revenue</i>	<i>Tramway Receipts (gross)</i>
1910 .....	\$114,318	\$477,109
1911 .....	119,561	502,399
1912 .....	132,097	539,853
1913 .....	140,102	605,933
1914 .....	147,943	645,341
1915 .....	154,499	718,840
1916 .....	167,594	559,513
1917 .....	255,815	859,667
1918 .....	305,412	998,702
1919 .....	349,507	1,258,503

Among other assurances of the new prosperity and the beginnings of fresh faith in the city's future is the coming of new large business interests into the city. Among the largest construction work is the building of the Halifax shipyards upon the explosion ground, involving an outlay of ten millions of dollars. There is the ever-extending plant of the Imperial Oil Company, which will eventually make of Halifax a great oil-distribution port. There is the continuation of the thirty-million-dollar scheme of modern terminal facilities, which have been constructed so close to the ocean that a ship may be out of sight of land within an hour after casting off from the quay.

In short there has been, as has been said, an "impetus given to business generally." That the impetus will continue there is every prospect. Halifax may experience a temporary wave of depression when such waves are flowing elsewhere. But today there are fewer doubters and more believers. The day of new elevators, new hotels, harbor-

bridges and electric trains is not very far away. The prophecy of Samuel Cunard made in 1840—when he inaugurated the first Trans-Atlantic line—that “Halifax would be the entering port of Canada”—seems destined to fulfilment.

As regards population after disasters Hoffman writes:

Even an earthquake such as affected the city of San Francisco may not materially change the existing numbers of the population after a sufficient period of time has elapsed for a reassembling of the former units, and a return to the normal conditions of life and growth.<sup>1</sup>

Yet as before remarked, the catastrophe at Halifax eclipsed all preceding disasters to single communities on the Continent of America in the toll of human life.<sup>2</sup> In the San Francisco earthquake the loss was four hundred and ninety-eight; at the Chicago fire three hundred; at the Iroquois theatre fire in the same city, five hundred and seventy-five; at the Chester explosion one hundred and twelve; at the Johnstown flood two thousand. It is now estimated that the disaster at Halifax probably passed this latter figure, decreasing the city's population by four per cent. Notwithstanding this heavy draught upon the population, the 1918 volume of the Halifax Directory contained six hundred and fifty more names than the previous year.

In the light of this consideration the following indication of the growth of population is also of contributory interest.<sup>3</sup>

<sup>1</sup> Hoffman, Frederick L., *Insurance, Science and Economics* (N. Y., 1911), ch. ix, p. 337.

<sup>2</sup> In the Texas flood of 1900 there were lost 5,000 lives, but they cannot be said to have been all associated with a single community.

<sup>3</sup> Figures kindly supplied by Mr. John H. Barnstead, Registrar, Halifax.

TABLE

1911 .....	46,619
1912 .....	46,619
1913 .....	47,109
1914 .....	47,109
1915 .....	47,473
1916 .....	50,000
1917 .....	50,000
1918 .....	50,000
1919 .....	55,000
1920 .....	65,000 <sup>1</sup>

An index of the growth of practical civic interest upon the part of citizens is revealed by the comparison of the numbers participating in political action by means of the vote. Recent figures for Halifax are:

Year	Purpose	POLITICAL ACTION			
		Eligible voters	No. voting	Percentage of Indifference	Percentage of Interest
1918 .....	For Mayor	7,632	2,769	63.8	36.2
1919 .....	" "	8,890	4,264	52.1	47.9
1920 .....	" "	11,435	5,491	51.99	48.01

Instead of the disaster resulting in disheartenment and a gradually diminishing civic interest, the percentage of indifference is smaller and the percentage of interest is larger for 1920 than for 1919, and the percentage of interest for 1919 is larger than that for the previous year. The number of eligible voters also shows increase. "The campaign [for 1920] has marked a new era . . . and will make it easier to institute new reforms."<sup>2</sup>

Of further sociological interest is the change affecting city-planning, civic improvement, housing, health, education and recreation.

<sup>1</sup> The Directory of 1920 estimates the present population to be 85,000.

<sup>2</sup> Halifax *Morning Chronicle*, April 29, 1920.

In the realm of city-planning<sup>1</sup> and civic improvement, Halifax is awaking to the importance of taking advantage of an opportunity which comes to a city but seldom save through the avenue of disaster. The present Town-planning Board was formed as a result of the Town-planning Act of 1915. A board of four members, including the city engineer constitute the committee. The limits of the area to be brought under the scheme were still undecided when the explosion came. The disaster "hastened the resolution" of the Board. "When the disaster came it seemed that things would have to come to a head." Mr. Thomas Adams, the Dominion Housing and Town-planning Advisor, was brought to Halifax to help determine what should be done. "The disaster simply had the effect of bringing to a point certain things which were pending at the time. If that event had not occurred we would by this time be into a scheme, though possibly not so far as we are." Today the limits of the area have been defined and the scheme is nearly ready for presentation to the Council for adoption. The Dominion Town-planning Advisor's assistant reports that real progress has been made in the Halifax plan dealing with the proposed zoning of the city into factory, shopping and residential districts, the provision for future streets, street-widening and building lines, and suggestions for park and aerodrome sites. In the devastated area he has remarked progress in street-opening, in grading of the slope and in architectural treatment of the houses. Five hundred

<sup>1</sup> The earliest city-planning was mediaeval. Halifax was laid out by military engineers with narrow streets—the "ideal was a fortified enclosure designed to accommodate the maximum number of inhabitants with the minimum of space." In 1813 a town-planning scheme was set on foot for the purpose of straightening streets, the removal of projections and banks of earth and stones which at that time existed in the center of streets. Considerable betterment resulted but unfortunately many fine trees were cut down.

trees and three hundred shrubs have been ordered to be planted in this area. The whole area is under the control of the Relief Commission, for the Act appointing the Commission gave it the powers of a Town-planning Board.

The disaster may thus be said not only to have hastened the resolution of the existing committee, but to have produced two planning-boards instead of one. Each must keep in mind the true ideal. For it is not the "City Beautiful" idea, but that of utility that is fundamental to city-planning. It is a principle to reduce to the minimum the social problems of community life, to accomplish Aristotle's ideal—"the welfare and happiness of everyone." In so doing civic beauty will not be neglected. "Scientific, sensible and sane city-planning" says an authority "with utility and public convenience as its primary consideration produces beauty—the beauty that is the result of adapting successfully a thing to its purpose." It is in accordance with this principle of civic art that the terminal area is being developed—a work designed by the same architect who planned the Chateau Laurier and the Ottawa Plaza with such aesthetic taste.

To "deep cuttings, spanned by fine bridges, and bordered with trees and pleasant driveways, after the manner of Paris," and to a "waterfront as stately as Genoa's, a terminal station with a noble facade, overlooking a square and space of flowers,"<sup>1</sup> the future will also bring to Halifax

more street-paving, sidewalks, parks, fountains, hedges, driveways, cluster-lighting, statuary, buildings of majesty, spaciousness and beauty. Wires will be buried, unsightly poles will disappear. . . . With time will come all these things which stamp a city as modern, as caring for the comfort of its

<sup>1</sup> MacMechan, Archibald, "Changing Halifax," *Canadian Magazine*, vol. xli, no. 4, pp. 328, 329.



people, their pleasure and rest, and health and safety. All these things come with time, effort, development of city pride, and the concentrated desire of a people for them.<sup>1</sup>

The question of housing is recognized as an old Halifax problem. It was already an acute one when the blow of the catastrophe fell and multiplied the difficulty a thousand-fold. The Relief Commission has grappled with its end of the problem, namely, the housing of the many refugees who were first accommodated in lodgings and in temporary shelters.<sup>2</sup> The old sombre frame-constructed buildings of the pre-disaster days are being replaced with attractive hydrostone. A hard-working wage-earning community is stepping out of indifferent structures into homes both comfortable and well-ordained.

But the old problem would have still remained unsolved, had not the city authorities caught something of the reconstruction spirit and felt the sharp urge of increasing difficulties. Action has been at last precipitated. However, lacking in comprehensiveness the first attempts, the city has bestirred itself and has come to realize adequate housing to be a supreme need of the community and vitally associated with the city's health and welfare. A Housing Committee of five members has been formed, having as chairman a man of widely recognized building experience and as director of housing, a capable citizen. It is intended to make full use of the federal housing scheme, in a practical way, the City Council having reversed its former decisions and accepted by by-law the obligation which the government act requires. It is hoped in this way to promote the erection of modern dwellings and to "contribute to the general health and well-being of the community."

<sup>1</sup> Crowell, H. C., *The Busy East*, vol. x, no. 7, p. 12.

<sup>2</sup> A model housing development of 346 houses in the new north end has followed the disaster: "It is reasonable to assume," writes an

Thus the principle of promotive legislation and government aid, which when finally accepted in 1890, began the remarkable housing reform in England, has entered the City of Halifax, and will eventually write a record of increased health, comfort and contentment. How soon that record is written will largely depend upon the citizens themselves and their response to a leadership that is forceful as well as wise.

The matter of health organization in Halifax affords perhaps the most significant contrast with the pre-disaster days. Prior to the catastrophe public health organization was not a matter for civic pride. The dispensary,<sup>1</sup> which is often regarded as the index of a city's care for health, had received scant support and could only perform indifferent service. Adequate sanitary inspection could not be carried out for want of inspectors. The death rate<sup>2</sup> had averaged about twenty percent for a period of ten years, and the infant and tuberculosis mortality had been tremendously high—the former reaching the figure of one hundred and eighty-two.<sup>3</sup> There was no spur to progressive administration. The city was too ill-equipped to cope with such conditions.

Today Halifax has the finest public health program and most complete public health organization in the Dominion. The fact that this is so is in very close relation to the catastrophe inasmuch as an unexpended balance of relief moneys<sup>4</sup> has been redirected by request for health purposes

observer, "that the standard of living will ascend. Already the influence of these new houses is showing itself in the homes that are springing up all over the city."

<sup>1</sup> London's is 14.6, New York's 13.6.

<sup>2</sup> New York's is 90, New Zealand's 60.

<sup>3</sup> These funds are from the munificent gift of Massachusetts. A Massachusetts-Halifax Health Commission has been formed—Dr. B. Franklin Royer is the executive officer.

in Halifax. A five-year policy has been inaugurated. Fifty thousand dollars per year of the relief money, fifteen thousand dollars per year of the Canadian government money and five thousand dollars per year each, of the city and provincial money are to be expended in the five-year campaign. The sum totals seventy-five thousand dollars per year, or practically one dollar per capita.

A completely equipped health centre has been established including all the essential remedial and educational agencies, namely, pre-natal, pre-school-age, school-age, tuberculosis, venereal disease, eye, ear, nose and throat clinics. There will also be provision for the growth of health ideas through mother's classes, first-aid, and sanitary leagues. A public health course for nurses is included in the educational campaign.<sup>1</sup> A most successful baby-saving exhibit has been held, and the plan calls for a full-time tuberculosis specialist.

Upon the part of the civic authorities there has been a greater realization of responsibility. Progressive steps have been already taken including the appointment of a Doctor of Public Health, and the provision of district sanitary inspectors. Restaurants and all places where food is exposed for sale are being systematically inspected with a view of effecting improvements. A single instance of commendable activity along sanitary lines is the prohibition of movable lunch cars, which have been seen on the streets of Halifax for years. The removal of a lot of dwellings unfit for occupation is receiving the attention of the officials. In fact it is the intention of the present Council to improve conditions throughout the city generally as quickly as is feasible to do so. Another illustration of the direction of attention to modern social methods is, the present discussion of plans for a psychiatric clinic for mental hygiene and the discovery of defectives, especially those

<sup>1</sup> Dalhousie University has recently graduated the first class of nurses in Canada to receive the Diploma of Public Health.

attending the schools. Still another indication of interest in child welfare is the fact that a clinic for babies was established in a central locality and a nurse for babies regularly employed. The hitherto meager hospital facilities are being amplified by the building of a maternity hospital and the enlargement of the children's hospital,—a centralization plan of hospital service being a unique and distinctive feature. In the way of industrial hygiene a full-time nurse is employed in the ship-building plant and here also safety policies have been introduced and have reduced accidents to a minimum. The movement for the control of preventable disease is gaining impetus and a modern tuberculosis hospital is being established. The Victoria General Hospital is being enlarged and extended, the additions having an estimated cost of half a million dollars.

But it is not alone the activities of the Health Commission but also the earlier vigorous policy of disaster medical relief, which is seen reflected in the growing sense of community-responsibility for health conditions. Halifax has come to see the principle fundamental to all health reform, that public health is a purchasable commodity and that improvement in vital statistics is in close correlation with the progress of health organization. It remains to be seen whether so favored a community will also lead the way in the registration and periodic health examination of every individual citizen which is the final goal of all policies of health reform.

The standards of education have always been high in Halifax. She has been the educational center of the Maritime Provinces. Her academic attainments have brought to her much distinction and not a little glory. Her public schools boast many a fine record to furnish inspiration to each successive generation. To secure appointment to the Halifax teaching staff the applicant must possess the

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highest qualifications. But however much educational leaders may desire them, modern methods and up-to-date equipment await in large measure the public will. Only where there is a will is there a way. That the public will in Halifax is becoming awakened to the vital rôle her educators play is being proven by the response to the campaign for the expansion of Dalhousie University. That response has been most generous and general, while local contributions have been amplified by large benefactions from the Carnegie Corporation and the Rockefeller Foundation. Of the latter benefactions together amounting to one million dollars—four hundred thousand will be expended upon buildings and equipment. The modernizing process is shown again in the decision of the university to establish at once a Faculty of Commerce and to encourage the teaching of Spanish and Portuguese in the educational institutions of the city.

In the old teaching methods all are given the same course of instruction regardless of the individual mental differences. Today the effort is to provide an education to fit the mind rather than to force the mind to fit the education. In the public schools of Halifax there are not lacking indications which herald the coming of the newer pedagogy. Among these may be mentioned the opening of sub-normal classes for retarded children, experimentation with the social-recitation system, the display of Safety-First League posters and the development of those departments already established, *viz.* vocational and domestic training, manual and physical education, medical inspection, supervised playgrounds, school nurses, dental clinics, and the wider use of school plants in evening technical classes.

Halifax will sooner or later decide to employ to the fullest degree all the opportunities which child-training affords. The school system is an institution of society to mediate between a child and his environment. Children

must learn to do and to be as well as to know. Their plastic minds must receive practice in resistance to domination by feeling and in the use of the intellect as the servant and guide of life. To the children of Halifax is due eventually a thorough training in citizenship. This is the last call of the new future in education. It rests upon the twin pillars of educational psychology and educational sociology.

Recreation is still another sphere of civic life wherein the City of Halifax has taken a forward step. In making her plans for the future she has not forgotten that the rebuilt city should contain every facility for children to grow up with strong bodies and sane minds; as well as public provision for the leisure time of the adult population. A Recreation Commission has been formed made up of representatives of the various civic bodies and from the civic and provincial governments.<sup>1</sup> A playground expert was called in by the city government, who after study of the situation and conference with local groups, recommended a system of recreation as part of the general city plan. Already marked progress has resulted; indeed it has been said that the "municipal recreation system of Halifax has made a record for itself." A hill of about fifteen acres in the heart of the devastated area has been reserved for a park and playground. The city has built and turned over to the Commission a temporary bath-house, and has set aside the sum of ten thousand dollars for a permanent structure. The plans contain recommendations for minimum play-space for every school child, a central public recreation area, an open-air hillside stadium, as well as a community center with audi-

<sup>1</sup> It should be stated that the supervised playground movement had been developing in Halifax for a period of fourteen years, first under the Women's Council, afterwards under a regularly incorporated association with which the Women's Council merged.



torium, community theatre, natatorium, gymnasium, and public baths. The real significance of this movement Halifax has not, herself, as yet fully realized. Just as there is a close relationship between health organization and mortality tables, so there is a close association between open spaces, street play, *etc.*, and juvenile, as well as other forms of delinquency.<sup>1</sup> The moral value of organized recreation was itself demonstrated in the war, while the increasing menace of industrial fatigue, as well as the fact of the shorter working-day, call for public recreational facilities as a social policy. This policy is not however fully carried out with merely constructive and promotive action. It must be followed by restrictive and regulatory control of commercialized recreation, and wise and adequate systems of inspection for amusement in all its forms. This is the path of progress in socialized recreation.

Progress in coöperation has also to be noticed. There has been a new sense of unity in dealing with common problems. The number of things which perforce had to be done together during the catastrophe was great. This doing of things together will be continued. The establishment of the Halifax Coöperative Society is initial evidence of a movement towards coöperative buying. Coöperation for community ends even now is revealing itself in the new interest for the common control of recreation, health conditions, *etc.* "The disaster," runs an article in the press, "has given our social movement an impetus. The social

<sup>1</sup> In view of the explosion and the resulting housing conditions, an increase in juvenile delinquency might have been expected, but the "playgrounds which were established immediately after the disaster, and which adjoined both of the large temporary housing projects, are, it is felt, responsible for the excellent conditions which exist. The records of the Superintendent of Neglected and Delinquent Children show that there was an actual decrease in the number of juvenile arrests in 1918 over 1917."—(Leland, Arthur, "Recreation as a Part of the City Plan for Halifax, N. S., Canada," *Playground*, vol. xiii, no. 10, p. 493.)

workers of the different creeds and classes have discovered each other and are getting together." <sup>1</sup> The organization of social service which only a few years back took a beginning in the form of an unpretentious bureau has shot ahead with amazing rapidity and now exercises an influence of coördination upon the churches, charities and philanthropic societies of the city.

The unifying process is well illustrated by the increased coöperation upon the part of the churches. Following the disaster the churches of the city united into a single organization for relief service under the chairmanship of the Archbishop of Nova Scotia. Since then a Ministerial Association has been formed which has directed coöperative effort along various lines and has exercised pressure upon those in authority where the best interests of the city were involved.

Thus the City of Halifax has been galvanized into life through the testing experience of a great catastrophe. She has undergone a civic transformation, such as could hardly otherwise have happened in fifty years. She has caught the spirit of the social age. This spirit after all means only that the community is just a family on a larger scale, and the interests of each member are interwoven with those of all. But merely to catch the spirit will not suffice. It must be cherished through an inevitable period of reaction and passivity, and then carried on still further into the relations of capital and labor, into the realm of socialized recreation and into those multiform spheres of social insurance whither all true social policies lead.

All these converging lines taken not singly but together constitute a very real basis of faith in the city's future, and of hope for permanent changes for the better. Perhaps this attitude cannot be more fittingly expressed than in the words of Carstens:

<sup>1</sup> *Halifax Evening Mail*, March 22, 1918.

The Halifax disaster will leave a permanent mark upon the city for at least a generation, because so many of the living have been blinded or maimed for life. But it is possible that the disaster may leave a mark of another sort, for it is confidently believed by those who took part in the relief work during the first few weeks that Halifax will gain as well as lose. The sturdy qualities of its citizens will bring 'beauty out of ashes.'

But it is rather for social than for material progress that the sociologist will seek and Carstens continues:

It may reasonably be expected that through this Calvary, there may be developed a program for the care, training and education of the sightless as good if not better than any now existing, 'that medical social service will be permanently grafted upon the hospital and out-patient service of the community, and that the staff of teachers of the stricken city, by direct contact with the intimate problems of the families of the children they have in their class-rooms may acquire a broader view of their work. If there should result no other benefits, and there are likely to be many, as for example city-planning, housing and health, the death and suffering at Halifax will not have been in vain, will not have been all loss.'<sup>1</sup>

<sup>1</sup> Carstens, C. C., "From the Ashes of Halifax," *Survey*, vol. xxxix, no. 13, p. 61.

## CHAPTER IX

### CONCLUSION

Recapitulation—The various steps in the study presented in propositional form—The rôle of catastrophe direct and indirect. (a) Directly prepares the ground-work for change by: (1) weakening social immobility; (2) producing fluidity of custom; (3) enhancing environal favorability for change—(b) Indirectly sets in motion factors determining the nature of the change such as: (1) the release of spirit and morale; (2) the play of imitation; (3) the stimulus of leaders and lookers-on; (4) the socialization of institutions.

If the preceding narrative has been successful in setting forth the facts as they were observed, the reader has now before him a fairly accurate picture of a community as it reacts under the stimulus of catastrophe and proceeds to adjust itself to the circumstantial pressure of new conditions. It will be well, however, for the sake of clearness in emphasizing our closing propositions to recapitulate one by one the various steps in our study. These steps while primarily intended to follow the natural order in point of time will also be seen to represent a definite sociological process of development.

At first the shock of the catastrophe was seen to have been sufficiently terrific to affect every inhabitant of the city. This fact gives peculiar value to the investigation. The more a shock is limited in extent the more its analysis grows in complexity. In such cases consideration must necessarily be given to the frontiers of influence. The chapter describing the shock also found the immediate reaction to have been a fairly general disintegration of social institutions, and of the usual methods of social control—in short, a dissolution

of the customary. This turmoil into which society was thrown is sometimes called "fluidity," and, for lack of a better one, this term has been retained. It would thus appear that if it were later observed that essential social changes ensued, fluidity was one of the requisites of change; and this is indeed in perfect tally with previous thought upon the subject as set forth in our more theoretical introduction and expressed in the proposition that fluidity is fundamental to social change.

The more general and preliminary treatment over, individual and group reactions were then examined in greater detail, and the phenomena of the major sort were singled out and classified. These were found to be either abnormal and handicapping such as emotional parturition; or stimulative and promotive, as dynamogenic reaction. This constituted the material of the second chapter. Put in propositional form it would be that catastrophe is attended by phenomena of social psychology which may either retard or promote social reorganization.

Social organization came next in order, and because its progress was largely expedited by the organization of relief,—the first social activity,—the sociological factors observed in the latter have been recorded. These factors were classified as physical, including climate and topography, and psychological, such as leadership, suggestion, imitation, discussion, recognition of utility and consciousness of kind. Reference was also made to biological and equipmental considerations. Two conclusions of interest are here deducible: first, that part of society which is most closely organized and disciplined in normality first recovers social consciousness in catastrophe; second, it is only after division of function delegates to a special group the responsibility for relief work that public thought is directed to the resumption of a normal society. These conclusions

emphasize the conservation value to society of a militia organization in every community and also of a permanent vigilance committee.

The fifth chapter introduced a relatively new element, the presence of which may be relied upon in all future emergencies, that of a disaster social service. Its contribution was that of skillful service and wise direction; its permanent effect, the socialization of the community. The value of the presence of visiting social specialists is in inverse proportion to the degree to which the socialization of a community has advanced. The practical conclusion is clearly that self-dependence of a community in adversity is furthered by the socialization of the existing institutions.

The next and latest group to function effectively was that of government, but social legislation when forth-coming, contributed an important and deciding influence, and was itself in turn enriched by the calamity. Brought to the test of comparison with observed facts the statement in the introduction receives abundant justification; namely, that catastrophe is in close association with progress in social legislation.

To the influences already mentioned an additional factor of recuperation is added,—the socio-economic one. Disaster-stricken communities cannot become normal until the social surplus is restored. They may however always count upon public aid. But there is found to be strongly suggested a correlation between the magnitude or striking character of a disaster and the generosity of the relief response.

The last chapter is devoted to a cataloging of the indications of social change from the standpoint of the community as a whole. The old social order is contrasted with that obtaining two years subsequent to the disaster. It here appeared that the city of Halifax had as a community undergone and is undergoing an extraordinary social change.

This implies, according to the theory of social causation, an extraordinary antecedent. Before finally accepting the factor of catastrophe as such, the scientific reader may very properly ask whether there are not alternatives.

To this query the answer is that there are alternatives, other very considerable extra-social factors to be noted, but that catastrophe was itself the precipitating factor there is little room for doubt. Of the other factors two only are of sufficient weight for our present consideration. The earliest in order of time, and perhaps also in rank of importance is that which Halifax residents understand as the coming of the new ocean terminals. The coming was so sudden in the nature of its announcement, and meant for many so much depreciation in property values, that it had something of the nature of catastrophe within it. It altered very extensively the previously accepted ideas of residential and business and industrial sections of the city, and caused a jolt in the body politic, such as had not visited it for years—not since the middle of the nineteenth century brought the revolutionizing steam. It is not to be denied that this factor has contributed not a little to the weakening of immobility, and the preparation of the ground for an inrush of the spirit of progress.

The other factor was the war. The war functioned mightily in community organization for service. It brought prosperity to many a door, and whetted the appetite of many a merchant to put the business of peace on a war basis. But it would be merely speculation to say that prosperity would have continued in peace. Indeed such a conclusion would not be historically justifiable. Halifax has been through three important wars. In each, "trade was active, prices were high, the population increased, industry was stimulated by the demand, rents doubled and trebled, streets were uncommonly busy." But in each case also Halifax settled

back to her ante-bellum sluggishness. In 1816 Halifax began to feel the reaction consequent upon the close of a war. The large navy and army were withdrawn and Halifax and its inhabitants "bore the appearance of a town at the close of a fair. The sudden change from universal hustle and business to ordinary pursuits made this alteration at times very perceptible. Money gradually disappeared and the failure of several mercantile establishments added to the general distress." But the closing of the war, now a hundred years later, has exhibited no such relapse. On the other hand Halifax grows daily more prosperous and progressive than before. Her bank clearings do not fail, but rather increase. There is clearly some further influence associated with this change.

But there is a very real sense in which the war may indeed be said to have been the factor,—if we mean by it the fact that through the war and as a direct result of war-service the city was laid half in ruins by possibly the greatest single catastrophe on the American Continent. If we mean this, we have named the all-precipitating and determining event. The catastrophe was an episode of the great war.

It only remains to add by way of clearer definition that the rôle of catastrophe appears to be both direct and indirect. Functioning directly, it prepares the groundwork for social change by (1) weakening social immobility; (2) precipitating fluidity of custom; (3) forcing environal favorability for change. Indirectly, it sets in motion factors determining the nature of the social change, such as (1) the release of spirit and morale; (2) the play of imitation; (3) the stimulus of leaders and lookers-on; (4) the socialization of institutions.

Our final principle<sup>2</sup> thus appears to be that progress in

<sup>2</sup> The two additional propositions suggested in the the Introduction.



catastrophe is a resultant of specific conditioning factors some of which are subject to social control. If there is one thing more than another which we would emphasize in conclusion it is this final principle. Progress is not necessarily a natural or assured result of change. It comes only as a result of effort that is wisely expended and sacrifice which is sacrifice in truth.

That the nature of the social change in Halifax is one in the direction of progress we think to be based on reason and not alone on hope. That it is also our fervent hope, we need hardly add. But every Haligonian who cherishes for his city the vision which this book contains, may help mightily to bring it to pass by making effort his watchword and intelligence his guide. We do not say it will all come tomorrow. We do say a wonderful beginning has been made since yesterday. And this is bright for the future. In no better words can we conclude than in those of one of her greatest lovers: "Changes must come to Halifax. This is a world of change. But every true Haligonian hopes that the changes will not disfigure his beloved city, but only heighten and enhance the intimate and haunting charms she borrows from the sea."<sup>1</sup>

namely, that the degree of fluidity seems to vary directly as the shock of the catastrophe, and that brusque revolution in the conditions of life accomplish not sudden, but gradual changes in society, require a study of comparative catastrophic phenomena for verification or rejection.

<sup>1</sup> MacMechan, *op. cit.*, p. 336.

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