Just now I am taking a year of rest and recreation. My trip is for no official purpose, and as you know I am not an official of our Government. So I shall not hesitate to make this the opportunity for an informal discussion of some matters of mutual interest to bankers.

I am told that you may wish just now to hear something of recent developments in American banking and finance. I am therefore proposing to strain your patience with some discussion of happenings at home which are suggested in fact by recent developments in Japan.

But I cannot refrain from a few words first upon another subject.

There is much about Japan that we in America who do not speak or read your language and who never or rarely visit your country find great difficulty in understanding. There is I believe equal difficulty in your understanding readily many things that are obscure in such a new and cosmopolitan country as ours. This is especially true of our respective systems of Government and social institutions. American writers on Japanese matters are sometimes,--too often I fear,--either blind worshippers of everything Japanese and avoid reference to much that we should know about, or are inclined to be hostile critics and go out of their way to overemphasize or condemn matters which require judicial and fair minded discussion between us. The same I

believe to be true here. This lack of understanding to which I refer need not and must not become misunderstanding. The former is ignorance and can be overcome. The latter is stupid folly and must be stamped out. I have no doubt that you suffer from the propagandist in Japan as we do in America and that fair and judicial treatment of these matters of ignorance is as much needed in Japan as in the U. S. The question is how to learn more of each other? May I suggest that we learn more of each other by seeing more of each other; by more associations in matters of common interest? It is a splendid thing to have such meetings as Mr. Vanderlip, Mr. Kingsley and their associates have just concluded. Such meetings lay the foundation for real associations because they develop the better understanding to which I have referred. I may incline to overemphasize the point, but it appears to me also that the association which you have just concluded with Mr. Lamont is the most important and the most advantageous economic development in Japanese affairs, possibly since the war with Russia.

Our business men and yours by such partnerships will develop common interests and purposes and mutual confidence and friendship will result. Let us hope that more will follow.

The world is just now staggering under the many burdens resulting from the war. It has entered upon the difficult and puzzling period of readjustment, when freedom of commerce and finance must be restored, and the protection afforded by arbitrary regulation, imposed upon us by military necessity, must be discontinued. And accompanying this readjustment we must encounter some losses and hardships which will arouse criticism of past policies and present conditions. It is to some of these policies that I shall refer.

Economic developments in the U.S. since the commencement of the war may be divided into three periods.

The first from the outbreak of the war to April 1917 when we declared war.

Second the war period.

Third the period since the Armistice.

In the first period we struggled to meet the enormous demands upon us for goods of all kinds. Our exports reached unprecedented figures, we imported over $1,000,000,000. of gold, paid off our current debts abroad, repurchased the foreign held American securities, our bankers and investors loaned over $2,000,000,000 abroad, we increased our farm and industrial production and capacity and with it all suffered considerable general increases of prices of goods and wages of labor. The net result, notwithstanding the increased

living cost, was a great addition to our wealth.

In the second period our Government entered the markets for war supplies upon a vast scale. The demands upon our production and transportation facilities far exceeded capacity, and a great variety of powers were shortly conferred upon the President and his ministers, to enable some control to be exercised over production, transportation, consumption and credit.

In the third period, at the same time that governmental control was gradually being relaxed, we suffered the reaction which was certain to follow a long period of self denial and restraint. A wave of speculation swept over the country with its inevitable accompaniment of wasteful extravagance and luxury. There was a short period, commencing late in 1918 and ending in the Spring of 1919 when reduced demands for goods from abroad, and the fear of it, coupled with cancellation of war contracts, brought about some feeling of uncertainty, some liquidation, and price reductions. We had some unemployment of labor. But the pause was short and price advances where hardly more than arrested when again they started upward.

In a very general way it may be stated that living costs have until recently reached about double what they were prior to 1914.

With this very inadequate review of what occurred you will appreciate that our problem was much the same as your own. In the first period mentioned, no regulation or control was possible save what little could be exercised by the Federal Reserve System, then itself in the period of organization.

Beginning with the second period, April 1917, it became necessary on the one hand to control and reduce to a minimum the civil consumption of materials and employment of labor, and on the other hand to greatly increase our production of goods for military use,--at the same time avoiding such exacting demands upon the public as would cause impairment of morale.

So far as it is now possible to briefly express a complete policy, it may be said that every effort was directed towards producing all that was needed for war use without needlessly bidding up prices,--to pay for all that was used for war by direct taxation without stifling production, and to borrow what funds were required in excess of tax receipts without disorganizing and inflating credit.

Many agencies were created and employed, none more important than the Federal Reserve System, to which in general was entrusted the task of raising war loans and controlling credit in cooperation with the Secretary of the Treasury. We had employed the 2½ years of the first period to develop and

perfect this new organization with a view to meeting increased demands upon us, should they arise. The dangers of expansion of bank deposits and currency, resulting from heavy bank subscriptions to war loans, and heavy loans to subscribers, were fully realized, and every effort was made to sell the long time bonds to the investing public. The great Liberty Loan organizations, which were adjuncts of the F.R. Banks covered every section of the country to the remotest hamlets. It is estimated that about 2,000,000 volunteer workers were enrolled in this vast army of bond sellers.--Every kind of publicity, every resource of propaganda and education was employed. The results were all that could be expected when it is recalled that the financial requirements of the Treasury finally rose to over $50,000,000 a day. The best example of this distribution was in New York City, where bonds were sold by instalment payments. In each of the last three loans about 800,000 people subscribed for $50 and $100 bonds, paying one and two dollars a week. But bank borrowing was inevitable if the loans were to be wholly successful, and the Reserve Banks were called upon to extend large lines of credit to the banks of the country for this purpose.

The same was true to a greater extent of the Treasury's short time loans. The heavy Government disbursements necessitated short note issues to anticipate the receipt of

taxes and of proceeds of long time bonds. The notes were sold through the Reserve Banks and first principally subscribed by the commercial banks and trust companies. It was in fixing the rates for such borrowings and corresponding rates of discount by Reserve Banks, that the general rate policy was determined. Rates were, in fact, steadily advanced until now the Treasury is borrowing at 5½% and the bank rates of the Reserve System stand generally at about 6%. This has been a progressive development, but much accelerated in recent months since Government disbursements and borrowings have declined and speculation has increased.

But we could not rely upon rates alone to control credit. The increasing pressure of higher rates has been supplemented by other measures inaugurated as early as the Summer of 1917. Even then it was apparent that steps must be taken to insure that adequate credit was available for the Stock Exchange Market, but on the other hand that too much credit should not be so employed. The successful floating of the Government's loans necessitated our maintaining a reliable market where securities could be sold, and at the same time stable and moderate rates for loans upon Stock Exchange collateral. The integrity of the collateral already held by the banks of the country had to be preserved.

For this purpose understandings were entered into with the New York Stock Exchange, and with the principal New York banks, by which the amounts of borrowings and lendings were reported daily. With this information in hand, the Committee which directed the work, of which I was chairman, was able to regulate the amount of credit employed on the Stock Exchange. Every day the amount to be loaned was determined, and the loans apportioned among about 65 banks. Borrowers who seemed to be borrowing too much, were dealt with by officers of the Stock Exchange. A loan account of many hundreds of millions was handled under this plan and rates were held fairly steady at about 6%.

In the late Summer of 1918, the expectation of an early ending of the war gave rise to a considerable speculation in stocks. Thereafter, and until about a year ago, the Committee exercised its influence to limit the loan account to a reasonable and necessary amount. It was successful in a large measure, but finally the pressure to remove restrictions became so great that our control of the borrower was discontinued about a year ago. Thereafter we relied upon two influences. One was the discrimination which banks generally now exercise in favor of bills which may be discounted at the Reserve Bank. The result has been the very high rates generally exacted for Stock Exchange loans. The other was our direct influence with the member banks, and

our ability to require reduction in their discounts if it appeared that the proceeds were used for speculative purposes. The daily reports made by our member banks have enabled us to determine how much was so employed, and to regulate to some extent the speculation movements. We cannot claim that our policy has been an ideal one or our program wholly successful. But it has accomplished much, due largely to the splendid cooperation of the public and of our bankers and business men.

But possibly our most important efforts to check expansion since the war ended have been exercised through our direct relations with the member banks which own our stock and maintain their reserve accounts with us. Here our work has been educational, designed to inform the bankers generally of the policy and wishes of the government and of the Reserve System. Meetings are held, usually at the office of the Reserve Bank, frequently at other convenient centers, when groups of bankers are frankly told of conditions, warned of dangers, advised as to policies to be pursued, and informed of the working of the new banking system. We also have a staff of men who visit our member banks, taking with them a record of transactions with those visited, and dealing more in detail and at greater length with these matters.

In general there is a strong desire to meet our wishes and cooperate with our policies. At times, however,

we may become suspicious that a certain bank may be discounting with us in excess of what is prudent, or without due consideration to general conditions, possibly for the purpose of financing or promoting some new venture. This is more likely to occur with smaller banks outside of New York City, than in the case of the large metropolitan banks. We do not hesitate to send for a responsible officer of such a bank, inquire into the reasons for the enlarged borrowing and require a reduction if found warranted.

You may ask how the influence of the bank can be employed in this way without arousing resentment. Frankly at times it does cause complaint. General respect for the necessities of war times has done much to make our influence effective. But behind this the purpose of the law creating the System is clear. The Reserve Banks to be sure are subject to strict supervision by a Government body, the Federal Reserve Board -- but they are owned by the member banks, and their affairs must be administered impartially, with due regard to the interests of all the members and of the country as a whole. We cannot relax our rules in favor of one bank, to the detriment of all the others. To insure that impartial administration would be possible, and that our information would enable us to judge of the soundness of the credits we granted, we are given broad powers by the Federal Reserve law. One of the most effective is the power to examine the books and affairs

of our member banks. This power is gradually being exercised to a wider extent as our organization grows and the need arises. Having the power to examine, we are also able to gather much valuable information both of general conditions, and the condition of specific banks, by calling for special reports. We also receive and hold copies of the regular reports of examination of member banks made by the National and State examiners.

It is expected that a further control of unjustified expansion of the bank loan account will be possible when the law is amended to permit us to make higher rates than our normal discount rate, for discounts granted to individual banks which seek more than a normal line of discount with us.

It is during periods of expansion that banking seems a simple and easy road to wealth. Then the seeds of later disaster are sown. With this in mind we have given much attention to improving credit methods. No bill will be accepted at the Reserve Bank unless we have on file a signed statement of the affairs of the borrowers; except the paper is of very small amount.

Our larger commercial banks have always been particular in securing such statements. We have now educated practically all of our banks to do so, have furnished them with forms and convinced them of the prudence of this course.

In consequence we have in our possession the most complete files of credit reports in the country; an invaluable asset when banking becomes less easy to conduct.

With our Treasury borrowings and disbursements on such a vast scale, there was danger that these transfers and payments, the shifting of credit from one section of the country to another would cause financial disturbances. This has all been conducted pursuant to a program laid out in advance at frequent conferences of the Governors of the Reserve Banks with the officials of the Treasury and the Federal Reserve Board. All of the Reserve Banks and their branches are connected by their own telegraph and partly their own telephone lines, with each other and with the Treasury in Washington. Collections, payments and transfers are largely made by telegraph, and settlements are effected by changes in the proportionate ownership in a large fund of gold deposited by the Reserve Banks in trust in the Treasury. These settlements are made daily by a brief telegram in code.

During all the period of the war and since, a great educational movement, organized under the direction of Mr. Vanderlip, has been operating to teach the people of the country to economize in the use of materials of all kinds and in the unnecessary employment of labor needed for the war effort. It is called the War Savings Organization and was somewhat patterned after the British plan. It has done much to promote economy and has produced about one

billion dollars from the sale of war savings stamps.

In what I have said, some but not by any means all of our efforts to insure the maintenance of sound economic conditions have been described. My statement is principally of the New York point of view and experience. The program was infinitely varied in different sections according to local needs, conditions and feelings. In some things we have not been wholly successful, some things we have omitted which might have been done,--but in general the sound financial condition of the country and of our banks is the reward of a sound Treasury policy, of the existence of the Reserve System, and of its efforts to promote sound banking.

I have referred to the criticism now arising, coincident with our entering the period of readjustment. It is not necessary to review the charges of our critics which are as familiar to you as they are to me. I can only express my own views with which you may not agree.

When war arises, a great part of the energy of the nation must be redirected from the pursuits of peace to conducting war and producing the materials destroyed by war. This may require the services of thirty percent, or more or less, of the working population and possibly a like percentage of the production of labor ordinarily consumed in times of peace. Our economic

system has not yet been so organized and perfected that this transformation can be effected promptly. Were it so, by some system of rationing consumption and mobilizing labor, the whole of the 30% might be saved from consumption, and the materials required for war be produced out of the saving without any gross increase in production. We would simply change the character of what we produce. The same would be true of the credit required to finance the production and movement of that percentage of goods. What was saved would be absorbed by Government taxes and loans and no expansion of credit would result. But this ideal is not humanly possible. Warring governments enter the markets to buy goods in competition with each other and with their own citizens. Prices advanced more rapidly than production increases. The banking and credit machinery of the world, which plays the part of bookkeeper, simply records the price advance on the books of accounts. Of all materials required for war, credit is the easiest to manufacture. One stroke of the pen on the books of a bank, one revolution of the printing press, and bank deposit or note currency is produced. The banking machine responds to the demands of higher prices and sometimes of Finance Ministers, almost it seems with a note of joy. This is because we cannot control consumption by direct methods of rationing.

But our critics say that it could be controlled by making new credit difficult and expensive to obtain. In

other words by advancing our rates of discount. My reply is, how far should they be advanced? Will 6% be effective in reducing consumption, or will it require 60%? Should we risk a catastrophe to security values, government credit and credit generally, by relying solely upon making credit dear so that labor and goods may be cheap? The penalty of high rates must be borne by the just and the unjust alike. Producers of shells and war ships would feel the pressure as severely as would producers of automobiles and whiskey. It would mean a complete Government control of all industry and commerce and transportation essential to war and a high percentage of mortality among those not enjoying such protection. In the absence of means to directly control consumption, particularly of unessential materials such as luxuries, it seems to me that a great variety of indirect methods of influencing as well as controlling both production and consumption must be employed. The interest rate is only one of many such means, it will not be effective alone, and relied upon alone would bring disaster. All indirect methods work imperfectly, slowly, and with a degree of injustice to different classes. The origin of the disease of high living cost lies in the wasteful and useless consumption of goods by the people. The remedy is to induce frugality, simple living, self denial,--to build up the morale of the civilian population to a high standard of patriotism,--and to visit

the wrath and condemnation of public opinion upon those who violate the code of war time behaviour.

Beyond this the various agencies of the Government can do much. But they cannot do it all, and we must be content and possibly gratified to realize, after bitter experience, that war causes suffering and economic loss which no system can avoid--that the supreme effort must now be directed to realizing the great ideal--that war can be prevented.

Gentlemen, it is a great honor and privilege to meet this distinguished company. You men of affairs in Japan, and we in America have before us a great future of progress, with great services to perform, and great responsibilities to assume. We must undertake them with mutual helpfulness in our minds, as one of the objects of our common effort. I shall take home with me happy memories of my visit and hold constantly my good wishes for your prosperity and happiness.

c. Notes on
Japan
July 1920

In Letterbook - 8/30/6

COPY OF NOTES
IN HANDWRITING OF BENJAMIN STRONG,
GOVERNOR OF THE FEDERAL RESERVE BANK OF NEW YORK,
MADE IN JAPAN IN THE SPRING OF 1920

(July ?, 19

(Copied August 3, 1962)

Japan makes claim that she has become a modern nation and submits her claim to the judgment of the world. This judgment will at present be based upon what we observe of the behavior of her official and military service in their contacts with Europeans abroad, as in China and Siberia. It will also be formed in a large degree from the impressions of casual travellers in Japan. It must not be overlooked that those critics who condemn the Japanese and their methods may have been misled, by having had no opportunity to observe the mass of the people in their home environment, while those who lavish praise upon them are too liable to have been misled by the impressive hospitality which is showered upon travellers in Japan of position and influence. The former are perhaps blind to the best in the country and its people,--the latter blinded, by deliberate propaganda, to much that is deplorable and saddening.

The following comments claim to be no more than observations and impressions gathered in a stay of three months. They are however the fruits of trips into many places merely visited by travellers, and of rather intimate association with all classes, from peasants, cooleys and priests to leading statesmen, bankers and business men. They are distinctly impressions rather than well settled convictions.

Japan is an open book to one who desires simply to learn what Japan has done and is doing. The Japanese, however, is a perplexing mystery to one who tries to fathom the mental processes and motives actuating him in his affairs. Nor can this distinction be escaped when the history of the nation is considered. Japan is the only great nation which has preserved a highly developed oriental civilization down to modern times, wholly untouched by the influence of western civilization -- and then in a period of fifty years has adopted western things as one would put on a suit of clothes. The clothes are western, but the man inside is a Japanese and an oriental. For hundreds of years his blood has been unmixed Japanese,--he has lived for many generations within the influences of a feudal and paternal political and social system. He has had no true religious instruction and worship and he has recently conducted, with great courage, the fight for subsistence in an overpopulated land. We can readily understand what the Japanese have accomplished but none of us can honestly claim to understand the man who has done it.

The greatest asset of the nation is its common people, whose characteristics will, in due time, determine the place Japan is to occupy in the world. One cannot meet them intimately without realizing their many admirable qualities. Long discipline has made them singularly obedient, they are respectful almost without fail to those whom they regard as their superiors, and even amonst

the poorest, show a quality of courtesy and good nature in their relations with each other, not to be found in Europe or America. One gains the impression that they are gentle and not quarrelsome; even in fact among the children,--where in three months no children fights or quarrels were observed. They are certainly superstitious, nor is that strange in a people who have practiced ancestor worship back to the remotest times. Possibly their superstitions are no more uncommon or extreme than those of the European peasant. Much has been said of a supposed strain of fatalism in Japanese character. Probably this is based upon stories heard during the Russo-Japanese war, and to the large number of suicides. Such occurrances may better be ascribed to their intense patriotism, their personal courage, to their sensitiveness and pride, and to the discouragements of struggles, against the poverty so long endured by the working people. The war has made a great change in the material welfare of all classes, but allowing for this recent exceptional period, it may be said that the great mass of the people are industrious, patient toilers. The work of the nation has for centuries been performed by man power with little aid by animals, and none from steam or electricity until recently. Few people have faced successfully such a contest with the forces of nature as have the agricultural, which is much the largest, class of the population. Volcanoes and earthquakes, tidal waves, floods and landslides, typhoons and destructive conflagrations are a constant

menace to lives, crops and buildings. Japan is a series of precipitous mountain ranges of unstable formation, subject to the constant action of frosts and heavy rains. Farms occupy all the valleys and many of the mountain slopes. The work of the population of whole districts is frequently destroyed by one outburst of nature. What school can be imagined, so well designed to cultivate industry, patience, fortitude and determination. Here may lie the explanation of some sides of Japanese character which have been recently disclosed to the world.

Patriotism and a strong national spirit are the natural products of feudalism and ancestor worship in a people of unmixed blood who have succeeded in excluding foreign influences, and who have highly developed social traditions and customs which have been practiced for many centuries by an insular people. The government of Japan, until fifty years ago, was no more nor less than an elaborate recognition of the authority exercised by the head of the family, of the tribe, or the clan,--then of the lord of the district, and finally of the Emperor. Three hundred years of peace under the Tokugawa shoguns solidified the national loyalty.

But there are other and less admirable sides to the Japanese character. One is struck by the almost complete absence of expressions of human sentiment in their poetry, art and social relations. Japanese poetry principally expresses observations upon natural phenomena, introspection and obscure references to one's

feelings, the beauties of nature, etc. Their art largely depicts the scenery, flora and fauna of the country; military figures and events; some allusion to the spirits of the dead; and representations of Buddha and his satellites. Little evidence appears, even among the people themselves, of the sentiments of gratitude, affection or of admiration. True worship, such as practiced by those of Christian faith, is not seen. Parents show a strong and tender affection for their children but the higher qualities of friendship, of self sacrifice, generosity, unselfishness and helpfulness to each other are deplorably absent. Young boys and girls have little contact with each other until marriage is arranged, and none of the influences of such relations, both strengthening and softening, are enjoyed by the young people. As might be expected, in an old race which has occupied an island home for thousands of years, the inventive qualities which characterize the pioneer races have disappeared, if they ever existed. Their adoption of western institutions has been a species of mimicry, wonderfully executed, but without originality, even in adaptation to local conditions. It may be said that they have taken their religion from India and China, their art from India, China and Korea, their alphabet from China, their architecture from China and Korea, their agriculture from China, their industry from Europe and America, their army from Germany, their navy from Great Britain, their education from America, England and Germany.

A more obscure but justified comment applying to the better educated classes is their inability to employ inductive reasoning. As an example, they know that their country is overpopulated and must increase its importation of foodstuffs. They know that they must increase exports of industrial products in order to do so. They realize that their surplus population must be industrialized and assembled in industrial centers. But they fail to reason out the long series of parallel social and political developments which must accompany this change. In consequence, they have shamefully neglected the creation of the necessary social institutions to safeguard the welfare of their new industrial population. They can reason from cause to effect, but cannot construct the corresponding collateral circumstances arising from a given development. It must be admitted that their social life has contained too little wholesome recreation such as is afforded by athletic and other clubs, it has been too largely prescribed by convention and in certain respects has had a tendency to develop immorality and its accompanying evils, both mental and physical.

Since Japan achieved her outstanding position in the East we have become accustomed to the idea that a problem has arisen for the world to deal with,--and that the problem lay almost entirely in Japan's future political relations with the Continent of Asia. This is indeed the problem for us, but for the Japanese probably a less vital one in the long run than to the problem of how the

57,000,000 people on an island archipelego are to be governed and directed. They are a docile and loyal people, but a determined and courageous people. They have long been accustomed to government from the top down, and are not yet capable of understanding or assuming the responsibilities of government from the bottom up--that is, of democracy. So it remains to be seen what shall be made of the nation's greatest asset by those who direct the destinies of the people. Herein lies Japan's greatest danger, as will be observed by considering some of the results of fifty years of an adopted civilization drawn from Europe and America.

Japan's determination to open intercourse with the world and to introduce western civilization was undertaken with a vigor and thoroughness never equalled in any similar enterprise. Men were sent abroad for education, technical experience was drawn from Europe and America, schools were established in Japan, studies were made of political, economic, military and educational institutions wherever results abroad indicated that useful knowledge could be acquired. Literally a miracle was performed by this determined and intelligent people. An army was created and trained upon German methods by German officers, with compulsory service, a navy patterned after the best experience of Great Britain,--soon railroads and trains, steamship lines and ship yards, banks, factories and trading houses sprang into existence. Branches of Japanese banking and trading establishments appeared in Asia, Europe

and America, and Japan's flag soon became a familiar sight in many ports of the Seven Seas. Arsenals and navy yards were built, and the disabilities of lack of technical training were largely overcome by drawing men from abroad as well as by sending men abroad in all capacities, and by establishing technical schools at home. Compulsory lower education, supplemented by middle schools and universities, although not adequate for the demands, have developed the existence of an insatiable desire for education among all classes. Efforts were undertaken by the Government to improve the culture of silk, rice and other of the native products, and to protect the farmer from pests and from deterioration of qualities. The results of fifty years of determined pursuit of a set purpose have been to establish Japan as a powerful factor in the political and economic affairs of the world. Material development has been the reward of intelligent effort, and the Japanese looks upon his handiwork with justifiable pride. Should you ask him to explain the motive actuating him he will reply that a population of 57,000,000 people cannot be supported on the Japanese archipelego, of which he claims but 17% of its area is capable of cultivation, and that he must produce manufactured goods, for which much of the raw material must come from abroad, and exchange industrial products for foodstuffs. He points out that the annual increase in population is 700,000 and at least this number must each year be provided with industrial employment if Japan is to be

adequately fed. His mind has concentrated upon material results, and he has become blinded or is incapable of realizing that those results may be bought at too high a price if acquired regardless of the moral, physical and social welfare of the people whose labor must produce them. One is deeply impressed by the appearance of neglect of attention to this vital factor in the upbuilding of a new Japan. Industrial centers are being created, with dense population, involving a complete readjustment of the social conditions surrounding the lives of millions of young men and women workers. Water supply is frequently inadequate and sometimes unwholesome, nowhere is there an attempt to introduce modern sewage systems. Even in cities of a million or more inhabitants, lighting for homes, where study is now compulsory, is deficient and expensive. In a climate where rainfall is almost excessive, transportation is so inadequate that a large number of workers, including women and children, get wet on the way to factory or school, and must frequently work or study in wet clothing. Telegraph and telephone service is slow and expensive, as well as inadequate. Even now a premium of ¥2,000 is being paid to obtain a telephone instrument from an old subscriber. Roads are rough, muddy or dusty, and not suitable for automobile and heavy traffic nor the heavy loads pulled by manpower. In a hot, humid climate such as Japan's, hygiene and sanitation are almost as essential as food and drink, if industry is to thrive without injury to the industrial class. Adequate

attention is not being given to this subject. Japan has no grazing land save in the northernmost islands, now rather sparsely populated. No herds of cattle are seen on the hills, now largely covered with bamboo grass or timber. The Japanese diet consists principally of rice, beans, dried and fresh fish, and vegetables, with little meat and no milk and butter. The food is highly seasoned and much of it pickled, preserved or dried. This doubtless was adequate for a moderate agricultural population, but a great industrial class, working in congested shops and mills, will possibly become a prey to tuberculosis, without a larger proportion of animal fats. Fifty years ago tuberculosis was practically unknown in Japan, and is now prevalent and increasing. Disease or neglect of the physical welfare of the people is only matched by equal neglect of their mental and moral well being. Social relations and intercourse are still largely those of feudal, paternal Japan, circumscribed by convention and tradition, and of little value in discriminating useful education or in developing sound political and economic ideas. In the United States we see society organized in all directions. Churches, with congregational worship, Sunday schools and innumerable welfare and other organizations, fraternal societies, Y.M.C.A., Y.W.C.A., the farm bureau and grange, block parties, labor organizations, economic and debating clubs, Rotary, athletic and social clubs, cover the land with a membership embracing all and influencing all. We may overlook in our abundance the benefits flowing from this highly developed social structure, until we consider such a

nation as Japan, where little, almost none, of this is found, and where public opinion must in consequence be sluggish, and the people easily become the victims of corrupt politicians or of a misleading and venal press.

The reaction from the exaggeration of material aims has not, however, been confined to the effect upon the industrial population. Commercial standards of honor and morality have given way, or have been ignored, in the struggle for a place in world markets. Universally throughout the East, and among people of all nations, the Japanese merchant is distrusted and heartily abused, for his methods and for his sharp or dishonest practices. Innumerable instances of shameful disregard of the truth, and of deception and fraud, are recounted by those who have suffered in their dealings with Japanese traders and manufacturers. It seems that the crowning shame heaped upon the Japanese,--the outgrowth of political as well as business experiences,--was the boycott of Japanese goods practiced by the Chinese in recent months,--a spontaneous and unorganized outburst of protest by millions of people, who undertook to exclude Japanese goods from their markets and inflicted great losses upon Japanese business firms.

Evolution of Government in modern times has grown out of the ceaseless struggle between the classes, which has centered around the power to levy and apportion taxes and to determine their use. In Japan policies of taxation are liable to exercise as profound a political influence as they have in Britain since the days

of King John. At present the revenues of the Federal Gov't. are principally drawn from indirect taxes, and between fifty and sixty per cent are consumed in military expenditures. Popular franchise is based upon the amount of direct taxes paid, which was originally fixed at ¥ 15 and is now ¥ 3. Inevitably the business man of large means has been drawn into political activities and politicians have been tempted into business ventures. The association has so far produced only what could be expected, a venal political class, closely associated with men of large affairs, and corruption in elections as well as in the Legislature and officials. How serious this has become cannot be stated or assumed. It is common knowledge that the rich escape taxes, large holdings of unimproved real estate, lying within city limits, frequently in the heart of Tokyo, Kyoto etc., belonging to business men & to the old nobility, are taxed still as forest land. The association of business and politics so far seems to have resulted in fortifying the policy of indirect taxation, ~~subsidies~~ subsidy to industry and other evils of like character, both debasing to the government, and dangerous for the people. Quite certainly the rich are growing richer and the poor can only become poorer, until a change takes place.

More difficult to describe, because of the deep obscurity which characterizes Japanese Gov't affairs, is the Government itself. Japan claims to be a Democracy. In reality it has adopted some of the forms of democracy, under the cover of which it has developed a highly organized bureaucracy, which is to a greater or less extent,

according to circumstances, subject to the influence, at times domination, of the military and of the old feudal nobility. The outstanding characteristics of the present system seem to be,--

1st The upper house is aristocratic, largely non-partisan and more directly the forum of the nobility and of the rich. It represents the invisible Government, more than the lower house.

2nd The lower house is too much the product of corrupt so called popular elections, and impotent to effect reforms.

3rd Out of the two Houses governments are formed, ostensibly at the choice of the Emperor, in reality as the result of a subtle underground alliance of interests, now largely composed of

a. a small class of the older nobility including the Court circle.
b. a well intrenched bureaucracy.
c. a military clique of dominating dispositions.
d. a powerful business and money class.

4th Growing in numbers and influence, is a group of men, largely young men, who are working quietly, frequently effectively, to bring about reform. So far their accomplishments have not been great, but their influence is growing and is recognized, not only in government circles, but by the press and public.

To summarize, it may be said that the 57,000,000 people of Japan are today being governed by a very small number of men, who are largely actuated either by materialistic aims or military ambitions. But it must also be said that this is a species of exploitation of the great mass of the Japanese, of which the people are gradually becoming conscious, and that it cannot last. It

seems that in matters of foreign policy, as in China, Siberia and Korea, the military group have so far dominated. In domestic developments, economic affairs etc. policies have largely been shaped by a combination of the business interests with the civil bureaucracy. Behind both stands the influence of a few men, really a few of the old feudal families, who with the Emperor still exercise a more or less limited but not a nominal power of veto. We see in the Japanese government, at present, the western garment, but underneath is the Japanese of the feudal days, not yet greatly changed from the man of sixty years ago.

But in justice to Japan it must be said that we can also discern in the Japanese people the foundation of industry, courage and character upon which can well be created a great nation whenever they awaken to a consciousness of their power, comprehend the principles of democracy, and determine that the people shall govern the country and not submit to exploitation by a group of selfish and ambitious politicians.

The foregoing is preliminary to an expression of impressions regarding present relations between the United States and Japan. In considering what follows, it must always be borne in mind that Japanese character is the thing to be reckoned with. The mass of the population still retains many of the characteristics of the serf of feudal times. The men of the governing class are almost a different race. They are ambitious, proud, reserved, dominating and frequently

arrogant, and only too often are utterly unreliable and unscrupulous. There are of course many exceptions to this general statement,--men of high character, honest and straitforward, who excite admiration and respect when one considers the environment in which they have developed. But the record only too clearly justifies the general conclusion mentioned. And behind these men is the driving force of overpopulation, which can well direct a selfish and egotistical government into a policy of calamity.

Today Japan, largely as the result of the war, has drifted into an unexpected economic dependence upon the United States. We are not only their principal market for surplus products, but we furnish them with much of the machinery, supplies of material and technical knowledge which has enabled the trade to develop. One must likewise observe that their exports to us are largely articles of luxury, such as silks etc. We are the bankers who finance their trade, and with whom their surplus bankers and Government balances are principally carried. Our educational institutions are being called upon to educate their young men in western advanced courses, and our business houses are giving training to a constantly larger number of their future professional and business men and bankers. One is impressed by the frequently expressed desire of their people to visit the United States, for the sake of experience and learning. They respect our progressive ideas, our business success, and the courage and ability with which our part in the war was conducted.

In the three directions named however our interests clash.

1st Our policy of exclusion of Japanese from settlement in the U.S.

2nd Our resistance to their ambitions in China and Siberia.

3rd Our determination to absorb a share of the trade, shipping and banking of the Orient.

In the first, we have undoubtedly hurt their pride, a much more serious matter than may be generally realized.

In the second and third we directly conflict with their selfish interests.

Even the best disposed Japanese believe that our methods of dealing with both immigration, and Chinese matters, are needlessly brusque and display lack of respect for a sensitive people, who regard themselves as our equals, and earnestly desire recognition of their claims to equality. One must consider the visible evidence at hand, taking into account Japanese character, and ask frankly whether the interests of the nation, or the folly of the nation, might lead them into an armed conflict with the U.S.

My conclusion is that such a calamity is impossible, or at least very remotely possible at the present time, and the basis of this belief is the following.

1st Their trade with us is vital to their continued prosperity.

2nd They now have with our bankers probably $400,000,000 to $500,000,000 of their reserves, which they consider gold balances, and the greater part is the property of the Government and of the Bank of Japan.

3rd They are conscious of their economic weakness and of our overmastering economic strength.

4th They have come to realize their weaknesses and their unpopularity. The recent financial reaction opened their eyes.

5th The credit of their Government has already been strained to finance their military expansion.

6th A large class of their thinking people have drawn correct conclusions from the disastrous policy of Germany.

7th The treaty with Great Britain presents at present a distinct political weakness.

8th More than any other circumstance, they have learned wholesome respect for the military strength of America, and for our ability to create and equip an army and navy far exceeding anything within their capacity.

On the other hand certain dangers do in fact exist,--which must not be overlooked.

1st Their policy in China and Siberia has progressed to a point where recession at our demand could only be arranged without humiliation, with great skill.

2nd Their domestic policy of exploitation of their people,--if continued,--has certainly a day of reckoning in prospect, from which a foreign war alone might rescue their leaders.

3rd Their pride might lead them to a war of folly and disaster over the immigration dispute, should their leaders and press succeed in creating what I believe would be an artificial popular support. That I regard as most unlikely, and the crisis could only be one of their own creating.

To summarize, it seems as though the remote possibility of actual hostilities could only arise from domestic difficulties, growing out of their present misgovernment of their own people, driving a distracted military bureaucracy into the stupid folly of a hopeless foreign war.

d) Strong letters to P. Jay from Japan May – July

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Z. KANAYA & SONS, PROPRIETORS.

FUJIYA HOTEL,
MIYANOSHITA.

LAKE SIDE HOTEL.
CHUZENJI.

Nikko. May 11th 20

Dear Pierre.-

We have now had a week in Japan, so far with poor weather, though fair clear days are promised soon. I have not sent you an account of our doings, save of one or two matters relating to the bank. Through their courtesy (Bank of Japan) every arrangement has been made for our stay. One of the Directors, Mr Takai, who

called on you last Tuesday, met us down the bay on the steamer, and brought a man from the bank to help our landing. Also Baron Takahashi, Minister of Finance, sent his Secy. down, and I found they had planned everything for us. So our arrival here was marked by every courtesy and hospitality from these wonderful people. I lunched at the Diet of Japan with the Directors, and had a fine talk with Mr. Inouye, the Governor, afterwards calling on Baron Takahashi at his

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home, at his request, and spent two hours with him, in a most interesting and instructive talk. We return to Tokyo today, and I am to attend two small dinners one given by Mr. Inouye and one by Baron Mitsui. That will probably be the limit set to Entertainment. Have not seen the Vanderlips Party, now travelling, but shall some time tomorrow. They were

travelling and feasting too fast and furiously for me. They leave for home day after tomorrow.

Now about the Bank of Japan. It is curious how much the same things are here, as in the rest of this war worried world. Many people have suffered from the advancing cost of living, the same classes here as at home, there is considerable growling about the heavy taxes and Govt Expenses, and some blame is laid upon the Bank of Japan for not curbing speculation, promotions and

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Expansion. Their powers are not quite as broad as ours but so far I fail to see how they can be blamed, at least for much of the trouble. Prices had advanced here rather more in proportion than at home, but the whole country is now going through a period of liquidation, which has brought prices down both on the Stock Exchange and in many

basic products, such as rice, sela etc! They are worried lest it develop a real wholesale panic, have closed most of the Exchanges, for nearly a month now, and I surmise many a swollen war fortune has shrunk to small size again. The Bank has advanced its minimum rate to over 8% and money is dear. Their policy is to prevent any banking trouble, or failures, and seem to have been successful. The banks advances have increased ¥100.000.000. since Apr 14.

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Mr. Inouye has a fine record and reputation, and I believe the bank is excellently run and its policy is conservative and sound. We are to spend an afternoon discussing their policy, in the course of my stay. Our understanding with them is not widely known but is approved and applauded by those who have spoken of it. — Lucius Porter

Magata, Baron Sugahashi etc!

later I shall write you more fully of my talks with Mr. Inouye & Mr. Sakai:- but must have some additional visits with them first.

Letters will write me that he has become an upstate Republican, and I hope, with treasury support, we can base our propaganda of Contraction, at least no more Expansion, upon a sound rate policy and a harmonious [illegible] with a 6% bank rate

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as a minimum for all advances, We can shut down on the banks that rule us, and do it with success I hope, when a 4 or 4½ % rate made as soon most inconsistent it has ridiculous. My best to all at home. Am well, and looking as I don wonder have me,

Sincerely

B.

C O P Y(handwritten)

Nikko(Japan) May 11th '20

Dear Pierre -

We have now had a week in Japan, so far with poor weather, though fine clear days are promised soon. I shall not send you an account of our doings, save of one or two matters relative to the bank. Through their courtesy(Bank of Japan) every arrangement has been made for our stay. One of the Directors, Mr. Fukai, who called on you last June, met us down the bar on the steamer, and brought a man from the bank to help our landing. Also Baron Takanashi[?] Minister of Finance, sent his secy. down, and I found they had planned everything for us. So our arrival here was marked by every courtesy and hospitality from these wonderful people.

I lunched at the Bank of Japan with the Directors, and had a fine talk with Mr. Inouye, the Governor, afterwards calling on Baron Takahaski at his home, at his request, and spent two hours with him, in a most interesting and instructive talk. We return to Tokyo today and I am to attend two small dinners one given by Mr. Inouye and one by Baron Mitsui. That will probably be the limit set to entertainment. Have not seen the Vanderlip party, now travelling, but shall some time tomorrow. They were travelling and feasting too fast and furiously for me. They sail for home day after tomorrow.

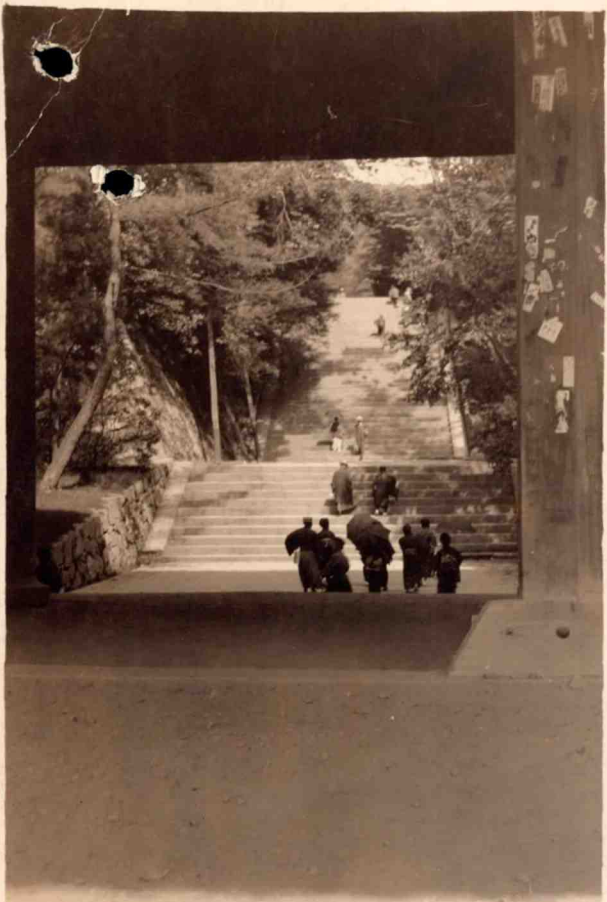
Now about the Bank of Japan. It is curious how much the same things are here, as in the rest of this war cursed world. Many people have suffered from the advancing cost of living, the same classes here as at home, there is considerable growling about the heavy taxes and gov't expenses, and some blame is laid upon the Bank of Japan for not curbing speculation, promotions and expansion. Their powers are not quite as broad as ours and so far I fail to see how they can be blamed, at least for much of the trouble. Prices had advanced here rather more in proportion than at home, but the whole country is now going through a period of liquidation, which has brought prices down both on the stock exchange and in many basic products, such as rice, sela[?] etc! They are worried lest it develop a real wholesale panic, have closed most of the exchanges, for nearly a month now, and I surmise many a swollen war fortune has shrunk to small size again. The Bank has advanced its minimum rate to over 8% and money is dear. Their policy is to prevent any banking trouble, or failures, and seem to have been successful. The banks advances have increased over 60,000,000. since Apr. 14.Mr. Inouye has a fine record and reputation, and I believe the bank is excellently run and its policy is conservative and sound. We are to spend an afternoon discussing their policy, in the course of my stay. Our understanding with them is not widely known but is approved and applauded by those who have spoken of it; - such as Baron Nagata[?], Baron Takahashi[?] etc.

Later I shall write you more fully of my talks with Mr. Inouye + Mr. Fukai; - but must have some additional visits with them first.

Leffingwell writes me that he has become an apostle of higher rates, and I hope, with treasury support, we can base our propaganda of contraction, at least no more expansion, upon a sound rate policy and a harmonious one. With a 6% bank rate as a minimum for all advances, we can shut down on the banks that ride us, and do it with success I hope, when a 4 or 4 1/2% rate made us look most inconsistant if not ridiculous. My best to all at home. Am well, and looking as you would have me.

Sincerely

[signed] B,S.



POST CARD

CORRESPONDENCE

ADDRESS

P. J.

This is a typical scene, Entrance to a Shinto Temple of which we have seen many beautiful ones.

Best to you all P.J.

Mr. Pierre Jay
15 Nassau St
New York City
U.S.A.

S-20

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JAPAN.

H. S. K. YAMAGUCHI
MANAGING DIRECTOR

May 29th 1920

Dear Mr. Case.

It will hardly be possible for me to send you an extended account of all of our doings and experiences. This would require a volume and a good secretary. Baron Takahashi, minister of Finance sent his secretary down the bay at Yokohama, to meet us, - Mr. Fukai was also there with a Mr. Susaki, of the bank, who had been assigned to me for general use as a secretary and general useful man, also Nishi our guide was there. Since our arrival the officers of the bank have not overlooked anything that could be done for our comfort and

convenience. They gave us one big banquet, attended by some of the Cabinet and leading men, and by most of the important bankers. Also a "select" little dinner, attended by the bank officers, Mr. Miles, Bu and myself, at a famous Japanese restaurant, wholly Japanese in style, food etc. including Geishas. It was charming and we managed the chopsticks successfully (having practiced before hand) I have also lunched at the bank with the directors four or five times, and the night before leaving Tokyo they gave me a little dinner at the Bank of Japan Club. - only five of the bank officers being there to talk business. We arrived too

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late to have any meeting with the Vanderlip party, but I would have avoided it anyway, as they were rushed from one Entertainment to another until they were ready to drop. I only attended the farewell dinner. But I had some fine visits with Mr. Lamont, who has done a splendid piece of work here in Concluding the Consortium.

It has been a splendid opportunity for me to learn something of affairs here as they bear upon our relations with the Bank of Japan, and general business & financial

conditions. Have talked with our Ambassador and some of his staff, a number of Americans, and many influential Japanese; including Baron Takahashi, Viscount Kaneko, and others equally well known. To sum up the financial situation, they have had a widespread speculation, in stocks and commodities. They are somewhat overstocked with goods, were too slow and not firm enough in trying to check expansion by advancing rates and other measures, and both the Treasury and the Bank of Japan, as well as bankers generally, are now being criticised on the one hand for not taking measures earlier, and by those who are now suffering for taking

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them now. The story is the same as ours, only somewhat further developed. They depend very greatly on their trade with us and upon the New York market to finance it's. We buy practically their entire silk production, and as they were holding stocks of silk here & in US. with the rising market, (as usual) they overstayed their time and now the market is gone. Silk at one time sold as high as Yen 4500 per Koku. It sold this week below ¥1900. The same has happened less severely, with rice, cotton yarn, [illegible] hides and many other staples

So that finally, one medium sized and a few small banks suspended last week. The former was a typical John R. Walsh situation and not an evidence of generally unsound banking condition or methods. The owner is a large merchant and borrowed from his own bank to carry a wheat speculation and it busted him. They say the bank can be reopened and no loss fall on general depositors, but the two businesses are much interwoven and confused. The stock, wheat, cotton and other exchanges had been closed for some weeks when we arrived, were lately reopened, but have had a hard time meeting the liquidation now forced on by those who owe money.

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and even more by those who are timid, as that is characteristic of the Japanese merchant of speculative tendencies.

I am assured that all the big banks are in good shape; have done a conservative business and are entitled to confidence. I have suppose that this would particularly be true of the Yokohama Specie Bank, which is almost a Government institution and closely allied to the Bank of Japan, as of the Bank of Chosen & Bank of Taiwan, both Govt. Colonial banks, and the big

Industrial Bank & Hypothec Bank.
Of course Mitsui and Sumitomo are
both very rich and very able, as
is Mitsubishi. This is the general
view and the position statement of
Inouye of the Bank of Japan. I
see no reason for hesitating in
buying the paper freely, as we have
in the past, with our member and
other good bank endorsement. The
men who run these banks, all of
whom stand very high, I have met
at one house or party or another,
or have exchanged calls with them.
They are all rather blue & pessimistic
about the situation, say there will
probably be further liquidation and
some mercantile failures, possibly

Some of the smaller banks will go under or suspend, but in the end they will come out on a sound basis. They look for a period of stagnant business and unemployment.

Now as to the Bank of Japan. It is not in my opinion responsible for the present situation. Their relations with the Treasury are much the same as ours, and unless I am mistaken they have encountered much the same difficulty that we have, with possibly less actual independence of position than we enjoy. They have a less close relationship with the banks,

now power, such as we enjoy, to examine etc. and rather lessen influence over banking policies generally. I have formed the highest opinion of the officers of the bank, particularly Mr. Inouye, the Governor, and Mr. Fukai, one of the active directors, - the deputy Governor speaks no English and was laid up part of the time of my visit. Lamont and our Ambassador share my views. It was Inouye who put through the Consortium, despite the military party, and I have more than once heard him referred to as the coming man of Japan. He is a little over 50, rather quiet, dignified, polite and hospitable to a degree. Mr. Fukai is

quick, alert, and a gentleman all through. They have both had experience abroad, are widely informed and I regard them as men of exceptional ability. They have been frankness itself in discussing their own affairs, financial and political. My opinion is that the bank is splendidly managed, that it stands for sound progressive ideas, without jingoism, and that our relations with them should be developed as experience justifies. Our chief concern should be to maintain stable exchange rates between

the two Countries. They are proud of our relationships and friendships and want it to be clear.

At the moment I suggest that you look into the situation respecting making purchases of Silver for their account. They will want about 10,000,000 ounces, and would like to have us buy it for them for San Francisco delivery (or Seattle) to avoid cost of shipping across the Continent. I am not sure what the Treasury policy is just now, but presume you know, & will try and accomodate the Bank should you hear from them. They will also continue making purchases of Mexican bits and would like

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advice regarding other short time investments of the highest grade in case the Treasury discontinues issues of Certs. of Ind. It is the policy of the Bank to carry large balances in N.Y., because of the large volume of Japanese bills there & the Govt will probably carry balances for the next four years until the bonds sold in U.S.A. during the Russian war, mature in 1924, when they will be paid.

They would be glad to enlarge the limit on the account with us and I would be glad to see it done, if

the directors agree, but it is not necessary, at all. Also I would not hesitate, should the Exchange Situation make it Expedient, to build up a balance here, and purchase bills under the agreement. to do so freely, using care to see that they understand what is Eligible; and that there is no lack of understanding as to whether the account should be operated from New York or from Japan. Crane will understand the point.

Some of the Japanese bankers have said that they are much handicapped by the restrictions and other obstacles imposed by

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New York laws. I have explained the situation as to Federal & State law and my own position, which Mr. Tax shares, as to making New York a free banking market. Also I have told Mr. Kajiwara, head of the Yokohama Specie Bank, Baron Sumitomo, of Sumitomo Bank & Baron Mitsui, that our officers would always be glad to see their New York agents and talk matters over with them, and urged them to send their men to us and tell us more of their own affairs. We require on every hand as to

develop closer relations and better understandings between their country and ours. We can do much toward promoting it.

I do not want to convey the impression that everything in Japan is serene and lovely. There is the present business and financial upset which is severe and not by any means ended, but not in my opinion likely to reach anywhere the big banks with business abroad.

Then there is the question of relations with U.S. politically. The military influence is still very strong in Japan, it has some of the old feudal ideas resembling a bit those of Prussia, but I am sure they realize that war with the United States would be

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Suicide. The only trouble is the constant recurrence of irritating action by the State of California and by Californians; - coupled with the effect of the hostile press, such as Hearst at home and some of like color here. One can imagine a situation where the Govt, influenced by the military, could only "save face" by some rash action in this matter, in the last extremity, caused some domestic upheaval occur. It seems very unlikely, however, and the best men with whom I have talked, say it is

impossible. But one cannot overlook the existence of the irritation and the self restraint they are sometimes called upon to exercise in the face of what seems to them, at least, great provocation. The men I met, mostly business men, are most keen to have close and friendly relations in America, and generally, the influence of American trade, institutions, education and thought is stronger in Japan today, than that of any other nation.

The real cloud on Japan's horizon, small as yet, very hard for us to understand and more dangerous than any other, is past domestic social

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political and Economic revolution now taking place, and the effect upon the Common People of a change possible more rapid than they are able to adjust to. I shall try and give you a hazy idea of the situation, my own ideas being hazy enough I admit.

The civilization of Japan during thousands of years of insular isolation developed a social and political system based upon the family, the tribe, the clan, and so on up to the Emperor, who is in a measure a deity. Even

individual was subject to the control of family council, or by the decision of a higher authority by seniority. The conventions and formalities surrounding this daily life were without number and had to be religiously observed. Everything lies up to the Emperor, whose divine will, once known, was supreme. It covered business, marriage, education, travel, how to make or return a call or serve tea. Behind it all was a strong military feudalism. All production was by hand labor and by craftsmen. For the first forty years since the Shogun downfall, the influence of the old order continued almost unchanged, the military being the binding

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force in front, the old social system controlling underneath. Industry is disturbing this system. Sons and daughters are leaving homes in the country to work in mills, the latter often being "sold", or bought out for the purpose through agents who cover the land. Foreign or western ideas are creeping in. The old system is growing weaker, and democratic institutions are supposed to be taking the place of the old feudal institutions. It may be said that in the old days the people were comparable to a [illegible] of iron filings sticking to

a mass of iron through which a magnetic current passed. Stop the current and the mass would fall apart. Something must take the place of the current. The military, and the old aristocracy, has done much to hold the nation together. It defeated the Satsuma revolution in '78. But can real democratic institutions take the place in a few decades, of a system thousands of years old, hold their loyalty in time of adversity, and stand the test of exploitation such as is more or less inevitable. The danger is in the inadequacy of the new system. The franchise is given

to 2,000,000 voters who qualify to vote when they pay 3 yen or more direct taxes. The men of great wealth are getting increasing influence in political matters. It presents an ideal set up to expand and exploit Japanese industrial and commercial development, for the benefit of the rich and influential, at the expense of the poor. There are people who say that some sort of upheaval in Japan is certain in time, and that it is only a question of time. One cannot

Escape feeling that much will depend upon the honesty and self denial practiced by the leaders, political, military and business, in managing the development of the nation, avoiding burdensome indirect taxes to the poor & paying more direct taxes themselves, going slower in domestic and foreign development, with all the financial burdens imposed by their ambitions if gratified. Briefly Japan cannot finance the plans of her most ambitious politicians, and to attempt to do so would be too heavy a burden upon the people. The risk lies in

such an attempt, with the old ties loosened. If the people lost confidence in the new regime, tried to take matters in their own hands, and really broke loose, all would depend upon how loyal an army they had at hand.

I am summarizing rather badly, some views held by students of events here, and have expressed what I have heard, very frankly, to some of my Japanese friends. They have a keen realization of these matters, but say that the growth of liberal ideas among the abler and better educated Japanese, will be equal situation.

the own view is that the present upset of business is a good thing, it will make them pause, - that it will be a long time before the poor people gain sufficient independence of ideas to risk anything like an attack upon the existing order, and that our Government and our people can do much to strengthen the hands of the sound and liberal minded men of Japan, by dealing with them as they should be dealt with, - less suspicion and more confidence.

More than anything else, Mills and I have both been impressed by their Economic

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and especially financial dependence upon us. They need our markets, our raw materials and our credit. Only California and the questions arising there, some of them sound enough, maybe, prevent the best of relations in business and in political affairs, unless we cross wires in Asia, which seems unlikely.

This is a subject that can be covered in discussion much better than on paper. I have devoted a lot of time to getting acquainted with the bankers, particularly

the Bank of Japan, have formed a high opinion of them, and think all parties will be benefited by extending our relations with them.

I suggest that you send for the agent of the Bank of Japan and tell him that we will be glad to give him some ideas and material for his regular cable to the Bank if he can arrange to get similar advices for us, to be treated confidentially.

Separately I am sending you some data, for your information and our files, and there are some documents regarding Japan in a box I am sending Mr. Beyer, also for the bank.

So much for my observations, and I hope my suggestions appeal to you and Mr. Tax.

Just now we are stopping at one of the most beautiful places in Japan, in the mountains, boating, and shortly start a cross country trip, walking, by motor, horse back, rickshaw, palanquin, sedan chair, boat and every other kind of conveyance. Later we shall spend a few days at Baron Sumitomo's villa on the Inland Sea, at Miaico, but have no plans save to wander and

loof. From the papers I see that you are tightening up right along, and that prices at last are coming down some. Don't let up under pressure from those most responsible who are now suffering the most.

Best regards to you all, and good luck,

Sincerely

Geo. Strong

Miyajima, Japan. July 4th 1920.

Dear Pierre -

We have just finished a two day cruise, in a Sampan, or Cargo boat. Through the Inland Sea, from Kobe to Miyajima, this being one of the three most beautiful spots in Japan, according to guide books and local opinion. Miyajima is a sacred island, no vehicle allowed on the island, not any births or deaths. Rather hard on the very old and very young! It was a most enjoyable trip, good weather, though warm, & two or three swims every day. We had a 200 ton boat, about sixty feet long, the crew being the skipper and his wife; Nishi our guide with the aid of the skipper's wife doing the cooking and housekeeping while we loafed, took pictures and swam. In a few days we start for Beppu, on the Island of Kyushu, a curious volcanic watering place, where they have every variety of hot springs, some right on the beach, - and where the natives cook by using the hot water which flows in their back yards. I shall never become accustomed

to the Strange, childlike simplicity and friendliness of the Country people of Japan. Their courtesy, good manners, and friendly ways make a very strong appeal.

As I hear it is very hot in China just now, I may stay on in Japan until early in August, joining Mills & Ben at Shanghai, and so on to Batavia. The climate in the Java mountains is now very fine, cool and Envigorating, so they say, while China is close and hot. But I shall pick up mail at Shanghai, which my last cable will have directed there.

We get little news of affairs at home, - in fact only when we get hold of a copy of the Japanese Advertiser, a good sound paper published in English, with alot of American news. We hear of Hardings nomination, and of the the Democratic Convention so far nothing definite.

About my health, I am certainly much better. My cough has entirely disappeared have some barks at night. Food here is not conducive to putting on weight, which I shall defer till my return, but my lungs are certainly healing in good shape, if all the usual indications can be relied upon.

I hope our friends in the Bank of Japan will be able, through us, to get such service in New York, as they may need. I have formed a very high opinion of them, which is shared by many people who have dealt with them.

The Enclosed are but a few samples of the many pictures we take, and may amuse you a bit.

My best to all at the bank. Hope you are not always working under pressure, and get a good holiday.

Sincerely.

RO.

C O P Y (of handwritten letter)

Miyajima[?],Japan, July 4th,1920.

Dear Pierre -

We have just finished a five day cruise, in a sampan, or cargo boat, through the Inland Sea, from Tadotsu[?] to Miyajima[?], this being one of the three most beautiful spots in Japan, according to guide books and local opinion. Miyajima is a sacred island, no vehicle allowed on the island, nor any births or deaths. Rather hard on the very old and very young! It was a most enjoyable trip, good weather, though warm, + two or three swims every day. We had a 200 ton boat, about sixty feet long, the crew being the skipper and his wife, Nishi, our guide with the aid of the skippers wife doing the cooking and housekeeping while we loafed, took pictures and swam. In a few days we start for Beppu, on the Island of Kyushu, a curious volcanic watering place, where they have every variety of hot spring, some right on the beach,- and where the natives cook by using the hot water which flows in their back yards. I shall never become accustomed to the strange, childlike simplicity and friendliness of the country people of Japan. Their courtesy, good manners, and friendly ways make a very strong appeal.

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My best to all at the bank. Hope you are not always working under pressure, and get a good holiday.

Sincerely,
[signed] B.S.

CABLE ADDRESS:
"MIYAKO" KYOTO.

TEL. NOS. 421 & 338 (KAMI)

THE MIYAKO HOTEL, KYOTO.

KYOTO, July 19th 1920.

Dear Pierce.-

We are just packed up for the last leg of our visit to Japan, leaving for Tokyo where I shall spend a few days, a short trip to the mountains near there for a few days, then sail on the "Kaiyan" (P & O) from Yokohama for Singapore via Kobe, Shanghai & Hongkong. She leaves Yokohama July 29th & reaches Singapore about 10th Aug.t. From there we take another boat, about two days trip, to Batavia, and proceed to "do" Java. I hope we shall leave there about Sept 20th-25th for India, spending about a month

up North, and sail for Europe about Nov 1. which would land me in London Early in December. Our travelling has been so very leisurely that we have spent more time than planned in Japan, and I shall not visit China. Things are very disturbed there, just now; it is probably impossible to reach Peking, and the price of silver is at a dollar or lower! I may have one or two days in Shanghai to visit with the American banks there, which I want to do very much.

Mills wanted to see some friends in Chosen, (at Seoul) and at Peking and got as far as Seoul but I doubt if he gets as far as Peking and probably will rejoin us either at Kobe or at

CABLE ADDRESS:
"MIYAKO" KYOTO.

TEL. NOS. 421 & 338 (KAMI)

THE MIYAKO HOTEL, KYOTO.

KYOTO, ... 19

Shanghai!

The more I think of it the more I regret that you or the Doctors did not take to my suggestion that you meet me in London in December. There is so much to be learned there, and I have so many friends that it would be good business (for you & the Bank too) for you to know, that the time would be well spent. I shall hope to hear from you at Batavia. Wont you cable me then fully regarding any Javasche Bank business that may be pending or probable.

The improvement in my health is now

constant and satisfactory. My cough has almost entirely disappeared, and all the indications, with which I am only too familiar, are favourable. I guess the absent treatment was what I needed. Of course one cannot but on wearing out here, as the diet is not suitable, but that I can do when I reach the land of meat, butter and cream. Of one thing you may be sure. I shall return well posted on Japan. We have seen every side of it, lived with the people, of all stations in life, even picked up a bit of the language, and I could write a book on the subject. The opinions I expressed in my letter to Case have not changed. But I would caution you to

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TEL. NOS. 421 & 338 (KAMI)

THE MIYAKO HOTEL, KYOTO.

KYOTO, ... 19

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whole peace, of political & trade expansion.

I shall not send you details of our travels and experiences, which will keep till my return, when I shall have pictures to refresh my memory.

Want you give every good wish to all the officers and to our directors. I am homesick to be back at work, but shall this time be prudent enough to complete the cure.

Best regards to you, old man. Don't work too hard this hot weather.

Sincerely

B.S.

c o p y(handwritten letter)

Kyoto, July 19th 1920

Dear Pierre,-

We are just packed up for the last leg of our visit to Japan, leaving for Tokyo where I shall spend a few days, a short trip to the mountains near there for a few days, then sail on the "Kalyan"(P+O) from Yokohama for Singapore via Kobe, Shanghai + Hongkong. She leaves Yokohama July 29th + reaches Singapore about 10th Augt. From there we take another boat, about two days trip, to Batavia, and proceed to "do" Java. I hope we shall leave there about Sept.20th-25th - for India, spending about a month up north, and sail for Europe about Nov. 1. which would land me in London early in December. Our travelling has been so very leisurely that we have spent more time than planned in Japan, and I shall not visit China. Things are very disturbed there, just now; it is probably impossible to reach Peking, and the price of silver is at a dollar or lower! I may have one or two days in Shanghai to visit with American banks there, which I want to do very much.

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Sincerely
[signed] B.S.

TOKYO STATION HOTEL
Phone, Nos.
Honkyoku { 1357 2262 3604 3605 622
3828 3829 4970 5190

Tokyo. July 21st 1920.

Dear Mr. Jay,-

Enclosed are the remarks reported to have been made by Messrs. Vanderlip & Kingsley in San Francisco, on their return from Japan, and the Editorial of today in the "Advertiser" commenting on them. The "Advertiser" is an able Edited paper of considerable influence here. Vanderlip has overrated the progress of democracy in Japan, though his summary of the conditions (Economic) is good. Mr. Kingsley has undoubtedly been much affected by the deplorable conditions in China, where Japan has shown her worst side, and is today hated and feared. He has put the worst side forward, undoubtedly, as is his way at times. But I am greatly impressed by the fact that neither of these men really

saw Japan, I mean the real Japan. They were too much in the hands of officials and had too many functions to get more than second hand impressions of the people, or really to know anything about them. I have been now since Dec. 4th, most of the time in the country, on foot, horse-back, and boat, living in Japanese hotels and houses, eating their food and wearing their clothes. Have talked with workmen, school boys, college boys, teachers, fishermen, sailors, priests and shopkeepers. Played games with them, travelled with them, made pilgrimages with them, lived in their temples with the priests, and when I return think I can really tell you something of this country and its people. On the whole recent

Tokyo.

developments, - that is the Chinese boycott, the domestic economic collapse, the conclusion of the consortium by Lamont and Inouye, and world wide criticism of the Chinese-Siberian policy of the military party, - has taught these people a lot. They still have much to learn - they still have an "invisible" government, representative government and a responsible ministry is still something of a sham, - but with all that there is an undercurrent of popular thought among the middle classes, which is soundly and progressively liberal and sensible about the Japanese government

and the future of the Country.

Yet away from officeadom and one gets to admire and look these simple minded, kindly people.

When we said good bye to the wife of the skipper of the little boat we chartered, she got on her knees and wept. Said she never would cease to miss us on the boat, and begged us to come back.

When we left Beppu, (on Kyushu) where we spent a week in a little Japanese hotel, the proprietor, all the guests, and all the servants came down to the dock to see us off, gave us Easter baskets of fruit, and stood on the dock as long as we could distinguish them, - many of them calling good bye (Sayonara) with tears in their eyes. In no part of

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Tokyo.....

the worst have I met such kindly, simple minded, industrious, loyal people as these. What they need is right direction by their Government and the resources upon which to apply their labor. So don't draw conclusions about Japan from either the Enclosed articles, or others that may come from the same source.

I'm here for a few days before sailing from Yokohama (on the 29th) for Java. Mr. Inouye, Mr. Fukai and I are going off together for the week end, Monday night I am giving a little farewell dinner to the officers of the Bank of Japan, and then I'm

saying farewell to Japan. It has been a wonderful trip and a great experience. Some day you must do the same.

Give my best to all at the bank, and the same to yourself,

Yours,

R.S.

COPY(of handwritten letter)

Tokyo, July 21st 1920

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Yours,
[signed]B.S.

TOKYO STATION HOTEL
Phone, Nos.
Honkyoku { 1357 2262 3604 3605 622
3828 3829 4970 5190

Tokyo. July 29th 1920.

Dear Pierre -

I may have been a bit remiss in letters to you, but our travels have kept us rather well occupied, - and as my mail was some time ago diverted to Shanghai and Java, none has reached me here for some weeks past. That I don't mind, as it would mean lots of writing. Our boat was to sail on the 29th but has delayed until the 4th gave us a few extra days to spend in Tokyo, and at Hakone in the mountains, where we go tomorrow am. On our way we stop at Kamakura to call on Marquis Matsukata, one of the two still living Elder Statesmen, now 84 years old, - but still a man of great

influence. He was the organizer of the Bank of Japan, put the nation on the gold standard, and is one of the foremost Economists. Our friends at the Bank of Japan wanted me to call on him.

I have ordered a year's subscription to the "Japan Advertiser," commencing Dec 1st, about the best paper we can get for general news and information. If you are interested in reading it before my return, please write the Bank here and they will make the subscription for us. It cost us $4 Yen per annum. I'm just off for a drive. Am keeping well, and getting a bit homesick for office and work. Best regards to all at the bank & yourself.

Sincerely

B.S.

C O P Y(of handwritten letter)

Tokyo, July 29th 1920

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Sincerely

[signed] B.S.

TOKYO STATION HOTEL
Phone, Nos.
Honkyoku {1357 2262 3604 3605 622
{3828 3829 4970 5190

Tokyo, Aug 4th 1920

Dear Pierre -

Steamer delay here seems to be the usual course. - our boat, the "Kalyan," which was originally scheduled to sail around the 29th of July, was first postponed until the 4th of Aug. (today) and now again, owing to a case of cholera in the Crew, has been delayed until the 9th. We will then, I hope, make our start for Java, via Shanghai, Singapore etc. Meantime my mail is ahead of me and I am sadly deficient in news from home.

The interval here, however, has been occupied most profitably in "visiting" with Japanese friends. Mr. Inouye and Mr. Fukai, of the Bank, spent a week end with me at Nikko, where we

had opportunity for some fine talks about Japan Etc. Then I have had two long visits with Baron Shibusawa, who looks me like a sow and is really a most wonderful and charming old man. Mr. Fukai was also particularly anxious that I should visit Marquis Matsukata, who, with Prince Yamagata, are the two survivors of the famous Genro, or Elder Statesmen, the other three, Ito, Inouye, and Oyama having died within the last decade. We went to Kamakura to see him, at his seaside villa and spent the morning. Certainly he is a most impressive old man, (86 years old) keen, alert, frank, with a great fund of humor and a knowledge of world affairs that made me ashamed! I spent the morning with him. Also

Tokyo, ...

I have been dining fairly regularly with the men at our Embassy, our Ambassador being away, Mr. Bell, a new man here, is Chargé d'Affaires, and I think they have all been rather anxious regarding developments here since Mr. Morris left, - and glad to let off steam. Today the Staff of the Bank of Taiwan gave me a farewell luncheon, a delightful affair, with just the officers and department heads there. After lunch Mr. Lacouve asked me to spend the rest of the afternoon with him (also Mr. Kimura, Dep. Gov. & Mr. Fukai) in his office

for a confidential talk. It is about that matter particularly that I am writing, in confidence, - but I have not had opportunity to show my letter to Gen. Harding, explaining that what I have written was given me quite in confidence by Mr. Inukai, for our own information.

It seems that for nearly twenty years the Bank of Japan (particularly since the Russian war) has carried a "reserve" abroad, which has always been regarded as a sacred reserve, its purpose being to protect the Japanese Exchange banks, (like the Yokohama Specie Bank,) which always have considerable bills under discount in the markets. The funds I refer, have formerly been carried in the Bank of England, Bank

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Tokyo, ...

of France, formerly some in Germany and a small amount in New York. The gold (metal) reserve in vaults here in Japan was usually, before the war, about two hundred million yen. In addition the Japanese Govt has also a "chest" which is in fact earmarked gold held by the Bank & not shown in its reserve. When the influence of the war upon Japanese export trade was first felt, rates of exchange began to decline, and the Japanese Govt & the Bank entered into arrangements for protecting the Exchange Banks against losses on exchange, and for facilitating their exports of supplies to Russia, Europe and America. In brief

the Govt and the Bank of Japan bought the Export bills, - a total between the two accounts, of about ¥ 1.800.000.000. This caused a large accumulation of balances abroad, roughly one half belonging to the Bk of Japan and one half to the Govt. About ¥ 800.000.000 has been used by the Govt to buy up its bonds in the London and New York markets, leaving now about ¥ 1.000.000.000 abroad, plus old pre-war balances of say ¥ 200.000.000 or a present total of ¥ 1.200.000.000. In addition the Bank & Govt have increased their gold coin and bullion reserve in Japan to ¥ 600.000.000. (pre war was ¥ 200.000.000) this ¥ 400.000.000 gold coming in part from Russia when the Russian Govt contributed gold to

be shipped to U.S. by Gt. Britain, in part from the U.S. and in part having been taken over in liquidation of some old Russian loans which were partly secured by gold deposited in China or Siberia. The net effect is that against a present note issue fluctuating between ¥ 1,100,000,000 & ¥ 1,200,000,000, and deposit liabilities of say ¥ 120,000,000, the Bank of Japan holds ¥ 600,000,000 gold in its vaults, and about an equal amount abroad in balances, the remainder held abroad (¥ 600,000,000) belonging to the Govt. The Japanese Govt has financed these purchases of foreign bills by an issue of about

¥ 500.000.000 of its bonds in Japan. The purpose of the Japanese Gov't is to continue to hold the balances abroad, invested in prime bills and short Gov't obligations (ours and British) until in 1924 their 4½% bonds issued during the Russian war, fall due, when they will be repaid out of the fund, - which meantime will be earning enough to meet the interest on the 4½% bonds. The total now outstanding in London and New York is roughly ¥ 400.000.000. The policy of the Bank of Japan is also to continue to carry these balances abroad, as a fund to protect Japanese bills discounted in foreign markets, - and to meet the emergency of Japanese imports largely exceeding exports for a period,

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Tokyo, ...

when it might be used to steady rates of exchange, in other words be sold to Japanese importers through the Exchange banks. This matter seems to have some bearing upon the political situation just now, when the relations between the two countries are certainly becoming a bit strained. They are very sensitive here, - much more than we realize at home, - and many honest, well meaning Japanese think that their country is being nagged and worried on every hand by our Govt; - it is such a situation where the rabid newspapers do no end of harm, - and where thoughtless people often give offence without meaning to do so. Our commercial attache here, I am told, recently made

some inquiry regarding gold shipments from San Francisco to Japan. Gov'r Inouye tells me that the Exchange banks now and then, as at present, find it necessary to import gold as Exchange cover, — the trade reaction here has halted imports, while goods are still going to the U.S. on old contracts, and for the moment some imports of gold were necessary. Something like $10,000,000 a month for two or three months. Their own policy is not to take their balances in gold as they do not need it here and fear further expansion as a result.

All things considered I believe (and they agree with me) that it would be a good plan if all exports of gold to Japan could be handled through

Tokyo, ...

the Z. R. Bureau, which would enable us to know exactly what is transpiring, and when shipments were announced, we could state what the object was to the newspaper men and head off a lot of newspaper guesses and implications that do harm. There are undoubtedly some foolish people at home who think that Japan is making carte sur, sinister plans to pounce on us some day when we are asleep, and there are undoubtedly lots of people here who believe that we are building up a huge navy and merchant marine to hold as a menace over Japan and its trade expansion in the Pacific.

This, in my opinion, is all pure nonsense, but if every withdrawal of gold from the U. S. by Japan results in an inquiry as what it means, these people will soon be convinced that we mistrust everything they do, say or think!

I shall not burden you with comments on the political situation here. It is rather complicated and puzzling. But we must deal generously and open mindedly with these people, overlook many things, and display some sympathy for their own difficulties, which are far more serious than any which confront us.

If you are able to work out a plan for handling gold exports, I think it would be appreciated here. It might be taken up with the New York agent of the Bank of Japan. I shall not discuss

Tokyo, ...

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Phone, Nos. Honkyoku {1357 2262 3604 3605 622
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matter further with Mr. Inouye. Lawrie
ly made the suggestion to him for con-
sideration, without detail.

I hope you all keep well at the bank.
The work should be better up a bit and
good vacations this summer should be
obligatory. Best regards to all,

Sincerely

Geo. Strong.

COPY(of handwritten letter)

Tokyo Aug 4th 1920

Dear Pierre -

Steamer delay here seems to be the usual course,- our boat, the "Kalyan", which was originally scheduled to sail around the 29th of July, was first postponed until the 4th of Aug.(today) and now again, owing to a case of cholera in the crew, has been delayed until the 9th. We will then, I hope, make our start for Java, via Shanghai, Singapore, etc. Meantime my mail is ahead of me and I am sadly deficient in news from home.

The interval here, however, has been occupied most profitably in "visiting" with Japanese friends. Mr. Inouye and Mr. Fukai, of the Bank, spent a week end with me at Nekko, where we had opportunity for some fine talks about Japan etc. Then I have had two long visits with Baron Shibusawa, who treats me like a son and is really a most wonderful and charming old man. Mr. Fukai was also particularly anxious that I should visit Marquis Matzukata, who, with Prince Yamagata, are the two survivors of the famous Geuro, or elder statesmen, the other three, Ito, Inouye, and Oyama having died within the last decade. We went to Kamakura to see him, at his seaside villa and spent the morning. Certainly he is a most impressive old man, (86 years old) keen, alert, frank, with a great fund of humor and a knowledge of world affairs that made me ashamed! I spent the morning with him. Also I have been dining fairly regularly with the men at our Embassy,- our Ambassador being away, Mr. Bell, a new man here, is Charge d'Affairs, and I think they have all been rather anxious regarding developments here since Mr. Morris left, - and glad to let off steam. Today the staff of the Bank of Japan gave me a farewell luncheon, a delightful affair, with just the officers and department heads there. After lunch Mr. Inouye asked me to spend the rest of the afternoon with him (also Mr. Kimura, Depy Govr. + Mr. Fukai) in his office for a confidential talk. It is about that matter particularly that I am writing, and in 'confidence, - but I hope you have opportunity to show my letter to Gov. Harding, explaining that what I have written was given me quite in confidence by Mr. Fukai, for our own information.

It seems that for nearly twenty years the Bank of Japan(particularly since the Russian war) has carried a "reserve" abroad, which has always been regarded as a gold reserve, its purpose being to protect the Japanese exchange banks, (like the Yokohama Specie Bank,) which always have considerable bills under discount in the market. The funds I gather, have formerly been carried in the Bank of England, Bank of France, formerly some in Germany and a small amount in New York. The gold (metal) reserve in vaults here in Japan was usually, before the war, about 200[2000?] hundred million yen. In addition the Japanese Govt has also a "chest" which is in fact earmarked gold held by the Bank + not shown in its reserve. When the influence of the war upon Japanese export trade was first felt, rates of exchange began to decline, and the Japanese Govt + the Bank entered into arrangements for protecting the exchange banks against losses on exchange, and for facilitating their exports of supplies to Russia, Europe and America. In brief the Gov't and the Bank of Japan bought the export bills, - a total between the two accounts of about ¥ 1,800,000,000. This caused a large accumulation of balances abroad, roughly one half belonging to the Bk of Japan and one half to the Gov't. About ¥800,000,000 has been used by the Govt to buy up its bonds in the London and New York markets, leaving now about ¥1,000,000,000 abroad, plus old pre-war balances of say ¥200,000,000 or a present total of ¥1,200,000,000. In addition the Bank + Gov't have increased their gold coin and bullion reserve in Japan to ¥ 600,000,000 (prewar was ¥ 200,000,000) this ¥ 400,000,000 gold coming in part from Russia when the Russian Gov't contributed gold to be shipped to U.S. by Gt. Britain, in part from the U.S. and in part

having been taken over in liquidation of some old Russian loans which were partly secured by gold deposited in China or Siberia. The net of it is that against a present note issue fluctuating between ¥1,100,000,000 + ¥1,200,000,000, and deposit liabilities of say ¥ 120,000,000, the Bank of Japan holds ¥ 600,000,000 gold in its vaults, and about an equal amount abroad in balances, the remainder held abroad (¥ 600,000,000)belonging to the Gov't. The Japanese Gov't has financed these purchases of exchange bills by an issue of about ¥ 500,000,000 of its bonds in Japan. The purpose of the Japanese Gov't is to continue to hold the balances abroad, invested in prime bills and short Gov't obligations (ours and British) until in 1924 their 4 1/2% bonds issued during the Russian war, fall due, when they will be repaid out of the fund, - which meantime will be earning enough to meet the interest on the 4 1/2% bonds. The total now outstanding in London and New York is roughly ¥400,000,000. The policy of the Bank of Japan is also to continue to carry these balances abroad, as a fund to protect Japanese bills discounted in foreign markets,- and to meet emergencies of Japanese imports largely exceeding exports for aperiod, when it might be used to steady rates of exchange, in other words be sold to Japanese importers through the exchange banks. This matter seems to have some bearing upon the political situation just now, when the relations between the two countries are certainly becoming a bit strained. They are very sensitive here, - much more than we realize at home, - and many honest, well meaning Japanese think that their country is being nagged and worried on every hand by our Gov't,- it is such a situation where the rabid newspapers do no end of harm,- and where thoughtless people often give offense without meaning to do so. Our commercial attache here, I am told, recently made some inquiry regarding gold shipments from San Francisco to Japan. Govr Inouye tells me that the exchange banks now and then, as at present, find it necessary to import gold as exchange cover,- the trade reaction here has halted imports, while goods are still going to the U.S. on old contracts, and for the moment some imports of gold were necessary,- something like $10,000,000 a month for two or three months. Their own policy is not to take their balances in gold as they do not need it here and fear further expansion as a result.

All things considered I believe (and they agree with me) that it would be a good plan if all exports of gold to Japan could be handled through the F.R. Banks, which would enable us to know exactly what is transpiring, and when shipments were announced, we could state what the object was to the newspaper men and head off a lot of newspaper guesses and implications that do harm. There are undoubtedly some foolish people at home who think that Japan is making careful, sinister plans to pounce on us some day when we are asleep, and there are undoubtedly lots of people here who believe that we are building up a huge navy and merchant marine to hold as a menace over Japan and its trade expansion in the Pacific. This, in my opinion, is all rank nonsense, but if every withdrawal of gold from the U. S. by Japan results in an inquiry of what it means, these people will soon be convinced that we mistrust everything they do, say or think!

I shall not burden you with comments on the political situation here. It si rather complicated and puzzling. But we must deal generously and open mindedly with these people, overlook many things, and display some sympathy for their own difficulties, which are far more serious than any which confront us.

If you are able to work out a plan for handling gold exports, I think it would be appreciated here. It might be taken up with the New York Agent of the Bank of Japan. I shall not discuss the matter further with Mr. Inouye, having only made the suggestion to him for consideration, without detail.

I hope you all keep well at the bank. The work should be letting up a bit and good vacations this summer should be obligatory. Best regards to all.

Sincerely

[signed[Benj. Strong

b) Letters to

J. H. Case

May, August

1920

[copy]

THE

FUJIYA HOTEL

Miyanoshita,

Japan. May 29, 1920.

Dear Mr. Case:

It will hardly be possible for me to send you an extended account of all of our doings and experiences. They would require a volume and a good secretary. Baron Takahaski, Minister of Finance, sent his secretary down the bay at Yokohama, to meet us. Mr. Fakae was also there with a Mr. Sasaki, of the bank, who had been assigned to me for general use as a secretary and general useful man, also Nishi our guide was there. Since our arrival the officers of the bank have not overlooked anything that could be done for our comfort and convenience. They gave us one big banquet attended by some of the Cabinet and leading men, and by most of the important bankers. Also a "select" little dinner attended by the bank officers, Mr. Miles, Ben and myself, at a famous Japanese restaurant, wholly Japanese in style, food, etc., including Geishas. It was charming and we managed the chop sticks successfully (having practiced beforehand). I have also lunched at the bank with the Directors four or five times, and the night before leaving Tokyo they gave me a little dinner at the Bank of Japan Club, - only five of the bank officers being there to talk business. We arrived too late to have any meeting with the Vanderlip party, but I would have avoided it anyway, as they were rushed from one entertainment to another until they were ready to drop. I only attended the farewell dinner. But I had some fine visits with Mr. Lamont, who has done a splendid piece of work here in concluding the Consortium.

It has been a splendid opportunity for me to learn something of affairs here as they bear upon our relations with the Bank of Japan, and general business and financial conditions. Have talked with our Ambassador and some of his staff, a number of Americans, and many influential Japanese; including Baron Takahaski,

Viscount Makino, and others equally well known. To sum up the financial situation they have had a widespread speculation in stocks and commodities. They are somewhat overstocked with goods, were too slow and not firm enough in trying to check expansion by advancing rates and other measures, and both the Treasury and the Bank of Japan, as well as bankers generally are now being criticised on the one hand for not taking measures earlier, and by those who are now suffering, for taking them now. The story is the same as ours, only somewhat further developed. They depend very greatly on their trade with us and upon the New York market to finance it. We buy practically their entire silk production and as they were holding stocks of silk here and in U. S. with the rising market, (as usual) they overstayed their time and now the market is gone. Silk at one time sold as high as Yen 4500 per Koku. It sold this week below Yen 1700. The same has happened less severely with rice, cotton yarn, cotton drills and many other staples so that finally one medium sized and a few small banks suspended last week. The former was a typical John R. Walsh situation and not an evidence of generally unsound banking condition or methods. The owner is a large merchant and borrowed from his own bank to carry a silk speculation and it busted him. They say the bank can be reopened and no loss fall on general depositors, but the two businesses are much interwoven and confused. The stock, silk, cotton and other exchanges had been closed for some weeks when we arrived, were lately reopened, but have had a hard time meeting the liquidation now going on by those who owe money, and even more by those who are timid, as that is characteristic of the Japanese merchant of speculative tendencies.

I am assured that all the big banks are in good shape; have done a conservative business and are entitled to confidence. Should suppose that this would particularly be true of the Yokohama Specie Bank, which is almost a Government institution and closely allied to the Bank of Japan, as of the Bank of Chosen, and Bank of Taiwan, both Government colonial banks, and the big Industrial Bank and Hypothic Bank. Of course, Mitsui and Sumitomo are both very rich and very able, as is Mitsabishe. This is the general view and the positive statement of Inonye of the Bank of Japan. I see no reason for hesitating in buying the paper freely, as

we have in the past, with our member and other good banking indorsement. The men who run these banks, all of whom stand very high, I have met at one house or party or another, or have exchanged calls with them. They are all rather blue and pessimistic about the situation, say there will probably be further liquidation and some mercantile failures, possibly some of the smaller banks will go under or suspend, but in the end they will come out on a sound basis. They look for a period of stagnant business and unemployment.

Now as to the Bank of Japan. It is not in my opinion responsible for the present situation. Their relations with the Treasury are much the same as ours, and unless I am mistaken they have encountered much the same difficulty that we have, with possibly less actual independence of position than we enjoy. They have a less close relationship with the banks, no power, such as we enjoy, to examine, etc., and rather less influence over banking policies generally. I have formed the highest opinion of the officers of the bank, particularly Mr. Inonye, the Governor, and Mr. Fukai, one of the active directors, - the deputy governor speaks no English and was laid up part of the time of my visit. Lamont and our Ambassador share my views. It was Inonye who put through the Consortium, despite the military party and I have more than once heard him referred to as the coming man of Japan. He is a little over 50, rather quiet, dignified, polite and hospitable to a degree. Mr. Fukai is quick, alert, and a gentleman all through. They have both had experience abroad and widely informed and I regard them as men of exceptional ability. They have been frankness itself in discussing their own affairs, financial and political. My opinion is that the bank is splendidly managed, that it stands for sound progressive ideas, without jingoism, and that our relations with them should be developed as experience justifies. Our chief concern should be to maintain stable exchange rates between the two countries. They are proud of our relationship and friendship and want it to be closer.

At the moment I suggest that we look into the situation respecting making purchases of silver for their account. They will want about 10 million ounces and would like to have us buy it for them for San Francisco delivery (or Seattle) to

avoid cost of shipping across the Continent. I am not sure what the Treasury policy is just now, but presume you know, and will try and accommodate the bank should you hear from them. They will also continue making purchases of Treasury certificates and would like advice regarding other short time investments of the highest grade in case the Treasury discontinues issues of certificates of indebtedness. It is the policy of the bank to carry large balances in New York because of the large volume of Japanese bills there and the Government will probably carry balances for the next four years until the bonds sold in the U.S.A. during the Russian War mature in 1924, when they will be paid.

They would be glad to enlarge the limit on the account with us and I would be glad to see it done, if the directors agree, (but it is not necessary at all.) Also I would not hesitate, should the exchange situation make it expedient, to build up a balance here, and purchase bills under the agreement to do so freely, using care to see that they understand what is eligible; and that there is no lack of understanding as to whether the account should be operated from New York or from Japan. Crane will understand the point.

Some of the Japanese bankers have said that they are much handicapped by the restrictions upon their agencies imposed by New York Laws. I have explained the situation as to Federal and State Law and my own position, which Mr. Jay shares as to making New York a free banking market. Also I have told Mr. Kajiwara, head of the Yokohama Specie Bank, Baron Sumitomo of Sumitomo Bank and Baron Mitsui, that our officers would always be glad to see their New York agents and talk matters over with them, and urged them to send their men to us and tell us more of their own affairs. The desire on every hand is to develop closer relations and better understandings between their bankers and ours. We can do much toward promoting it.

I do not want to convey the impression that everything in Japan is serene and lovely. There is the present business and financial upset which is severe and not by any means ended, but not in my opinion likely to reach any of the big banks with business abroad.

Then there is the question of relations U.S. politically. The military influence is still very strong in Japan, it has some of the old feudal ideas resembling a bit those of Prussia, but I am sure they realize that war with the U. S. would be suicide. The only trouble is the constant recurrence of irritative action by the State of California and by Californians, - coupled with the effect of the hostile press, such as Hearst at home and some of like color here. One can imagine a situation where the Government, influenced by the military, could only "save face" by some rash action in this matter, in the last extremity, should some domestic upheaval occur. It seems very unlikely however and the best men with whom I have talked, say it is impossible. But one cannot overlook the existence of the irritation and the self-restraint they are sometimes called upon to exercise in the face of what seems to them, at least, great provocation. The men I meet, mostly business men, are most keen to have close and friendly relations in America, and generally the influence of American trade, institutions, education, and thought is stronger in Japan to-day than that of any other nation.

The real cloud on Japan's horizon, small as yet, very hard for us to understand and more dangerous than any other, is the vast domestic, social, political and economic revolution now taking place, and the effect upon the common people of a change possibly more rapid than they are able to adjust to. I shall try and give you a hazy idea of the situation, my own ideas being hazy enough I admit.

The civilization of Japan during thousands of years of insular isolation developed a social and political system based upon the family, the ~~tabi~~ tribe, the clan, and so on up to Emperor who is in a measure a deity. Every act and thought, almost, of the individual was subject to the control of family council, or by the decision of a higher authority by seniority. The conventions and formalities surrounding their daily life were without number and had to be religiously observed. Everything led up to the Emperor, whose divine will, once known, was supreme. It covered business, marriage, education, travel, how to make or return a call or serve tea. Behind it all was a strong military feudalism.

All production was by hand labor and by craftsmen. For the first forty years since the Shogun downfall, the influence of the old order continued almost unchanged, the military being the binding force in front, the old social system controlling underneath. Industry is disturbing this system. Sons and daughters are leaving homes in the country to work in mills, the latter often being "sold" or bound out for the purpose through agents who cover the land. Foreign or western ideas are creeping in. The old system is growing weaker, and democratic institutions are supposed to be taking the place of the old feudal institutions. It may be said that in the old days the people were comparable to a mass of iron filings sticking to a mass of iron through which a magnetic current passed. Stop the current and the mass would fall apart. Something must take the place of the current. The military and the old aristocracy has done much to hold the nation together. It defeated the Satsuma revolution in '78. But can real democratic institutions take the place in a few decades, of a system thousands of years old, hold their loyalty in time of adversity, and stand the test of exploitation such as is more or less inevitable. The danger is in the inadequacy of the new system. The franchise is given to three million voters who qualify to vote when they pay 3 yen or more direct taxes. The men of great wealth are getting increasing influence in political matters. It presents an ideal set-up to expand and exploit Japanese industrial and commercial development of the rich and influential, at the expense of the poor. There are people who say that some sort of an upheaval in Japan is certain in time, and that it is only a question of time. One cannot escape feeling that much will depend upon the honesty and self-denial practiced by the leaders, political, military and business, in managing the development of the nation, avoiding burdensome indirect taxes to the poor and paying more direct taxes themselves, going slower in domestic and foreign development, with all the financial burdens imposed by their ambitions if gratified. Briefly, Japan cannot finance the plans of her most ambitious politicians, and to attempt to do so would be too

heavy a burden upon her people. The risk lies in such an attempt with the old ties loosened. If the people lost confidence in the new regime, tried to take matters in their own hands, and really broke loose, all would depend upon how loyal an army they had at hand.

#

I am summarizing rather badly, some views held by students of events here, and have expressed what I have heard, very frankly, to some of my Japanese friends. They have a keen realization of these matters, but say that the growth of liberal ideas among the abler and better educated Japanese, will be equal to the situation. My own view is that the present upset of business is a good thing, it will make them pause,- that it will be a long time before the poor people gain sufficient independence of ideas to risk anything like an attack upon the existing order, and that our government and our people can do much to strengthen the hand of the sound and liberal minded men of Japan, by dealing with them as they should be dealt with,- less suspicion and more confidence. More than anything else Miles and I have both been impressed by their economic and especially financial dependence upon us. They need our markets, our raw materials and credits. Only California and the questions arising there, some of them sound enough, maybe, prevent the best of relations in business and in political affairs, unless we cross wires in Asia which seems unlikely.

This is a subject that can be covered in discussion much better than on paper. I have devoted a lot of time to getting acquainted with the bankers particularly with the Bank of Japan, have formed a high opinion of them, and think all parties will be benefited by extending our relations with them. I suggest that you send for the agent of the Bank of Japan and tell him that we will be glad to give some ideas and material for his regular cable to the Bank if he can arrange to get similar advices for us, to be treated confidentially.

Separately I am sending you some data, for your information and our files and there are some documents regarding Japan in a box & am sending Mr. Beyer also for the Bank.

So much for my observations, and I hope my suggestions appeal to you and Mr. Jay.

Just now we are stopping at one of the most beautiful places in Japan in the mountains, loafing, and shortly start a cross-country trip, walking, by motor, horseback, rickishaw, palanquin, sedan chair, boat, and every other kind of conveyance.

ter we shall spend a few days at Baron Sumitomo's villa on the Inland Sea at Maico, but have no plans save to wander and loaf. From the papers I see that you are tightening up ri ht along and that prices at last are coming down some. Don't let up under pressure from those most responsible who are now suffering the most.

Best regards to you all, and good luck.

Sincerely,

(Signed) Benj. Strong

S-20 0

OPERATED BY
TOYO KISEN KAISHA.
W. CLARK
MANAGER.

THE ORIENTAL HOTEL

THE BUND, KOBE.

TELEPHONES:
SANNOMIYA 1954 / 741 (L.D.) / 1597
TELEGRAPHIC ADDRESS:
"ORIENTAL" KOBE.
P. O. BOX No. 55.

Kobe, Aug 11th 1920.

Dear Mr. Case,-

We sail for Shanghai, Hongkong, Singapore and Batavia today, after many delays. Just as we were leaving Tokyo the officers of the Bank of Japan presented me with a beautiful set of books on the art of Japan,- they have loaded us with attentions and hospitality, and in every way shown themselves friends. I would like to give them some evidence of our appreciation and two things occur to me. They have a research department where foreign methods, literature etc are studied very thoroughly. I know they would appreciate it if we sent them a set of books on Banking, Currency etc such as we sent to the Nat. Bk. of Belgium. My idea would be to make it as complete as possible, have all the books nicely bound, and the name "Bank of Japan" printed on the cover. Will you arrange this for me?

Also they are sending a young man

THE
ORIENTAL HOTEL
THE BUND, KOBE.

TELEPHONES:
SANNOMIYA 1954, 741 (L.D.), 1597
TELEGRAPHIC ADDRESS:
"ORIENTAL" KOBE.
P. O. BOX No. 55.

Yoshikawa

Kobe,

Mr. Okomoto, to New York, to work in their office, learn our language, and American banking. He will arrive in about six weeks. If one of our men, say Mr. Jefferson, could give him some help, they would be very grateful here and we would be doing them a real favor. Possibly some of their men from the various departments could take him in hand in turn. All of this will go a long way toward establishing cordial feelings, and as I have already written, I have a very high regard for the officers of the Bank.

Please give my best regards to all of the officers of the bank. I miss you all very much, and am eager to get back on the job.

Sincerely,

Ben: Strong.

C O P Y

The Oriental Hotel
The Bund, Kobe
Aug. 11th 1920

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Sincerely

[signed] Benj. Strong