

As long been my hope to visit
Japan. As with many of my
Countrymen I have wanted to
enjoy your beautiful scenery, and
to visit some of the many wonder-
ful Temples and Palaces of
which we have heard so much.
Then I have looked forward to
meeting some of the men who
have helped to make Japan the
great and modern nation
that she has become. But
more than anything I have
been anxious to make some
friends in Japan.

The hospitality of my recep-
tion makes certain that my
visit will be a success in
all of these respects. Nothing
could have been so pleasing
to find upon our

arrival that the friends I had looked forward to making were already made. Every attention that friendship & painstaking Courtesy could suggest, has been thought of in advance and Every discomfort and inconvenience of travel has been removed.

As you know it is ones first ^{visiting} experience in ^a new ^{scenery} Country that makes the deep impression that Endures and my memory of this beautiful Country will remain vivid with this welcome of good will and kindness.

To Mr Inouye Mr Fukai and their associates I am especially indebted. Some

day I shall hope to have the pleasure of entertaining them and you in New York whenever you honor us with a visit. A cordial welcome awaits you.

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 ~~if~~ 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 over-emphasize 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
blended thing to have such
meetings as Mr. Venderlip ~~and~~
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 over-
emphasize the point, but it

appears to me also that the association which you have just concluded with Mr. Lamont, is the most important ~~in the~~ 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 friendships 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 goods, 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 Govt. 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

demand for goods from abroad, and the fear of it, coupled with cancellation of war contracts, brought about some feelings of uncertainty, some liquidation, and price reductions. We had some unemployment of labor.

But the pause was short and price advances were harder, more than expected 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 needless 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 co-
 operation with the Secretary of the
 Treasury. We had employed the
 2 1/2 years of the first period
 to develop and perfect this new
 organization with a view to
 meeting increased demands
 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 term bonds to the investing public. The great Liberty Loan organizations, which were auxiliaries of the F.R. Banks covered every section of the country, to the remotest hamlets. It is estimated that about 2,000,000 ~~volunteers~~ 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 \$20 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 ~~has~~ bond. The notes
 were sold through the Reserve Banks
 and at 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 $5\frac{1}{2}\%$ 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 that 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 this 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

basis generally, now exercised in
 favor of bills which may be dis-
 counted 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
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 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 whole, 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

toed 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
request 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
time has done much to make
our influence effective. But
behind this the backbone 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 ad-
 ministrated ~~administered~~ im-
 partiallly, 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 ad-
 ministration would be possible,
 and that our information would
 enable ^{us} to judge of the soundness
 of the audits 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 ~~specific~~ individual banks which see 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 borrower, except the paper is of very small amount.

Our larger Commercial Banks are 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 dis-

Turbances. 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, organ-
ized 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 kind
and ^{in the} the unnecessary employ-
ment 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 main-
tenance of sound Economic
Conditions have been described.

My statement is principally of
the New York point of view and
experience. The program was
infinite, 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, ~~as our~~ coincident with our entering the period of readjustment. It is not necessary to review the ^{of our Office} changes 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

Sources of Thrift, Durable, 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 con-
 sumption, and the materials
 required for war be produced
 out of the savings 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 advance more rapidly than production increases. The banking and credit machinery of the world, which plays the part of bookkeeper, steadily 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
 steel and war ships would
 feel the pressure as ^{severely} ~~surely~~ as
 would producers of automobiles
 and whisky. 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

Winchester 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 better 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
 of ^{men of Affairs} in Japan, and we in
 America have before us
 a great future of progress,
 with great ^{serious} ~~needs~~ to reform,
 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 visits and
hold constantly my good
wishes for your prosperity
and happiness.

SPEECH BY BENJAMIN STRONG,
GOVERNOR OF THE FEDERAL RESERVE BANK OF NEW YORK,
AT THE TOKYO GINKO CLUB,
MAY 24, 1920

It has long been my hope to visit Japan. As with many of my countrymen I have wanted to enjoy your beautiful scenery, and to visit some of the many wonderful temples and palaces of which we have heard so much. Then I have looked forward to meeting some of the men who have helped to make Japan the great and modern nation that she has become. But more than anything I have been anxious to make some friends in Japan.

The hospitality of my reception makes certain that my visit will be a success in all of these respects. Nothing could have been so pleasing as to find upon our arrival that the friends I had looked forward to making were already made. Every attention that friendship and painstaking courtesy could suggest, has been thought of in advance and every discomfort and inconvenience of travel has been removed.

As you know it is ones first experience in visiting new scenes that makes the deep impression that endures and my memory of this beautiful country will remain vivid with this welcome of good will and kindness.

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Esbeck

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.

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3/10/19

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 ^{the Federal Reserve Board} sure are subject to strict supervision by a Government body, -- 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

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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

Fidelity Orange Skin

101-10200
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.

Japan is ~~submitting her~~ ^{making} claim that she has become
a modern nation ^{and submit her claim} ~~to the~~ judgment of the world.
This judgment will ~~at present~~ ^{be} based upon ~~the~~ ^{what we observe of the}
behavior of ~~the~~ official and military services
in their contacts with Europeans abroad, as
in China and Siberia. It ^{will} also be formed
~~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
~~be~~ have been misled, ~~because~~ 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 shown ^{in Japan} upon travellers 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 ~~the~~ ^{impressions} observations and impressions
gained in a stay of three months. They are

However the fruits of ~~the~~ ^{its} ~~travels~~ ^{travels} into many places
travels visited by travellers, and of ^{rather untypical associations}
with all classes, from ~~the~~ Pleasants ~~and~~
Coolies ^{and priests} to leading Statesmen, business and
business men. They are distinctly ~~the~~ impressions
rather than ~~the~~ well settled convictions.

Japan is an open book to one who desires simply
to ~~understand~~ ^{learn} what Japan ~~is doing~~ has done
and is doing. The Japanese ~~is~~ however, ^{is} a
puzzling mystery to one who tries to
fathom ~~why he does~~ the mental processes
and motives actuating him in his affairs.
Not ^{can} ~~is~~ this ^{distinction be escaped} ~~difficult to appreciate~~ when the
history of the nation is considered. Japan is
the only great nation which has ^{preserved} ~~kept~~ a
highly developed oriental civilization down
to modern times, wholly untouched by the
influence of western civilization - and then
^{a period of} ~~in~~ ^{last} ~~the~~ ^{things} ~~western~~ ^{as} ~~one~~
would put on a suit of clothes. The clothes
are western, but the man inside is ^a ~~Japanese~~ ^{and an oriental} ~~or~~
hundreds of years his blood has been unmingled
Japanese, - he has lived for many generations

33/
within the influences of a feudal, ^{political} paternal ^{social} system. He has had no true religion, ^{instruction and worship} and he has ^{recently} conducted, with great courage, the fight for subsistence in an overpopulated land. We can hardly 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, and whose characteristics will, in due time, determine the nation's place in the world. ^{Japan is to occupy} One cannot meet them intimately without ^{feeling} admiration ^{realizing} for 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 amongst 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 says the ambassador 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 ^{substitutions}, nor is that strange

Written from the
the Japanese people

in a people who have practiced ancestor
 worship based to the ^{Possibly than} ~~number~~ ^{of} ~~ancestors~~ ^{are no more uncommon or} ~~ancestors~~. 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 occurrences better} ~~may~~ ^{be}
~~explained~~ ^{ascribed to} ~~the~~ ^{their} intense patriotism. ^{than} ~~any~~ ^{other} ~~cause~~,
 sensitiveness and pride, and to the discouragement
 of struggles against ^{the} poverty so long
 endured by the ~~poor~~ ^{working people} ~~classes~~. 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 ~~not~~
~~exceptional~~ ^{remarkable} ~~and~~ industrious, patient toilers. The
 work of the nation has for centuries been performed
 by man power with ^{little} ~~the~~ ^{and none from} aid by animals, steam or
 electricity. ^{but 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 ~~crop~~ ~~and~~ ~~lives~~, crops and buildings. Japan

is a series of precipitous mountain ranges, of
unstable formation; subject to the constant action
of brook 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 ~~torrential rain fall~~ ^{outburst of nature} or typhoon. 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~~ ^{been}
centuries disclosed to the world.

Patriotism and a strong national spirit are
the natural ^{products} ~~fruits~~ of feudalism and ancestor worship in
~~by~~ a people of unmixed blood who have succeeded
in excluding foreign influences, and who have ~~so~~
~~maintained~~ highly developed social traditions and
customs, ^{which have been} practiced for many centuries by an
unmixed people. The government of Japan, until
fifty years ago, was no more nor less than an
elaborate recognition of the authority ^{exercised} ~~of~~ the head of
the family, ~~then~~ of the tribe, ~~then~~ of 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 ^{all} this, ^{or} other and less admirable seeds to the
 Japanese Character. One is struck by the ^{almost complete} absence of
 Expressions of human sentiment in their poetry, art,
 and social relations, and customs. Japanese poetry is
 principally expressions observations upon natural
 phenomena, introspection and obscure references
 to ones feelings, the beauties of nature etc.
 Their art is largely depicts the scenery, flora
 and fauna of the country, ^{military figures and events,} some allusion to
 the spirits of the dead, and ~~to~~ representations
 of Buddha and his satellites. Little evidence
 appears, even among the people themselves, of
 the sentiments of gratitude, affection, admiration,
 true worship, such as practiced by those of a
 Christian faith, is not seen. Parents show a
 strong and tender affection for their children, but
 the higher qualities of friendship, of self sacrifice,
 unselfishness and helpfulness to each other, are
 deplorable 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 homes for thousands of years, the
inventive qualities ~~of a~~ ^{which characterize} the pioneer races have
disappeared, if they ever existed. This adoption of
Western institutions has been a species of mimicry,
wonderfully executed, but without originality, even
in ~~the~~ ^{adaptation} to local conditions. (1)

A more obscure but justifiable 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 food stuffs. 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
~~new~~ ^{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} parallel

circumstances arising from such a ^{given} development.
It must be admitted that ^{such as is afforded by athletic and other clubs,} ^{then} social life has
contains too little wholesome recreation, it has
been too largely prescribed by convention and
in certain respects has had a tendency to
develop social immorality and its
accompanying ills, both mental and
physical.

Since Japan achieved her outstanding
position in the East we have ~~become~~ become
accustomed to the idea that Japan had
~~created~~ ^{has arisen} a problem for the world to deal
with, - and that the problem ~~was largely~~ ^{lay} ~~was~~ ^{lay}
almost entirely in ~~Japan's~~ future political
relations with the continent of Asia. This
is indeed ~~the~~ ^{for us} problem, but ^{for the Japanese} probably less
vital ^{one to us} in the long run than is the
problem of how the 57,000,000 people in
the Island Archipelago 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 a democracy. So it remains to be seen what shall be made of the nations' greatest asset by those who direct the destinies of the people. Howev' his Japan's greatest danger, as will be observed by considering some of the results of fifty years of an ^{adopted} ~~adopted~~ civilization drawn from Europe and America -

skilful intercourse with the world and to
 Japan's determination 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
~~and social~~ institutions wherever results
 abroad indicated that useful knowledge
 could be acquired. Literally a miracle was
 performed by this determined and in-
 telligent 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 trams, 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. Wharves
 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 to all
 capacities, ~~as well as~~ ^{and} by establishing
 technical schools at home. Compulsory lower
 Education, supplemented by middle schools
 and universities, although not adequate for
 the demand, have developed the existence
 of an inalienable desire for Education
 among all classes. ~~The~~ Efforts were ~~undertaken~~
 by the Government to ~~introduce~~ improve
 the culture of silk, rice and other of the
 native products, and to protect the farmer
 from pests and ^{from} deterioration of quality.
 The results of ^{of} fifty years ^{of determination} pursuit of a set
 purpose have ^{been to} establish Japan as a ~~great~~
 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 landwork
 with justifiable pride. Should you ask
 him to explain the motives actuating him

He will judge that a population of 50,000,000 ^{people},
 cannot be supported on the Japanese
 Archipelago, 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 food stuffs. 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 these results may be bought
 at too high a price if acquired ~~at the~~
~~expense~~ regardless of the ^{moral, physical, and} social ~~and~~ welfare
 of the people whose labor must produce them.
 One is deeply impressed by the ^{appearance of} neglect of ~~the~~
 attention to this vital factor in the upbuilding
 of new Japan. Industrial centers are being
 created, with dense population, involving a
 complete readjustment of the social

Young men & women

Conditions surrounding the lives of millions of
 women. 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 women, including women and
 children, ^{get wet on the way to} must frequently work ^{or} ^{at} ^{schools,} and
 clothing. Telegraph and telephone service
 is slow and expensive, as well as
 inadequate. Even now a premium of
 \$2000. 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 loads pulled by man power. In a
 hot ^{humid} climate such as Java'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} and
 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 factories
 shops and mills, were possible, because a
 dread of tuberculosis, without a larger
 proportion of animal fats. Fifty years
 ago tuberculosis was practically unknown
 in Japan, and is now prevalent and
 increasing ^{disastrous} 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, paternalistic Japan, circumscribed
 by convention and tradition, and of little

Value in disseminating useful Education ~~the~~ ^{or in}
~~Political or Economic~~ ^{'Social'} Development, ~~Political~~
 and Economic ideas. In the United States
 we see Societies organized in all directions,
 Churches, with Congregational worship, Sunday
 Schools, and innumerable welfare and other
 organizations, ~~clubs~~ ^{Societies}, fraternal ~~organizations~~,
 Y.M.C.A., Y.W.C.A., the farm bureau & Grange,
 Bloca parties, Labor Organization, Economic
 and debating clubs, Rotary, and athletic and
~~organizations~~ Social Clubs, cover the land
 with a ~~great~~ membership embracing all
 and influencing all. We may overlook in
 our abundance, the benefits flowing from
 this highly developed social structure, until
 we consider ~~the~~ such a nation as Japan,
 where little, almost none, of this is found,
 and where 'public opinion' must in con-
 sequence be sluggish, and the people
 easily ^{become} the victims of corrupt politicians
 and a misleading ~~press~~ and venal Press.

Evolution of Government in modern times has grown
 out of the ceaseless struggle ^{between the classes,} which has centered
 around the power to levy taxes and apportion taxes
 and to determine their use. In Japan, ^{policy 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 Govt are principally drawn
 from indirect taxes, and between fifty and
 sixty percent 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} ~~what~~ produced
 only what could be expected, a general

political class, closely associated with men of
 large affairs, and Corruption in Election as
 well as in ^{the} Legislature and Officials. Now I know
 this has become, cannot be stated or assumed.

It is common knowledge that the Jack escape
 taxes, large holdings of unimproved real estate,
 lying within ~~the~~ city limits, frequently in the heart of, ^{Osaka, Kyoto etc.}
 belonging to business men & 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 to industry, and other evils
 of a like character, ^{both} debasing to ^{the} government,
 and dangerous for the people. Quite certainly
 the Jack are growing richer and the poor can
 only become poorer, unless a change takes
 place.

More difficult to describe, because of the deep obscurity which characterizes Japanese Government affairs, is the Government itself. Japan claims to be a democracy. In reality it has adapted ^{some} 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 ~~on the one hand,~~ ^{and} ~~and~~ ^{of the} old feudal nobility. ~~On the other.~~ The outstanding characteristics of the present system seem to be -

1st - The upper house is aristocratic, largely non-partisan and more directly the ~~source~~ 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 ^{so called} corrupt, popular elections, and without 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 ^{underground} subtle alliance of interests, now largely composed of ~~dominators~~ by

- a. A small ^{class} front of the old nobility including the Court circle.
- b. A well entrenched bureaucracy.
- c. A ~~dominating~~ ^{dominating} military class of ^{disposition}.
- 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 accom-
 plishments have not been great, but their
 influence is growing and is recognized,
 not only in Great Britain, but by the Press
 and Public -

Japan is today being governed by 20
 Samurais, 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
~~objects~~ ^{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 ^{people} they are gradually
 becoming conscious, and that it cannot
 last. It seems that in matters of

Foreign Policy, as in China, Liberia, ^{and} Corea,
~~and even~~ the military front have so far
 dominated. In domestic developments,
 Economic affairs etc, Policies have ^{largely} been
 shaped by ~~the~~ a combination of the
 business interests with the Civil Bureaucracy.
 Behind both stands the influence of a few
 men, namely a few of the old feudal ^{families} nobility,
 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 Government, but ~~inside~~ underneath
 is the Japanese of the feudal days, not yet
 greatly changed from the man of sixty
 years ago.

The foregoing is Preliminary to an expression
 of impression 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 questioned with. The mass of the
 population still retains many of the characteristics of
 the self of feudal times. The men of the governing
 class are almost a different race. They are
 ambitious, proud, reserved, dominating and
 frequently arrogant, but only too often are
 utterly unreliable and unscrupulous. There
 are of course many exceptions to this general
 statement; - men of high character, honest
 and straightforward, who excite ~~and~~ 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.

To-day 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, surplus of material and technical knowledge which has enabled the trade to develop. ^{one must likewise observe that their exports to us are largely} We are their bankers who finance their trade, and with whom their surplus balances and government balances are principally carried. Our educational institutions are being called upon to ~~to~~ educate their young

which of course I find no help of

in Western advanced Courses, and our
 business houses are giving training to a
 constantly larger number of their ^{professional and} future
 business men and leaders. One is im-
 pressed 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 ^{names}, however our interests
 clash. ~~and~~

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

2. Our insistence to their ambitions in
 China and Siberia.

3. 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 needless, harsh
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 also because, whether the interests of the
 form, or the folly of the nation, might lead
 them into an armed conflict with the U.S.

Other conclusion is that such a calamity is
 improbable, or at least very remotely
 possible at the present times, for the
~~following reasons.~~ and the basis of this
~~the~~ belief is the following.

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

2^d They now have with our bankers probably
 \$400,000,000 to \$500,000,000 of their money,
 which they consider great balances, and
~~at least one half~~ ^{the greater part} is the property of the
 Govt & 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 ^{disasters} policies 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} ~~true~~ respect for

the military strength of America, and for
 her ability to ^{Quarta} ~~am~~ raise 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 ~~it~~
 Messian at our demand could ^{only} be

arranged without humiliation, with
 great skill.

2^d - 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 ²⁹ I think I might lead them to
a war of folly and disaster over
the immigration dispute, I think that
leaders and press succeed in
what I believe would be an artificial
creating popular support. That I
suspect 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
~~and~~ military bureaucracy into the
stupid folly of a hapless foreign war.

(a)

① It may ~~truthfully~~ be said that they have taken their Religion from India and China, their art from India, China, and Corea, their alphabet from China, their Architecture from China and Corea, their Agriculture from China, their Industry from Europe and America, their Army from Germany, their Navy from Great Britain, their Education from America, England & Germany.

② The reaction from the exaggeration of material aims has not, however, been confined to ^{the effect upon} the industrial population. Japanese 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

(6)

stances of shameful disregard of the truth,
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by those ^{who have suffered in their} dealers with Japanese traders and
manufacturers. It seems that the crowning
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the Chinese in recent months, - a spontaneous
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(3) 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~~ ^{be created} make them a great nation whenever

(C)

They awaken to a consciousness of their power, ~~and~~
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CONFIDENTIAL.

[July 20]

Japan makes the 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 business men, officials, and military services in their contacts with Europeans and Americans abroad, notably in China and Siberia. It will also be formed in a large degree from the impressions of casual travelers in Japan.

It must not be overlooked that those critics who condemn the Japanese and their methods may have been misled through having 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 literally forced upon travelers of position and influence when they visit Japan. 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 stray of three months. They are, however, the fruits of trips into many places rarely visited by travelers, and of rather intimate association with all classes, from peasants, coolies 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 influences 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 of limited resources. 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 amongst the poorest, show a quality of courtesy and good nature in their relations with each other, not to be found in America or Europe.* One gains the impression that they are gentle and not quarrelsome; even in fact among the children, when in three months no children's quarrels or fights 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 nor extreme than those of the European peasant. Much has been heard of a supposed strain of fatalism in Japanese character. Probably this arises from stories heard during the Russo-Japanese war and to the large number of suicides reported. Such occurrences 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 from animals, and none from steam or electricity until very recently. Few people have faced successfully such a contest with the forces of nature as have the agricultural classes of Japan, which comprises most 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 constant action by 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 this people of unmixed blood, who have succeeded in excluding foreign influences, and who have enjoyed their own highly developed social customs and traditions, which they have practiced unchanged for many centuries, protected by their insular position. The Government of Japan until fifty years ago (and to a large extent now) was no more nor less than an elaborate recognition of the authority recognized 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.

There is, however, another and less admirable side to Japanese character. One is struck by the almost complete absence of expressions of human sentiment by Japanese people, nor do they appear in their art, poetry or social relations. Japanese poetry principally expresses observations upon natural phenomena, introspective 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

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of nature etc. This art largely depicts the scenery, flora and fauna of the Country, military, [†] legends 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 admiration. It may be that the bushido training, which aims to develop discipline and a standard of Chivalry, has equally taught suppression of all sentiment, as it did in fact teach self control and self restraint, and viewed the disgrace of betrayal of ones feelings by word or expression. True community 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, - 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 softening and strengthening, 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 often 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 China and India, 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 flags from Great Britain, their Education from America, England & Germany.

A more obscure, but justified comment, applying to the upper classes, is that they are unable to employ inductive reasoning. As an example, they know that their Country is overpopulated and must increase its importation of food stuffs. They know that they must increase their 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 induced by 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 proscribed 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. That may indeed be the problem for us, but for Japan it is less serious and vital, though

possibly, not realized by his Statesmen, than the problem of how the 57,000,000 people on her island Archipelago are to be governed, developed 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 adapted civilization, copied from that of America and Europe.

Japan's determination to open intercourse with the world and to introduce Western civilization was undertaken with a vigor and thoroughness never equaled in any similar enterprise. Men were sent abroad for education; technical experience was drawn from Europe and America; schools were established in Japan; public finance, banking and commerce was

Reorganized, status was made of political, economic, military and educational institutions. Whichever 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 by German methods under German officers, with compulsory service as the basis - a navy patterned after the best experience of Great Britain - soon railroads and beams, steamship lines and ship yards, banks, factories and trading houses sprang into existence, branches of Japanese banks and mercantile houses appeared in Asia, Europe and America and Japan's flag soon became a familiar sight in many parts of the Seven Seas. Arsenal and navy yards were built, and the disabilities of lack of technical knowledge and 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 present demands, have disclosed the existence of an insatiable desire for education among all classes. Efforts were shortly undertaken by the Government to improve the culture of rice, silk and other of the 'native' products, and to protect the farmer from pests and safeguard him against deterioration of quality.

The results of fifty years 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 look upon his handiwork with justifiable pride. Should you ask him to explain the motives which actuated the nation, he will reply that a population of fifty seven million people cannot be supported on the Japanese archipelago alone, that but 14% of the land is capable of cultivation and it is all in use, that he must produce manufactured goods, for which

much of the raw material must be imported, and that a surplus of manufactured products must be exchanged for food stuffs. He points out that the annual increase in population is 700,000, and that at least this number must each year be provided with industrial employment if Japan is to be adequately fed. In all of this he is undoubtedly correct. But his mind has become 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, not to mention spiritual, welfare of the people whose labor must produce them.

One is deeply impressed and frequently depressed by the spectacle of neglect of attention to this vital factor with the upbuilding of new Japan. Industrial centers are being created, with dense populations, involving a complete readjustment of the social conditions affecting the lives of millions of young men

and women workers. Water supply is frequently inadequate and sometimes unwholesome, nowhere is there an effort to introduce modern sewage systems and improved sanitary habits, even in cities with 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 large numbers of workers, including women and children, get wet on the way to factory and school, and must frequently work or study in wet clothing. Telegraph and telephone service is slow and expensive, as well as insufficient, even now a premium of 2000 Yen is being paid to obtain a telephone instrument from an old subscriber. Roads are rough, dusty or muddy and not suitable for automobile and heavy traffic, nor the huge loads dragged by man power. In a hot humid climate such as Japan's, hygiene and sanitation are almost as essential as wholesome food and drink, if

industry is to thrive without injury to the
 industrial class. Sufficient attention is not
 being given to this subject. Japan has no
 grazing land save in the northernmost islands,
 now rather sparse, populated. No herd of
 cattle are seen on the hills, now covered with
 bamboo grass or timber. The Japanese diet
 consists principally of rice, beans, fresh, raw
 or dried fish, and vegetables, with little meat
 and no milk and butter. Chickens and eggs
 are largely used by those who can afford them.
 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.
 Fifth means also tuberculosis was practically
 unknown in Japan, and is now prevalent
 and increasing. It will undoubtedly find
 added victims owing to the widespread
 suffering of the poor from the various venereal

diseases common in the East, but probably ineradicable so long as moral and living standards are as low as they seem to be in Japan.

Neglect of the physical welfare of the people is only matched by the 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 disseminating 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 like 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 an influence reaching all. We may overlook in our abundance, the

A.

want to go after the word "Russo" on
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A. (encl)

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been drawn into political activities and the
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 duced 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, for example,
 lying within city limits, frequently in the
 heart of Tokyo, Kyoto etc, belonging to
 business men and to the old nobility, still
 pay nominal taxes as "forest lands".
 The association of business and politics so far
 seems to have resulted in fortifying the policy
 of indirect taxation, subsidy to industry and
 other evils of like character both deleterious to the
 Government and dangerous for the people.
 An exception might be stated in that the
 present minister of finance is making an
 effort to secure legislation to increase the

benefits flowing from this highly developed Social Structure, unless we consider such a situation as Japan's, where little - almost none - of this is found, and where public opinion must in consequence be sluggish, and the people easily become the dupes of corrupt politicians or of a misleading and venal Press. (Innovat page A)

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 appropriate taxes and to determine their use. In Japan policies of taxation are liable to exercise as profound an influence upon political developments as they have in Britain since the days of King John. At present the revenues of the Federal Government are principally drawn from indirect taxes. and between fifty and sixty percent are consumed in military expenditures. Popular franchise is based upon the amount of direct taxes paid, which was originally fixed at fifteen Yen and is now three Yen. Inevitably, the business man of large means has

income tax and to authorize a study, looking to more extensive tax reforms. At present, however, 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 government affairs, is the government itself. 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. It seems to be a perpetuation, in disguised form, of the family government of the Shogun days. The outstanding characteristics of the present system seem to be:-

First. 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.

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

Third. Out of the two houses, governments are formed, ostensibly, at the choice of the Emperor, in reality, as the result of a subtle under ground alliance of interests now largely composed of

- (a) a small group of the old nobility including the Court circle and the two surviving Genros.
- (b) a well entrenched bureaucracy,
- (c) a military clique of dominating disposition.
- (d) a powerful business and money class.

Fourth. Growing in numbers and influence is a group of men, largely young men, who are working quietly, frequently effectively, to bring about better government. So far their accomplishments have not been

great, but their influence is growing, and is recognized not only in political circles but by the press and public.

To summarize, it may be said that the 50,000,000 people of Japan today, have little to say about their Government. They are, on the contrary, being governed by a very small number of men, many of whom are 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, especially in Corea, China and Siberia, the military groups 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 more than a nominal, power of veto. We see in the Japanese government, at present, the Western element, but underneath is the Japanese of the feudal days, not yet greatly changed from the man of 150 years ago. In justice to Japan, however, it must be said that we can also discern in the Japanese people the essential foundations; that is industry, courage and character. Upon which can well be created a great nation whenever they awaken to consciousness of their power, comprehend the principles of democracy, and determine that the people shall govern the country and no longer 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 population as a whole 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 unreliable or unscrupulous. There are of course many exceptions to this general statement - men of high character, honest and straightforward, who excite admiration and respect when one considers the environment in which they have developed. But the trend is only too clearly justified in the general conclusion stated. 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 a 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 supplies of raw materials, machinery, 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 silk,

not necessary to our welfare. We are their
 banks, we finance their trade and with whom
 their surplus Government and Bankers
 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 their future professional and
 business men and bankers. One is struck
 by the frequency with which the desire is
 expressed by Japanese 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 three
 directions however, our interests clash, -

First. Our policy of excluding Japanese
 from settlement in the U.S.

Second. Their ambitions in China and Siberia

Third. 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 event our third we directly conflict with their selfish interests.

Even the best disposed Japanese believe that our methods of dealing with both the immigration and China questions, are needlessly brusque and disclose lack of respect for a sensitive people, who regard themselves as our equals, and earnestly desire recognition of their claims of 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 United States. My conclusion is that such a calamity is impossible, or at least very remotely possible, at the present time or in the near future, and the basis of this belief is the following:

First. Their trade with us is vital to their

Continued Precipitate.

Second They now have with our banks possibly \$400,000,000 or more of their reserves, which they consider good because, the greater part being the property of the Government and the Bank of Japan.

Third They are conscious of their economic weakness and of our overpowering economic strength.

Fourth They have come to realize their weakness and their unpopularity. The recent financial and business reaction opens their eyes.

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

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

Seventh The uncertainties of the treaty with Great Britain presents at present a distinct political weakness.

Eighth More than any other circumstance

They have learned wholesome respect for the military strength of the U.S. and 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.

First Thui Police in China and Siberia seems to have progressed to a point where success without humiliation will be very difficult to arrange.

Second Thui domestic Police of exploitation of Thui people, if Antoinette-Rao certainly a day of reckoning in prospect, from which a foreign war might be a means to rescue Thui leaders.

Third Thui Prude might lead them to a war of folly and disaster over the immigration dispute, should Thui leaders and Prude succeed in creating what would be an artificial popular support. That is, however, most unlikely, and the crisis could only be one of Thui own creation.

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

July 1920.

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Patriotism and a strong national spirit are the natural products of feudalism and ancestor worship, in this people of unmixed blood, who have succeeded in excluding foreign influences, and who have enjoyed their own highly developed social customs and traditions, which they have practiced unchanged for many centuries, protected by their insular position. The Government of Japan, until fifty years ago, (and to a large extent now) 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.

There is, however, another and less admirable side to Japanese character. One is struck by the almost complete absence of expressions of human sentiment by Japanese people, nor do they appear in their art, poetry or social relations. Japanese poetry principally expresses observations upon natural phenomena, introspective 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 admiration. It may be that the Bushido training, which aimed to develop discipline and a standard of chivalry, has equally taught suppression of all sentiment, as it did in fact teach self-control and self-restraint, and urged the disgrace of betrayal of one's feelings by word or expression. True community 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, 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 softening and strengthening, 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 often 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 China and India, their art from India, China and Corea, their alphabet from China, their architecture from China and Corea, 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 upper classes, is that they are unable to employ inductive reasoning. As an example, they know that their country is over-populated and must increase its importation of foodstuffs. They know that they must increase their 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 induced by 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. That may indeed be the problem for us, but for Japan it is less serious and vital, though possibly not realized by her statesmen, than the problem of how the 57 million people on her island archipelago are to be governed, developed 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, copied from that of America and Europe.

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, public finance, banking and currency was reorganized, 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 by German methods, under German officers, with compulsory service as the basis - a navy patterned after the best experience of Great Britain - soon railroads and trams, steamship lines and ship yards, banks, factories and trading houses sprang into existence, - branches of Japanese banks and mercantile houses 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 knowledge and 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 present demands, have disclosed the existence of an insatiable desire for education among all classes. Efforts were shortly undertaken by the Government to improve the culture of rice, silk and other of the native products, and to protect the farmer from pests and safeguard him against deterioration of qualities.

The results of fifty years 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 motives which actuated the nation, he will reply that a population of 57 million people cannot be supported on the Japanese archipelago alone, that but 17% of the land is capable of cultivation and it is all in use, that he must produce manufactured goods, for which much of the raw material must be imported, and that a surplus of manufactured products must be exchanged for foodstuffs. He points out that the annual increase in population is 700,000, and that at least this number must each year be provided with industrial employment if Japan is to be adequately fed. In all of this he is undoubtedly correct. But his mind has become concentrated upon material results, and he has become blinded or is

incapable of realizing that these results may be bought at too high a price if acquired regardless of the moral, physical and social, not to mention spiritual welfare of the people whose labor must produce them.

One is deeply impressed and frequently depressed by the spectacle of neglect of attention to this vital factor in the upbuilding of new Japan. Industrial centers are being created, with dense populations, involving a complete readjustment of the social conditions affecting the lives of millions of young men and women workers. Water supply is frequently inadequate and sometimes unwholesome; nowhere is there an effort to introduce modern sewage systems and improved sanitary habits; even in cities with 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 large numbers of workers, including women and children, get wet on the way to factory and school, and must frequently work or study in wet clothing. Telegraph and telephone service is slow and expensive, as well as insufficient; even now a premium of 2,000 yen is being paid to obtain a telephone instrument from an old subscriber. Roads are rough, dusty or muddy, and not suitable for automobile and heavy traffic, nor the huge loads dragged by man power. In a hot, humid climate such as Japan's, hygiene and sanitation are almost as essential as wholesome food and drink, if industry is to thrive without injury to the industrial class. Sufficient 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 covered with bamboo grass or timber. The Japanese diet consists principally of rice, beans, fresh, raw or dried fish, and vegetables, with little meat and no milk and butter. Chickens and eggs are largely used by those who can afford them. 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. It will undoubtedly find added victims owing to the widespread suffering of the poor from the various venereal diseases common in the East, and probably ineradicable so long as moral and living standards are as low as they seem to be in Japan.

Neglect of the physical welfare of the people is only matched by the 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 disseminating 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 like 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 an influence reaching all. We may overlook in our abundance, the benefits flowing from this highly developed social structure, until we consider such a situation as Japan's, where little - almost none - of this is found, and where public opinion must in consequence be sluggish, and the people easily become the dupes 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 been ignored, in the struggle for a place in world markets. Universally, throughout the East, and among people of all nations, the Japanese merchants are distrusted and heartily abused, for their methods, and for their 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 merchants and manufacturers.

It seems that the crowning shame heaped upon the Japanese - the outgrowth of political as well as business turpitude - 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 succeeded in inflicting great losses upon Japanese 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 control their use. In Japan policies of taxation are liable to exercise as profound an influence upon political developments as they have in Britain since the days of King John. At present the revenues of the Federal Government are principally drawn from indirect taxes, and between fifty and sixty percent are consumed in military expenditures. Popular franchise is based upon the amount of direct taxes paid, which was originally fixed at fifteen yen, and is now three yen. Inevitably the business man of large means has been drawn into political activities and the 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, for example, lying within city limits, frequently in the heart of Tokyo, Kyoto, etc., belonging to business men and to the old nobility, still pay nominal taxes as "forest lands." The association of business and politics so far seems to have resulted in fortifying the policy of indirect taxation, subsidy to industry, and other evils of like character both debasing to the Government and dangerous for the people. An exception might be stated in that the present Minister of Finance is making an effort to secure legislation to increase the income tax and to authorize a study, looking to more extensive tax reforms. At present, however, 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 Government affairs, is the Government itself. In reality it has adopted some of the forms of democracy, under the cover of which there 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. It seems to be a perpetuation, in disguised form, of the family government of the Shogun days. The outstanding characteristics of the present system seem to be:

First: 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.

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

Third: 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 group of the older nobility including the Court circle and the two surviving Genro.
- (b) A well entrenched bureaucracy.
- (c) A military clique of dominating disposition.
- (d) A powerful business and money class.

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

To summarize, it may be said that the 57 million people of Japan to-day have little to say about their Government. They are, on the contrary, being

governed by a very small number of men, many of whom are 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, especially in Korea, China and Siberia, 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 more than 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. In justice to Japan, however, it must be said that we can also discern in the Japanese people the essential foundations, - that is industry, courage and character, - upon which can well be created a great nation whenever they awaken to consciousness of their power, comprehend the principles of democracy, and determine that the people shall govern the country and no longer 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 population as a whole 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 unreliable or unscrupulous. There are of course many exceptions to this general statement - men of high character, honest and straightforward, 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

stated. And behind these men is the driving force of over-population which can well direct a selfish and egotistical government into a policy of calamity.

To-day Japan, largely as a 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 supplies of raw material, machinery 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, not necessary to our welfare. We are their bankers, who finance their trade and with whom their surplus Government and bankers 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 their future professional and business men and bankers. One is struck by the frequency with which the desire is expressed by Japanese 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 three directions, however, our interests clash:

First: Our policy of excluding Japanese from settlement in the United States.

Second: Their ambitions in China and Siberia.

Third: 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 the immigration and China questions, are needlessly brusque and disclose lack of respect for a sensitive people, who regard themselves as our equals, and earnestly desire recognition of their claims of 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 United States. My conclusion is that such a calamity is impossible, or at least very remotely possible, at the present time or in the near future, and the basis of this belief is the following:

First: Their trade with us is vital to their continued prosperity.

Second: They now have with our bankers possibly \$400 millions or more of their reserves, which they consider gold balances, the greater part being the property of the Government and the Bank of Japan.

Third: They are conscious of their economic weakness and of our overpowering economic strength.

Fourth: They have come to realize their weaknesses and their unpopularity. The recent financial and business reaction opened their eyes.

Fifth: The credit of their Government has already been strained to finance their military expansion.

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

Seventh: The uncertainty of the treaty with Great Britain presents at present a distinct political weakness.

Eighth: More than any other circumstance, they have learned wholesome respect for the military strength of the United States, and 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.

First: Their policy in China and Siberia seems to have progressed to a point where recession without humiliation will be very difficult to arrange.

Second: Their domestic policy of exploitation of their people, if continued, has certainly a day of reckoning in prospect, from which a foreign war might be a

resort to rescue their leaders.

Third: 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 would be an artificial popular support. That is, however, most unlikely, and the crisis could only be one of their own creation.

To conclude, 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 folly of a hopeless foreign war.

BOND

HAMMERMILL

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

(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 rarely visited by travellers, and of rather intimate association with all classes, from peasants, coolies and priests to leading statesmen, bankers and business men. They are distinctly impressions rather than well settled convictions.

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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 amongst

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 occurrences 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} ~~some~~ 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.

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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.

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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 archipelago, 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

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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 y 15 and is now y 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, ^{subsidy} ~~subsidies~~ 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

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- a. a small class of the older nobility including the Court circle.
 - b. a well entrenched 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.

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- 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.