Re-examining Japan's Continuation of the Gold Embargo in 1919:
The Gold-Exchange Standard and Its Dependence on International Politics

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1919 年日本に於ける金輸出禁止継続の再検討
—金為替本位制と国際政治の相関性を中心に—

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Abstract

While in the 1920s Japan was well "behind the times" in the interwar stabilizing programs to restore the gold standard, in the late 1910s it had been one of the few blessed with most favorable conditions to do so. This article focuses on the continuation of gold embargo in 1919, when Japan had the ability but lacked the willingness to restore the gold standard. This decision is worth examining not only because "the lost opportunity" was followed by a decade of repeated trials and failures to lift the gold embargo, but also because it reveals the very nature of Japan's gold standard. Japan's gold standard from the Meiji period was a de facto gold-exchange standard based on foreign exchange held abroad. This "overseas specie holdings" accentuated Japan's financial subordination, and induced the systematic vulnerability to any change in political relations between Japan and the key currency countries. This paper re-examines the continuation of the gold embargo in 1919, and explores how then financial leaders' perception of international political situation affected the decision about lifting the gold embargo.

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1. Introduction

While in the 1920s Japan was well "behind the times" in the interwar stabilizing programs to restore the gold standard, in the late 1910s it had been one of the few blessed with most favorable conditions to do so. Borrowing Ōno Kazuichirō’s words, although in the 1920s Japan was moving from a situation with the willingness but lacking the ability to lift the gold embargo (金解禁をなさんとしてなしえざる状態) toward a situation with no choice but lift the gold embargo (なさざるべからざる状態), Japan right after the First World War was in a situation with the ability but lacking the willingness to do so (金解禁をなしうるになさざる状態).1 When America lifted the gold embargo in 1919, Japan was the second creditor nation in the world. Then Financial Minister's decision not to lift the gold embargo was followed by a decade of repeated trials and failures to do so.2 Therefore this decision was considered to be "the lost opportunity" by some of the contemporary critics and officials.

After the First World War burst out in 1914, the European combatant countries had effectively stopped gold exports in 1914 and 1915. By 1917 the United States and Japan were the only economic powers that still permitted gold exports. After the United States entered the war in April 1917, it stopped gold exports in September 7, cutting off Japan's source of gold supply. Japan's Ministry of Finance followed suit on September 12, issuing a ministerial ordinance to embargo the gold exports.3

After the First World War ended in 1918, the United States partially lifted the gold embargo on June 12, 1919, and completely lifted it on July 13. Although Japan's annual trade surplus had already turned to be a deficit, the balance of trade was still pleasant enough to lift the gold embargo. The gold reserve (both domestic and overseas) at the end of 1918 was ¥1,588 million and ¥2,045 million at the end of 1919. The exchange rate in 1919 reached its peak at $51.875, and the lowest time was even $49.875. The year 1919 was indeed most opportune for Japan to lift the gold embargo.4

The question concerning whether or not to lift the gold embargo was forcefully raised at that time by economic journalist Ishibashi Tanzan of the Tōyō Keizai Shinpō, who by his own account, "made every effort to urge such a policy upon the govern-

1 Ōno Kazuichirō, "Kin'yushutsu kinshi keizoku no ronri (1917–1919) (1)—taigai tōshi no henka ni kanren shite," Keizai Ronshō, Vol.98, No.1, July 1966, pp.15.
2 The gold embargo was implemented by a ministerial ordinance in 1919. Therefore the decision to lift the gold embargo was within the authority of Ministry of Finance on procedural grounds.
4 For data of gold reserve, see Nihon Ginkō Tōkeikyoku (Bank of Japan, Statistics Office), Meiji ikō hompo shuyō keizai tōkei (Hundred-Year Statistics of the Japanese Economy), Tokyo: Nihon Ginkō, 1966, Table 54 (Specie Holdings), p.169. For yen's exchange rate against dollar, see ibid, Table 121 (Foreign Exchange Rates) p.320.
ment.” In September 1919 the paper was warning the “empty” character of the boom. In October the journal made the first public call for an immediate return to the gold standard. In 1929, he continued to hold the idea he had expressed in 1919, a year that he now saw as having been a crucial moment of choice:

“Today (March 1929), as the only one of the great powers to ban the export of gold, our country is left behind by all the countries. But in 1919, our country was, together with America, one of the two great international credit surplus countries and had prepared very favorable conditions for ending the gold-export embargo, (far better than) those of England and other countries... Our restriction of gold exports should have been abolished after the November 1918 armistice, or, at the least, soon after America lifted its own gold embargo. Once the opportunity was lost due to the government’s negligence or delusion, it ultimately departed forever.”

Far from taking advantage of the high domestic prices to restore to the gold convertibility, Ishibashi wrote, the government in 1919 was most concerned to check the yen’s rise, which threatened Japanese exports. Afterwards, high domestic prices and the depreciation of the yen meant that the return to the gold standard was bound to be very difficult. By preventing the outflow of gold and trying to hold onto the gold surplus obtained during the war, the government ultimately lost that surplus.

In fact, opinion with the Bank of Japan also appeared to have favored lifting the gold embargo in 1919. Inoue Junnosuke later called the boom “empty,” and at the time, he discussed with Finance Minister Takahashi the question of lifting the embargo in order to restrain the boom. However, Takahashi thought the problem was mainly political, and with Inoue’s agreement, he rejected an early return to the gold standard in 1919. Ten years later, it seems that Inoue, too, thought that an opportunity had been lost in 1919.

What makes the picture more mysterious is that Takahashi used to be a firm advocate to introduce the gold standard in the Meiji period. Despite the fact that he de-

5 Tokyo, Tōyō Keizai Shimpō (The Oriental Economist), September 25, 1919, p.354; TKS, October 4, 1919, pp.398-399.
7 Ibid, p.547.
liberately gave up the chance to lift the embargo in 1919, and in 1931 earned enduring fame for suspending the gold standard and closing Japan against the tide of global finance, Takahashi, then a director of the Yokohama Specie Bank and manager of the bank's head office, conspicuously backed Matsukata's gold-standard project to bring Japan into the mainstream of international capital flows. Takahashi argued against the pro-silver faction within the Ministry of Finance which said that advice should be sought from D. F. Jackson, head of the Shanghai office of the Hongkong and Shanghai Bank (the largest bank in East Asia and the British government's official financial representative in the region). "I absolutely opposed that," Takahashi later wrote. "In determining Japan's system, it is not necessary to listen to the opinion of foreign bankers."

II. Conventional Explanations and the Missing Link

There are roughly two kinds of explanations on why Japan did not lift the gold embargo in 1919. One stressed the expansionary fiscal policy of Hara Cabinet, the other regarded Takahashi's plan to make investment in China. The majority of scholars took the latter view, which was backed by Takahashi's statement.

1. Domestic Economic Policy Concern

Some historians of economic policy explained the rationale of the continuation of the gold embargo in 1919 from the domestic economic policy considerations. These scholars argued that restoring the gold standard would require fiscal retrenchment and monetary deflation, which contradicted with the expansionary fiscal policy adopted by the Hara Cabinet.

Miwa Ryōichi argued that, although it was said that Takahashi, who occupied the post of Financial Minister in both Hara (1918-1921) and his own cabinet (1921-1922), did not lift the gold embargo out of the political concern, namely the expansion in China would need gold; as a matter of fact, the economic policy carried out by ruling Seiyūkai contradicted with lifting the gold embargo. To lift the gold embargo, first and foremost the government should stabilize the price by checking the wartime inflation. Therefore, fiscal and monetary retrenchment had to be implemented. On the contrary, the Seiyūkai cabinet adopted an expansionary policy to promote the development of military, education, communication, and infrastructure, which moved toward just the opposite direction from what the gold standard required."


Kojima Hitoshi also emphasized on the expenditures needed for the Siberian intervention, and concluded that such huge budget would prevent financiers of any economic ideology from lifting the gold embargo.

The reasoning above, however convincing they may sound, was rather hindsight than factual analysis. Rather than inferring the policy incentive from the policy carried out afterwards, most of the scholars explored the real incentive by employing textual analysis.

2. Concern of Future Economic Expansion in China

Based on the statement of Financial Minister Takahashi Korekiyo, most scholars concluded the decision to continue gold embargo was a preparation for future investment in China. They emphasized Takahashi’s vision of economic expansion in China in the context of the imperialist competition for financial leverage.

Chō Yukio cited Takahashi Korekiyo’s statement, and stressed the capital export to China constituted Takahashi’s main concern. He further pointed out that while Takahashi reckoned gold as a tool for international payment, Inoue valued the automatic adjustment function of the gold standard.¹¹

Ōno Kazuichirō cited the statement of Takahashi Korekiyo and Inoue Junnosuke (then Bank of Japan governor). He concluded that although Inoue stressed the political and military confrontation between Japan and the United States when the Versailles Conference was held, Takahashi clearly stated that the major concern was the economic expansion in China. He further argued that Takahashi’s vision lies in the need to ensure and enlarge overseas market when Japan entered a stage of monopoly capitalism during the First World War.¹²

In a recent English monograph on Japan’s gold standard, Mark Metzler also picked up the strategic consideration in China with regard to Takahashi’s decision in 1919. He noted that Takahashi was talking about lending immense sums of money, dwarfing the ¥145 million in loans arranged during the war by Nishihara Kamezô. Such giant loans were not a matter of prudent international investment but of audacious international power games. Politicians on all sides assumed that lending money to China meant the ability to dominate China. Like the other powers, Japan seemed to be aiming at a kind of economic conquest in China. Thus, strategic considerations remained at the center of the government’s reasons for not permitting gold exports.¹³

3. The Missing Link in Conventional Explanations

It is without doubt that Takahashi’s strategy to make economic advancement is clearly discernable in his own statement. However, there is one link missing in this prevailing explanation—why the future investment would necessarily contradict with lifting the gold embargo. Although we may agree that the gold standard restoration was held off to achieve the ultimate goal of economic expansion in China, but what was the exact mechanism linking the ultimate political goal with the specific financial choice?

Although Ōno Kazuichirō noticed the political and military confrontation between Japan and the United States, the major focus of his interpretation centered on the economic strategic concern in advancing China. It is worth noting Itō Masanao provided insights into the concern of money which was held overseas. In his monograph on interwar Japanese financial policy, he wrote very briefly “because then Financial Minister Takahashi and Bank of Japan governor shared the perception that ‘if something was to happen in the world, it would certainly happen in East. ...If something happened in the world, our gold that was held overseas could not be counted on,’ and just let the chance slip.”

Compendious as the narration is, what Professor Itō noticed is the concern of unstable international political situation, and the subsequent risk to place money abroad. This paper tries to further trace this causal chain by re-examining the statement and reminiscence. In the following parts, the statement and reminiscence would be re-examined. Based on the findings, it attempts to explore (1) what was the financial leaders’ perception of Japan’s relation with the United States in 1919; and (2) how this perception affected then financial leaders’ decision not to return to the gold standard.

III. Textual Analysis: Takahashi and Inoue’s Concern

In the retrospect of Takahashi Korekiyo, who was financial minister when America lifted the gold embargo in June 1919, the reason not to lift the gold embargo was stated as follows:

“At the time of the Hara cabinet, for our reference in establishing a basic policy in regard to China, we assembled a group of military men who were stationed in every part of China and asked about the situation there. If we consider it now, the attitude of our government and people toward China was rather ac-

tive (sekkyokuteki) and aggressive at that time. However, I was against invasion by military force. An invasion by military force will certainly at some time be reversed by military force. Accordingly, it was my opinion that in order to develop our national power in regard to China, (the means) had to be economic.

At present, China is disordered and chaotic, but sooner or later, a time of national stabilization must come. Then, in order to govern the country and pacify the people, the first thing you will need is gold, for laying railroads, establishing industry, and so on. Thus, I thought that China would be seeking a large amount of funds from overseas in the not very distant future. In that case, Japan must definitely be ready to lend at once as much as ¥500 or ¥600 million in gold. If we were not, considering the current world situation, England or America had conquered China economically, unlike a conquest by military force, it would be no easy task to reverse it. Japan had to go before the (other) powers, and even if the powers formed a loan consortium, we had to take the leading position in that consortium.

Thinking in this way, I thought that somehow we must set aside domestically an extra ¥500 or ¥600 million of gold. Once something happened, our specie holdings (seika) that are placed overseas could not be counted on. Therefore, I strove to the utmost to increase the amount of gold held domestically, even as America lifted their embargo on gold exports (June 1919), and after that, even as gold successively came into our country. I didn't feel like acting to lift the gold embargo.”

From the text above, Takahashi's strategy to compete with the U.S. and Britain in investing China is clearly stated. What failed to attract attention is the emphasis on the risk of the “specie holdings that is placed overseas,” especially when “something happened to the world”. Therefore, we may infer that (1) with the mid-term strategy to invest in China, the proximate reason for the decision was the possible risk to the specie holdings placed overseas; (2) moreover, such concern was based on the anticipation of an instable international situation. Both of them could be further proved and clarified in Inoue Junnosuke-then Bank of Japan governor's reminiscence.

As mentioned in the introduction part, Inoue Junnosuke appeared to have favored lifting the gold embargo in 1919, and discussed with Finance Minister Takahashi the question of lifting the embargo in order to restrain the boom. However, because of Takahashi’s political concern, Inoue agreed with Takahashi, and the government rejected the early return to the gold standard in 1919.17

Six years later Inoue wrote about the reason for holding off the action as follows, which is not as frequently cited by the literatures above, provided good insights to the points discerned above in the Takahashi’s statement:

“The war in Europe finished in 1918, and the peace treaty was agreed in 1919. Before the treaty was signed, the America lifted the gold embargo.... At that time, whether Japan should (allow) the gold export like the America or not was a not big issue for the general public; among the authorities, however, it was a substantial one... I was thinking it a necessity to lift the gold embargo from the economic point of view... However... the international situation was not stable yet. Especially considering the atmosphere in the Versailles Conference, and the conjecture from Americans’ attitude, if something was to happen in the world, it would certainly happen in East. We must assume that something would definitely happen in the East.”

Bearing such considerations in mind... The gold currency in our own hands can fill well the role of gold, but the gold placed abroad is simply of no use. Nevertheless, using the gold placed overseas will not make any difference, but one may not want to use the specie reserve in our own hands. This is specifically what I thought the political concern that refrained (the government) from lifting the gold embargo. ...Whether this is right or wrong was also under discussion. However, in the year of 1922, which was 3 years later after the Versailles Conference, the Washington Conference was held, and by signing the Four-Power Treaty, the United State, Great Britain, France, and Japan reached an agreement on the issue of China or the Pacific region. So if we retrospect the situation when the Versailles Treaty was signed, I think even if we thought the problem in the East was one that received considerable attention, it is not inappropriate at all.”18

In the reminiscence above, Inoue clearly distinguished the gold currency placed overseas from those held in their own hands. The gold placed overseas was labeled as

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"of no use," which is very similar to Takahashi's expression that "our specie holdings that is placed overseas could not be counted on." Moreover, Inoue's reminiscence specified the reason why Takahashi reckoned the world situation as "not stable yet". He referred the "the atmosphere in the Versailles Conference", and "the conjecture from Americans' attitude," and concluded that "the problem in the East" not only surely existed, and could never be exaggerated too much considering the Four-Power Treaty signed at Washington Conference three years later.

The next part will continue to elaborate how Takahashi perceived Japan's international political environment, especially Japan's relationship with the United States after the First World War.

IV. Takahashi’s perception of the international political situation

In Takahashi's view, one reason the First World War had occurred was that "there has been a great deal of competitive friction between the British and Germans as the wealth of their peoples grows larger." The war, indeed, was a result of a struggle between the two powers for world economic supremacy. Economic warfare would continue among the powers even after the military conflict had ended. In Takahashi's opinion, there was an increasingly intense competition being waged throughout the world among nations whose capital was directed towards clearly defined national objectives.

Takahashi believed that competition among nations would not be limited to the economic sphere, however. Takahashi warned that Japan's foreign policies would also have to deal with the "racial competition" which existed and that Japan must step forward as a representative of the people of Asia and resist any limitations that currently wealthy nations might try to impose on them. Takahashi thus saw the requirements of postwar Japanese foreign policy as emerging from the dual context of economic and racial competition.

Takahashi's design for harmonizing Japan's "economic policy" with the reality of racial competition was elaborated in a memorandum in May 1921, entitled "Tōa keizairyoku juritsu ni kansuru iken" (Views on Establishing East Asia's Economic Strength). Here, he proposed the creation of an East Asian economic unit, based on Sino-Japanese collaboration and posed as a third force independent of the English and Americans. Takahashi contended that Britain and the United States were the two

20 Ibid. p.266.
21 Ibid., pp.266-268.
dominant forces in world affairs, with Japan occupying the next most important position behind them. If Japan wished to raise her economic strength to a level commensurate with that of the Anglo-American powers, she had no alternative to forming an economic alliance with China, i.e. the "East Asian economic unit."

The proposal approximated closely to the policy adopted by the Hara government from 1918–1921. At any rate, the centralization of banks and enterprises in 1920 served the goal to establish an economic power competitive with the western countries. The proposals for a new China policy also underlay his hope to counter the Anglo-American powers to control the world economically. As Mitani Taichō wrote, "In a word, Takahashi's prescription for stabilizing post-war international politics was to strike an economic balance of power. His foreign policy views thus shifted from an initial desire during the war to join the United States in remaining neutral vis-à-vis Britain and Germany to a post-war plan for Sino-Japanese cooperation against the Anglo-American powers."

Therefore, both the investment in China in strategy, and the continuation of gold embargo in 1919 in technicality, was originated from Japan's competition and confrontation with the western powers in both economic and racial terms. Such perception of the international system after the First World War constituted the political foundation of Takahashi's financial policy including the gold embargo.

V. "Overseas Specie Reserve" and Japan's Financial Dependence to International Politics

The part below tries to analyze how Takahashi's perception of the international political situation led to his decision to continue the gold embargo. The missing link would be explored by focusing on a special feature in the practice of Japanese gold-exchange standard—"the overseas specie reserve."

The so-called "overseas specie reserve" (zaigai seika), reflects the in-between character of Japan's international position. These funds, the proceeds of loan taken out in London, were not in fact specie but rather British money in the form of demand de-

deposit and short-term British government sterling bills (*kinkawase* in Japanese). Much of this money was placed on deposit with the Bank of England itself. Part of this "overseas specie" was owned by the government and part by the Bank of Japan. The system originated from the practice to the initial deposit of the Chinese indemnity in London, but the usage did not finally being institutionalized until the time of the Russo-Japanese War.  

Japan adopted the gold standard in 1897 with the indemnity from China after the Sino-Japanese war. In the final treaty of April 1895, the amount of the indemnity was set at 200 million Koping taels. In May 1895 Matsukata Masayoshi proposed to Itō Hirobumi that the indemnity be made payable in British money—that is, gold—on London. As Takahashi Korekiyo understood Matsukata Masayoshi's intentions, "the Count wanted absolutely to take the indemnity in British pounds, and following the former example of Germany to seize the occasion for implementing the gold standard."  

The money itself had been raised in London and other European capital markets. The final installment of the Chinese debt was by far the largest check ever drawn on the Bank of England up to that time. British Financiers were nervous about the effects of Japan's shipping so much in gold out of London at once, so the Japanese government accommodated them by stretching out the gold shipment until 1903. In the interval the Bank of Japan issued yen notes in Japan backed by the money on deposit in London. Although considered a temporary expedient at the time, this fact also indi-

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icated Japan’s new financial orientation toward London, and it created a precedent for Japan’s de facto sterling-based gold-exchange standard as it developed after 1905.30

Since the Russo-Japan War, Japan was heavily depended on foreign borrowing to finance its balance of payment deficit; however, most of the foreign capital was not shipped back to Japan, but kept as “overseas specie holdings” in London. As former overseas financial commissioner Wakatsuki Reijirō explained, “even though England lent gold to Japan, not one ounce of gold went from England to Japan.”31 As chief of general affairs (eigyō kyokuchō) at the Bank of Japan, Fukai Eigo confirmed the problem directly: “Because the gold raised by overseas bond issues became (Japan’s) overseas gold funds, one could even say that we floated overseas bonds in order to maintain the gold standard.”32

The overseas specie holdings abroad originated during the Russo-Japanese War as expediency for the war financing. The proceeds of the government loans raised abroad during the war time were held in the international financial centers (mainly London and Paris) to make the payments on war purchases abroad easy. Often the government made repayments on its debts to Bank of Japan by transferring its claims to the gold holdings abroad to the bank, and also often transferred such claims to the bank in exchange for central bank notes to be used domestically. Timely and flexible adjustment of note issues for the war financing was not possible if the central bank had to wait for arrival of shipments of the gold to use it as cover for note issues. Thus, it was provided that the central bank gold reserve could include a portion of the gold fund holdings abroad.33

After the Russo-Japanese War, the government and the Bank of Japan continued to keep a large amount of their specie holdings in London and Paris. The source of the overseas specie holdings were largely from numerous foreign loans raised abroad on the accounts of the government, private businesses, and municipalities, and from the purchase of export bills by the central bank from the exchange banks.34 Part of the overseas specie holdings was often included in the central bank gold reserve for domestic note issues as in the war time finances. Also, it proved to be convenient to make use of the overseas specie holdings for effecting the settlement of the balance of

32 Fukai Eigo, Kaiko 70 nen (Reminiscences of seventy years), Tokyo: Iwanami Shoten, 1941, p.89.
international payments without necessitating actual transfer of gold from home (and to home). Especially considering the recurring adverse balance of trade and attendant specie flow, such practice effectively avoided the disturbances to the domestic money market.\textsuperscript{35} By selling the central bank's and government's overseas specie holding to the exchange banks (i.e. an increase in the supply of foreign exchange), the yen exchange rate was made to stay at a level higher than the gold export point in order to prevent the domestic gold reserve from being drained out.

The specie holdings held in the financial centers were in fact a double-edged sword. On one hand, it engendered a favorable climate for enlisting foreign loans, as it would not induce an immediate decrease in the lenders' money market. From the side of London, Japan's London balances played a supportive role in the function of Britain's gold standard. In the years leading up to World War I, Japan and Indian holdings of sterling helped to maintain the central place of the British pound and of the London capital markets in the face of mounting British trade deficits.\textsuperscript{36} Via its new partnership with the Bank of Japan, the Bank of England used the large Japanese funds on deposit in London as it sued in India funds, to help regulate the money markets. Thus the Bank of England itself repeatedly borrowed the Bank of Japan's own borrowed funds.\textsuperscript{37} This was another financial face of the Anglo-Japanese alliance.

On the other hand, however, the fact that the majority of Japan's specie holding was not specie but foreign exchange, and the fact that it was kept overseas reveals the financial vulnerability of a second-layer currency. In other words, the special setting of Japan's gold-exchange standard made her financially vulnerable to the political relations with the key currency countries.

According to Asai Yoshio, the gold-exchange standard with "overseas specie reserve" accentuated the financial dependency of modern Japan. Before the First World War, the foreign exchange constituted a conspicuous share mainly in four countries,

\textsuperscript{35} Ibid., 1928, pp.384-385.
\textsuperscript{36} India's key role in maintaining London's financial centrality is the subject of a famous analysis by Marcello de Cecco, \textit{The International Gold Standard: Money and Empire}, London: F. Pinter, 1984 (1974).
\textsuperscript{37} Peter H. Lindert, \textit{Key Currencies and Gold, 1900–1913}, Princeton: International finance Section, Department of Economics, Princeton University, 1969, pp.10-11, 18-19; Asai Yoshio, "Jūzoku teikokushugi kara jiritsu teikokushugi e-gaishi dōnyū o chūshin to shita Nihon no taigai keizai kankai, 1895–1931 nen" (From subordinate to independent imperialism-Japan's foreign economic relations centering on the introduction of foreign capital, 1895-1931), \textit{Rekishaigaku kenkyū}, No.511 (December), 1982, pp.55-56. According to the figures compiled by Lindert, at the end of 1913, India held sterling balances of approximately £28 million, and Japan held £39 million. The next largest holdings were those of Russia, at about £5 million. (Russia was the only country to hold larger total reserves of foreign currency than Japan, but most of it was in French francs.) Lindert's figures, which include short-term funds held by the Yokohama Specie Bank, are all given in U.S. dollars, and I have converted them into sterling.
namely Russia, Japan, Greece, and India. He argued that the distribution of foreign exchange is correlative with the distribution of capital export of “key countries (基軸国)”. The fact that part of the capital exported is always held in the "key countries," to give a familiar example, is very much similar to the coercive acquisition of compensating balances (拘束預金), which are given to the bank when you make a loan.\(^{38}\)

The classic elaboration of this point could be found in Fukai Eigo's monograph *Tsuka Chosetsuron (A Theory for Regulating the Money Supply)*, where he provided a very clear explanation of “the vulnerable spot of overseas specie holdings” as follows:   \(^{39}\)

What was the vulnerable spot (of overseas specie holdings)? When we talk about the maintenance of the gold base of currencies, the ultimate base must be on gold. Through buying and selling overseas specie holdings, the currency of a certain country can be exchanged into the currencies of gold-standard countries which functions as the central market, whereby (this currency) also maintains the connection with gold. In other words, this currency is maintained by the gold held by other countries.

If we look from the country which functions as the central market, its gold served the money base of its own currency, and to some extent of other currencies. Moreover, this applies to not a single country, but to a host of countries. The enormous currencies on the world thus come into being based on the gold at the central market. Normally (the whole system) functions smoothly; however, when the credit in the country functioning as central market flutters, or when some incidents like war happens, it is possible that the value of the currency held in the central market might decrease, or even could not be withdrawn, and thus cause the loss of those countries with overseas specie holdings. If the country owes liability while holding its specie in the central market, then the losses might be offset; however, the gold base of the currency cannot avoid the destruction. It is very difficult to avoid the currency base from fluttering by the circumstances of other country. This is the vulnerable spot of overseas specie reserve.

What Fukai Eigo depicted was the hierarchy in the international system of gold standard. For those countries who based their currency issuing on the currency of “the country functions as central market”—the key currency country, their financial stabil-

\(^{38}\) Asai Yoshio, “Jūzoku teikokushugi kara jiritsu teikokushugi e-gaiishi dōnyū o chūshin to shita Nihon no taigai keizai kankai, 1895–1931 nen” (From subordinate to independent imperialism: Japan's foreign economic relations centering on the introduction of foreign capital, 1895–1931), *Rekishi kaku kenkyū*, No.511, December 1982, p.56.

ity would inevitably depended on the financial credit of the key countries. If the key currency country finances its own deficit through inflation, or just embargos the gold export, the monetary base of the lower layer countries will shrink, or even be frozen.

Therefore, as we can see in Takahashi and Inoue's statement, the choice of lifting the gold embargo always depended on the perception of the world politics, especially Japan's relation with key currency countries. Especially when the allied countries ended up in debtor status after the First World War, and the hostility between the United States and Japan made the only foreign borrowing possibility infeasible, the cost of such a setting had more weight in Takahashi' consideration.

Conclusion

While the prevailing literature considered Takahashi Korekiyo's investment in China as the reason for Japan's continuation of gold embargo in 1919, this article attempts to trace the missing link between the ultimate political goals mentioned above with the specific financial choice. The special feature in the practice of Japanese gold-exchange standard—"the overseas specie reserve" is focal point of the analysis, which accentuated Japan's financial subordination, and induced the systematic vulnerability to any change in political relations between Japan and the key currency countries. As a complementing study to the abundance of literature noting Takahashi's plan of making investment in China, this paper tries to provide insights on how Japan's rising status as a competing power with the U.S. conflicted with her financial status as a second layer currency in the dollar-based gold-exchange standard. It is revealed that Takahashi insightfully noticed the deteriorating U.S.-Japan relations would aggravate Japan's financial vulnerability, and it was the concern of "overseas specie holdings" that prevented him from lifting the gold embargo in the seemingly opportune year of 1919.