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Historic Roots of the Yo–Yo Yen (1859–1949)

The pre-historical period of the Japanese yen begins and ends with critical decisions made by the USA. The so-called Ansei-Man’en monetary reforms of 1859/60 which accompanied the re-establishment of diplomatic and trade relations between Japan and the Western Powers after more than two centuries of seclusion were largely influenced by US pressures. Less than a century later, in the aftermath of the Pacific War, it was the US Occupation Authorities who relaunched the yen at a rate of 360 to the US dollar as part of the Dodge Plan. The pattern of critical US intervention was to continue into the modern era – including, first, the forced revaluation of the yen in August 1971 under irresistible pressure from the Nixon Administration and second, the Plaza Accord of 1985. In the middle years of the 1990s (1993–7) the Clinton Administration sought to manipulate the yen on a number of occasions. But the violent fluctuations and misalignment of the yen during that Lost Decade for the Japanese economy stemmed also from many important sources inside Japan.

Ever since Commander Perry and his black ships sailed into Edo harbour in 1853, there have been winners and losers in Japan from US intervention. The power of Washington to prescribe yen policy has depended – in varying degrees – on cooperation from those within Japan who stood to gain. And so it was with the drastic reforms of 1859/60. The agenda of the USA and other Western Powers (France and Britain were also very involved in the chain of events from the opening of Japan in the mid-1850s to the fall of the feudal Tokugawa regime in 1868) was to create trade links with the almost totally closed island economy (the only opening was via the officially tolerated Dutch colony in Nagasaki). An essential precondition to international trade between Japan and the outside world was the setting of a rate of exchange between Japanese and foreign monies.

In Tokugawa Japan money consisted of gold, silver, and copper coins but there was no free market in bullion. A narrow market existed for precious metals bought and sold for non-monetary purposes, but the rate of exchange between gold and silver bore no close relationship to international
prices (hardly surprising given the absence of trade). Moreover, the silver coinage had been heavily debased during successive ‘reforms’ instituted by the shoguns in need of extra funds. (Shogun was the name given to the military rulers of Japan, all stemming from the Tokugawa family.) The total misalignment of the rate of exchange between silver and gold money inside Japan to that outside Japan (and most of the world was then at least formally on a bimetallic standard based on gold and silver) was the problem which had to be addressed.

The demands made by US negotiators and the response by the Tokugawa regime culminated in a period of hyperinflation, which itself played a critical role in undermining the feudal state and bringing about the Meiji restoration (1868) (marked by the end of the shogunate and the assumption of power by a reformist regime legitimised by the ‘restoration’ of power to the Emperor). The hyperinflation was not planned but the income redistribution consequences of the currency changes made to accommodate US demands were foreseeable. Large landowners, bankers, and merchants gained, whilst peasants, urban commoners, and the lower-ranking samurai lost.

The key role of inflation in undermining the established social and political order was not a new feature of world history. Silver brought to Europe by Spain from its conquests in South America had been the catalyst for revolutionary change in the sixteenth and seventeenth centuries. The new aspect, in the case of Japan, was the source of the inflation storm – a foreign power dictating exchange rate policy aimed at extracting favourable conditions of trade (albeit without significant success, as the price of the principal Japanese export, silk, jumped to take full account of currency manipulation and access to the international market).

The Ansei-Man’en monetary reforms, 1859–60: a first shock from Washington

In 1858, Japan’s metallic money (in contrast to various forms of paper money issued by feudal domains) consisted of 53 per cent gold coin (the ryō), 40 per cent silver coin (principally the ichibu-gin, equivalent legally to one-quarter of a ryō) and 7 per cent silver currency by weight (mainly used in western Japan around Osaka). The silver coins (ichibu-gin), valued on the basis of silver content and at the international exchange rate between silver and gold (the ratio of gold to silver prices – each measured for the same unit weight – in the world market was around 15.5 and was anchored in the French bimetallic system), were worth far less than their legal equivalent in terms of gold coin (12–13 ichibu-gin rather than four ichibu-gin would have exchanged for one ryō).

The US negotiators led by Townsend Harris – the US representative resident in Japan since 1854 and described by Allinson (1999) as ‘a patrician Yankee down on his luck’ – took the silver coin (ichibu-gin) as the basis