

# Takahashi Korekiyo, the Rothschilds and the Russo-Japanese War, 1904–1907

Richard Smethurst recalls the genesis of the relationship between the Rothschild banks and one of the great figures in Japan's history, Takahashi Korekiyo.

Economic historians know Takahashi Korekiyo (1854–1936) best for his countercyclical monetary and fiscal policies during the Great Depression of the 1930s. Takahashi, who served as governor of the central bank, prime minister and seven times as finance minister between 1913 and his assassination in 1936, devalued the yen, lowered interest rates, increased the money supply, and began substantial deficit financing in 1931–1932, five years before John Maynard Keynes published his seminal *General Theory of Employment, Interest, and Money*. Takahashi's policies were so successful in engineering Japan's economic recovery that one of his biographers, Gotō Shin'ichi, has dubbed him 'Japan's Keynes'.<sup>1</sup>

Takahashi, who began his study of English at the age of ten with American missionaries in Yokohama, built his successful bureaucratic and political career on the basis of his knowledge of the primary foreign language of the time. Born the illegitimate child of a shogunal court artist and a 15-year old family maid, Takahashi was adopted as an infant into the lowest rank of the warrior class. Accordingly, Takahashi received very little formal education – we have no evidence that he attended school at all. Although we have a letter to his parents from San Francisco, written when he was 14, we do not know where he learned to read and write Japanese. Ability to speak colloquial English was his key to upward mobility. He began his first job, as an English-language instructor at Daigaku nankō, a forerunner of Tokyo Imperial University, in 1869, teaching older and better-educated superiors in the samurai pecking order. In the 1870s, while still a teenager, Takahashi interpreted for David Murray, an American advisor to the Meiji government, and helped translate Alfred Marshall's *The Pure Theory of Modern Trade*. In the 1880s, he wrote, and then after a year of research in the United States and Europe, rewrote Japan's first copyright and patent laws, served as the founding commissioner of his nation's patent office, and managed one of Japan's initial overseas industrial ventures, a (failed) silver mine in Peru. In the 1890s, as a fledgling central banker, he helped in the process of Japan's entry onto the gold standard. During the war with Russia in 1904–1905, he sold £82 million of Japanese war bonds, almost half the cost of the war, in London and New York to British, American, and later German investors. After the war in 1905–1907, he negotiated in Europe the issuance of £48 million more in bonds, largely through the London and Paris Rothschilds. In 1906–1915, successively as vice governor and then governor of the Bank of Japan, finance minister, and political party leader, he strove to limit government spending to avoid Japan's defaulting on its wartime bonds – these efforts included opposition to railroad nationalisation in 1906, to the addition of two divisions to the army in 1912, and to the infamous Twenty-one Demands to China in 1915. After the war, as finance minister and premier, Takahashi attempted to devolve much of the central authorities' power to local government, and played a key role in the rise of Japan's political parties to power. Throughout the second half of his career, Takahashi fought courageously for civilian control of the army and navy, and against excessive military spending, which led to his murder by young officers in 1936.<sup>2</sup>

The subject of this essay is one chapter in Takahashi's fascinating life: his dealings with the Rothschild family in 1904–1907. I have written elsewhere about Takahashi's efforts to sell Japanese war bonds in 1904–1905, so let me be brief here.<sup>3</sup> Shortly after Japan's war with Russia

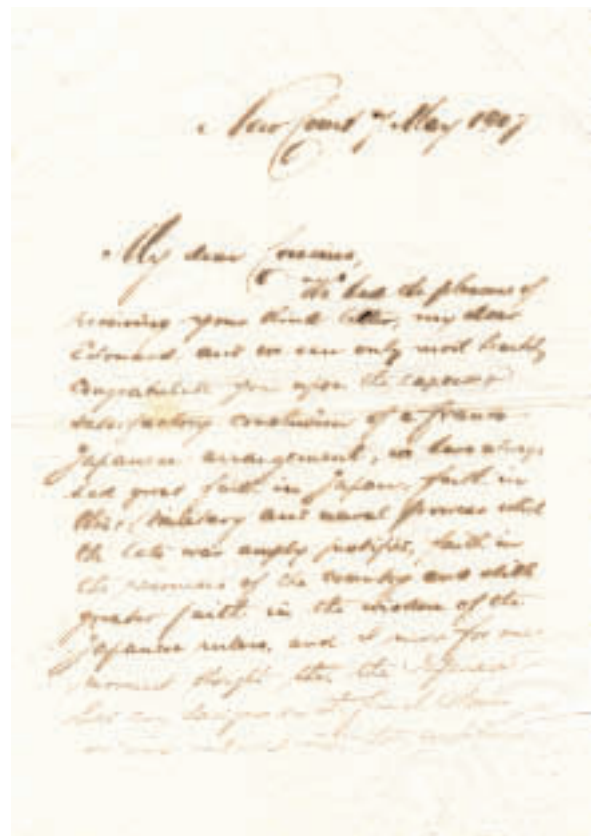
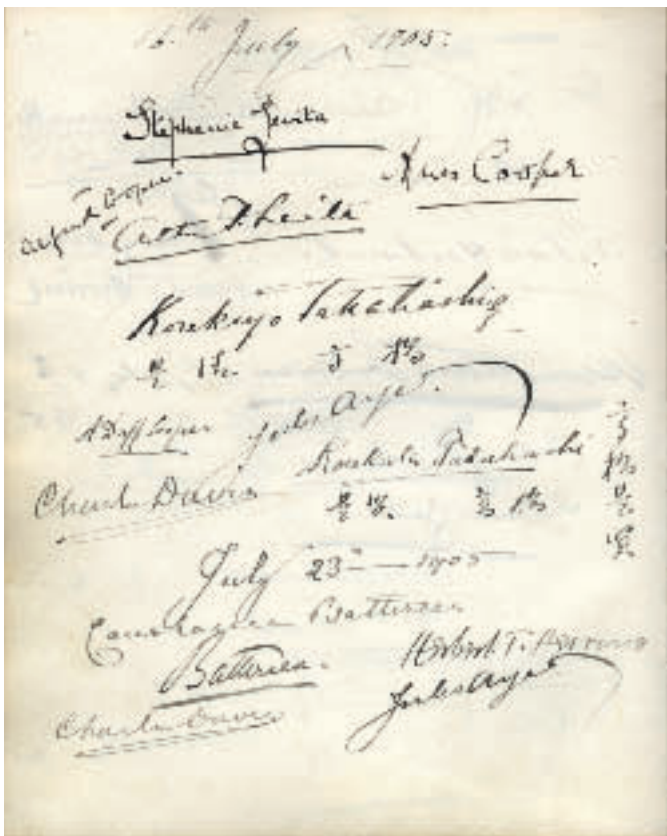
broke out in February 1904, the government appointed Takahashi its financial representative to sell Japanese treasury bonds ‘to capitalists’ in London. Takahashi travelled first by ship and train to New York, met with unresponsive bankers there, and sailed less than a week later for Liverpool (in his memoirs, he recounts a shipboard conversation with Lillie Langtry). After arriving in London on 1 April, Takahashi met with many of the most important London bankers and financiers of the time: Lord Revelstoke (John Baring), the top officials of Parr’s Bank (Parr’s, now part of the Royal Bank of Scotland Group, had ties with Japan dating from the 1880s), Sir Ewen Cameron of the Hongkong and Shanghai Bank, W.M. Koch and Arthur Francis Levita of Panmure Gordon, Sir Marcus Samuel and W. Foot Mitchell of Samuel, Samuel, Carl Meyer, and Otto Kahn. On 12 April, Takahashi recorded in his English-language diary of 1904, ‘Mr. Shand came to see me afternoon on my request and we talked about the form of treasury bill and of the means of making good feelings of Cameron and Rothschild’, and on 13 April, ‘met with both Rothschilds (Nathaniel and Alfred) at their office’.<sup>4</sup> On 22 April, Takahashi wrote that he had met with a man named H.R. Beeton, who recommended that he enlist the help of Sir Ernest Cassel, banker to the king and along with Lords Revelstoke and Rothschild, one of the three most prominent financiers in London. Takahashi reported Beeton as saying, ‘Jews are the first-rate financier. And Cassel is most influential in London. He can invite Rothschild as well as Morgan and so on. Bring out big loan so as to make Anglo-American concern’. The same day, Sir Marcus Samuel called on Takahashi, and told him, ‘He can enlist Rothschild after the war’. On 3 May, Takahashi had a long entry about the Rothschilds, and wrote, ‘The House of Rothschild cannot come in openly during the war. If they did it will be known to Paris Rothschild and also to St. Petersburg. They cannot do anything that might inflict oppression on the Jews by the Russian Government. Lord Rothschild was for 30–50 thousands, but Alfred was opposed for above reasons’.<sup>5</sup>

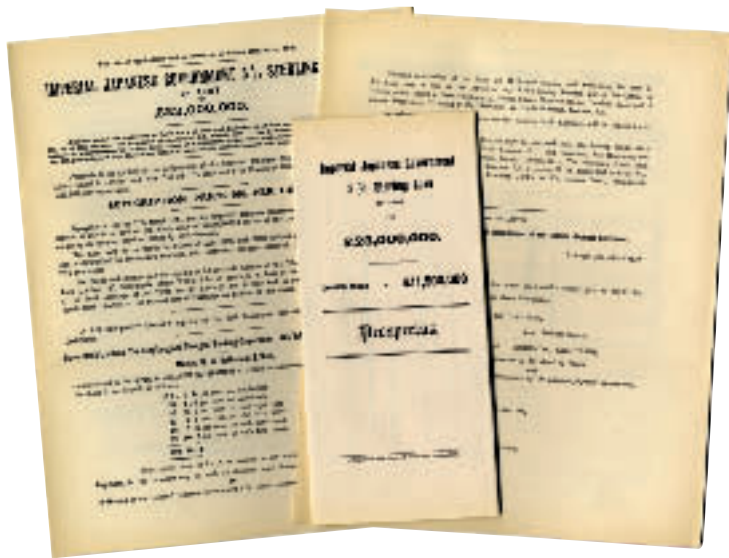
*Below*

Extract from the visitors’ book for Alfred de Rothschild’s Halton House, 16 July 1905. Takahashi was accompanied by his son; other guests were Arthur Levita and his wife, the family of Alfred Cooper, art dealer Charles Davis and N.M. Rothschild & Sons employee Jules Ayer.

*Below right*

A copy of a letter written by Lord Rothschild to his cousins, 7 May 1907, expressing his support for Japan.





Prospectuses for the Imperial Japanese Government 5 per cent sterling loan of 1907 for £23 million, London issue £11.5 million.

The first set of Japanese war bonds, at ‘colonial terms’ – £10 million at six percent, a price of 93½, with the Japanese receiving 90, but paying back 100, for only seven years, with customs duties as hypothecation went on sale in early May without Rothschild assistance. The primary mover was Jacob Schiff, senior partner of Kuhn, Loeb, whose firm was brought into the consortium of Parr’s Bank and the Hongkong and Shanghai Bank by Lord Revelstoke and the shadowy Ernest Cassel, whose role in the affair seems significant, but hard to document. Schiff’s motivation for agreeing to underwrite half of the Japanese war bonds was the same as that Takahashi reported was the Rothschilds’ for staying out: desire to help Russian Jews.

The Japanese government quickly found that the first loan did not meet its need for external funds, and in late October 1904 issued £12 million more in bonds, at even worse terms than in May: six percent for seven years with Japan to receive 86½ for every 100 it repaid. Although the Rothschild name appears several times in Takahashi’s diary between May and November, the Rothschilds did not participate in this loan consortium either. Takahashi wrote in his diary for 26 October, the very day the second set of bonds went on the market, ‘He (Mitchell) showed me a letter of Charles Rothschild (Lord Rothschild’s younger son). A reply to Sir Marcus saying that Marcus must have misunderstood him when he was speaking on telephone. That he will not go in Jap. loan this time, but does not see reason why they should not have Jap. bonds in the future.’<sup>6</sup> Having said that, the Rothschilds did not take part in the Japanese government’s other two wartime bond issuances, in April and July 1905, in which, as before, Schiff’s Kuhn, Loeb in New York was the largest underwriter. On 29 August, in Portsmouth, New Hampshire, Count Serge Witte for Russia and Foreign Minister Komura Jutarô for Japan signed the peace treaty that ended the war. No sooner had the ink dried than Tokyo cabled Takahashi in London, ‘The peace negotiations are completed without an indemnity. We shall need to issue two or three hundred million yen (twenty or thirty million pounds) in bonds to reorganize our outstanding bonds. Please gather the views of the financiers while our popularity is high, and report to us.’<sup>7</sup> It was at this point, that is, after the war had ended, that the Rothschilds finally enter centre stage.

In September Takahashi travelled to Paris to talk with French financiers and government officials. While there, Takahashi, with a letter of introduction from Lord Rothschild and Alfred, visited their Paris cousins, who agreed to participate in a Japanese bond issuance to allow them to reorganise their war time debts if the London branch of the family also took part. Lord Rothschild hesitated because, as he wrote to Paris, ‘during the war the London bankers did not include us in their group and succeeded in floating large issues successfully. Now the Japanese

*Opposite*  
Farewell dinner in honour of Takahashi (centre left), held at the Savoy Hotel, London, December 1905. Lord Rothschild is fourth from the left. Reproduced by kind permission of The Royal Bank of Scotland Group © 2006.



have come to us because they seem to need us'. Arthur Levita intervened, and both Rothschild houses agreed to participate. A new problem then arose when Lord Rothschild insisted that he replace Cecil Parr as head of the consortium; Revelstoke brought him around. Then the Paris cousins objected to the idea of their money being used to redeem British and American six percent bonds; Takahashi solved this problem by using the bonds to restructure Japanese domestic bonds, putting off the reorganisation of the 1904 London bonds until later. On 28 November, £25 million of Japanese bonds went on sale in London, New York, Paris, Hamburg and Berlin. The Paris Rothschilds underwrote all of the French £12 million allocation, the Rothschilds in London, the earlier British consortium, and Kuhn, Loeb in New York underwrote three-and-a quarter million each, and M.M. Warburg in Hamburg and the Deutsch-Asiatische Bank in Berlin each underwrote half of three-and-a-quarter million more.<sup>8</sup> Jacob Schiff in New York was not entirely happy with the outcome of the November loans, which may explain something of the strained relationship between the two most powerful Jewish financial houses in the English-speaking world in 1905. He wrote to R.W. Whalley, Managing Director of Parr's Bank, 'We have accepted your proposition (for a small share in the underwriting) ... only at Mr. Takahashi's urgent request and in order to be agreeable and helpful to him ... We have not received from the Associated Banks that consideration on which we feel in fairness to ourselves we should have insisted'.<sup>9</sup>

On 20 December, Takahashi left London and returned to Japan. Prior to his departure, his primary London sponsors, Parr's Bank and HSBC, held a farewell dinner at the Savoy Hotel. Although we do not have an account of the dinner, we have a photograph of the attendees, splendid in white tie and tails, taken just after the meal. In attendance among the 26 men in the photograph were Sir Thomas Jackson, Cameron, Charles Addis, and A.M. Townsend of HSBC,



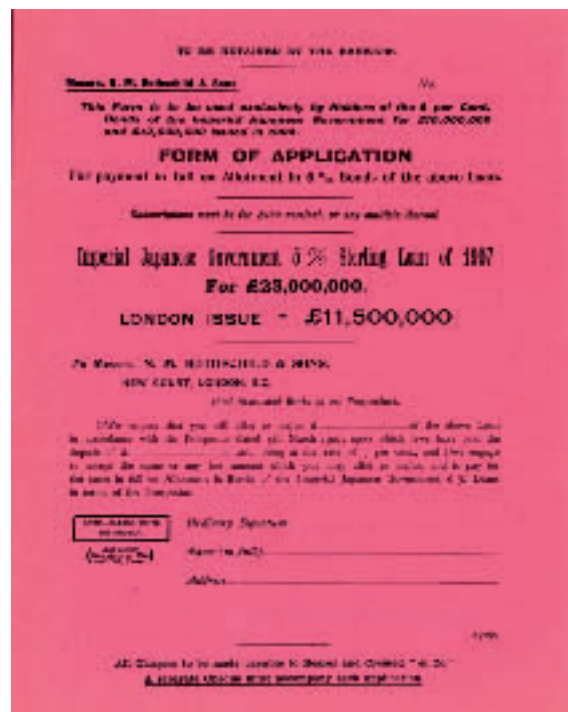
Whalley and other officials of Parr's Bank, Carl Meyer, Arthur Stanley, and the four primary guests: the host, Cecil F. Parr, a rather pompous-looking Takahashi, and two white-bearded and distinguished looking gentlemen, Japanese Minister Hayashi Tadasu and Lord Rothschild. Takahashi arrived home in January 1906, oversaw Jacob Schiff's two-month visit to Japan, and by late summer was on his way back to London to reorganise the six percent 1904 bonds. News travelled fast in the world of finance in 1906. On 7 May, while Schiff was still in Tokyo meeting the emperor and almost every important statesman, military leader, businessman, and financier in Japan, Lord Rothschild demonstrated his feelings towards Schiff and his German-in-laws, when he wrote to Paris:

You no doubt are aware that Mr. Jacob Schiff left New York some time ago to take a well earned holiday, or perhaps to be absent from New York pending the railroad inquiries President Roosevelt was making. Be that as it may, Mr. Schiff had a triumphal journey in a private car, with every kind of luxury over the various railroads he is interested in, sailed in a large steamer to Yokohama & has been a welcome & much honoured guest at Tokio. Naturally, in the midst of the incense which was poured on his devoted head, he is quite ignorant of what has gone on at home or in Europe, & probably the only person he hears from is his dear nephew Warburg at Hamburg who resembles the frog in the fable & is swollen up with vanity & the belief in his own power over the European markets ...

But at the same time, Lord Rothschild's letters express a sincere trust in Takahashi and an almost naïve belief in the Japanese government. Lord Rothschild continually attempted to allay any misgivings his Paris cousins might have towards the financial dependability of Japan, so that under his leadership, both sets of Rothschilds took the lead in what would become the March 1907 Japanese loans.<sup>10</sup>

Correspondence between the two branches of the Rothschild family over the Japanese bonds continued for almost a year before their final issuance in 1907. On 8 May, 1906, for example, Lord Rothschild wrote to say that he had told Takahashi they will act when the 'propitious moment arises', but that such a moment was unlikely before 'April next'. Only beginning in February 1907, after Takahashi had been back in Europe for over half a year, does the correspondence show the bond issue beginning to take shape. Takahashi insists on four percent bonds, but the Rothschilds counter with five percent. Takahashi asks why Japan should pay five percent, but China and Siam less. The French Minister of Foreign Affairs tells Takahashi that he worries about tensions between Japan and Russia. Paris wants the interest rate and price of the bonds set in London. The Japanese government wants New York and Germany involved too. By 28 February, negotiations seem to be approaching fruition: it would be five percent bonds, but with a lower underwriter's commission and a higher price than Japan's earlier bonds. And finally on 1 March, Lord Rothschild reports that 'Mr. Takahashi as usual behaved admirably; naturally the objections he raised at first were fully justified'. On 7 March he continues that 'The Japanese are a remarkable nation, they have proven themselves on land and sea and their financial representative Mr. Takahashi deserves the highest praise for having placed the finance of the country on so firm and stable a basis', and on 8 March, that 'all preparations are made for the Japanese Loan and the prospectuses will be issued this afternoon and judging from appearances I expect the loan to be a great success'.<sup>11</sup>

Form of application for the 1907 loan.



On 6 March 1907, Arthur J. Fraser of Parr's Bank, A.M. Townsend of HSBC, T.S. Nishimaki of the Yokohama Specie Bank, lawyer Albert Bright for the London Rothschilds, F. Heinrich for the Paris Rothschilds, and Takahashi for the Japanese government signed an agreement to issue £23 million of treasury bonds, half in London and half in Paris, at five percent, with an issuing price of 99½ pounds – almost parity – and unlike the wartime loans, without security. The usual consortium plus the Rothschilds issued the £11,500,000 million in London; the Paris Rothschilds underwrote the entire Paris issue; New York was left out entirely. Since the banks had issued the 1904 bonds at six percent and at selling prices of 93½ and 90½, the savings were enormous. Toshio Suzuki estimates that the Japanese government reduced its interest payments alone by £220,000 (over two million yen) per year through this bond issuance.<sup>12</sup>

On 7 May, Lord Rothschild wrote to Paris that, 'We can heartily congratulate you upon the expected satisfactory conclusion of a Franco-Japanese arrangement. We have always had great faith in Japan, faith in their military and naval prowess which the late war amply justified, faith in the resources of their country and still greater faith in the wisdom of the Japanese rulers ...'<sup>13</sup> Although Lord Rothschild and Alfred had met Takahashi when he first arrived in London in the spring of 1904, the 'always' had not begun until November 1905, that is, after the peace, when the risk of lending to Japan had been greatly reduced. Takahashi returned to Japan on 10 May 1907, in triumph. On 23 March, before he left London, the government in Tokyo dubbed him Baron Takahashi. In 1919, during his second term as finance minister, he became a viscount, before resigning his peerage to run for the lower house of parliament during Japan's democratising interlude in the 1920s.

*Richard Smethurst is professor of Japanese history at the University of Pittsburgh. He has written and delivered talks on Takahashi in Japan, Hong Kong, Europe, Great Britain, and North America. His biography of Takahashi, Takahashi Korekiyo: From Foot Soldier to Keynesian Finance Minister, will appear in Harvard University's Asia Center series in 2007. Essays on Takahashi also appear in books published by the Cambridge University Press, I.B. Tauris, and the Japan Library in Great Britain, and in the occasional paper series of the Suntory Centre at the London School of Economics.*

## NOTES

- 1 Gotō Shin'ichi, *Takahashi Korekiyo – Nihon no Keizai* (Takahashi Korekiyo – Japan's Keynes) (Tokyo: Nihon keizai shinbunsha, 1977).
- 2 See Smethurst, 'The self-taught bureaucrat: Takahashi Korekiyo and economic policy during the Great Depression', in *Learning in Likely Places: Varieties of Apprenticeship in Japan*, ed. John Singleton (Cambridge: Cambridge University Press, 1998), pp.226–38; 'Takahashi Korekiyo's fiscal policy and the rise of militarism in Japan during the Great Depression', in *Turning Points in Japanese History*, ed. Bert Edström (Richmond VA: Japan Library, 2002), pp.163–79; 'Takahashi Korekiyo's economic policies in the Great Depression and their Meiji roots', in *Politics and the Economy in Pre-war Japan* (London: Suntory Centre, London School of Economics and Political Science, 2000), pp.1–24; and *Takahashi Korekiyo: From Foot Soldier to Keynesian Finance Minister* (Cambridge, MA: Harvard University Asia Studies Center, 2007).
- 3 'Takahashi Korekiyo and Japan's Victory in the Russo-Japanese War, 1904–5', in *Britain and Japan in the Twentieth Century: One Hundred Years of Trade and Prejudice*, eds. Philip Towle and Nobuko Margaret Kosuge (London: I.B. Tauris, 2007).
- 4 *Diary* (12 April, 13 April). Although Takahashi took great care in writing letters in English (cf. his extensive correspondence with Jacob Schiff between 1906 and 1920), the diary was written for his personal use only and is replete with abbreviations, misspellings, and solecisms. I have left his words unchanged.
- 5 *Diary* (22 April, 3 May).
- 6 *Diary* (26 October).
- 7 Takahashi Korekiyo, *Takahashi Korekiyo jiden* (Autobiography of Takahashi Korekiyo) (Tokyo: Chūō kōron 1976), p.277.
- 8 RAL 000/401, November 1905.
- 9 RAL 000/401, November 1905.
- 10 For trust in Takahashi and Japan, see RAL XI/130A/0, letters of 25, 26, 29 January and 12 February 1906; for the 'devoted head' letter, see XI/130A/0/, letter of 7 May 1906.
- 11 RAL XI/130A/0/, letter of 8 May 1906; XI/130A/1/, letters of 18, 25, 26, 28 February and 1, 7 and 8 March 1907.
- 12 The agreement, Imperial Ordinance No.23 approving the loan, and instructions from the Finance Minister in Tokyo to Takahashi and Ambassador Komura in London, can be found in RAL 000/401, March 1907; Toshio Suzuki, *Japanese Government Loans on the London Capital Market, 1870–1913* (London: Athlone Press, 1994), pp.134–136.
- 13 RAL XI/130A/1/, letter of 7 May 1907.