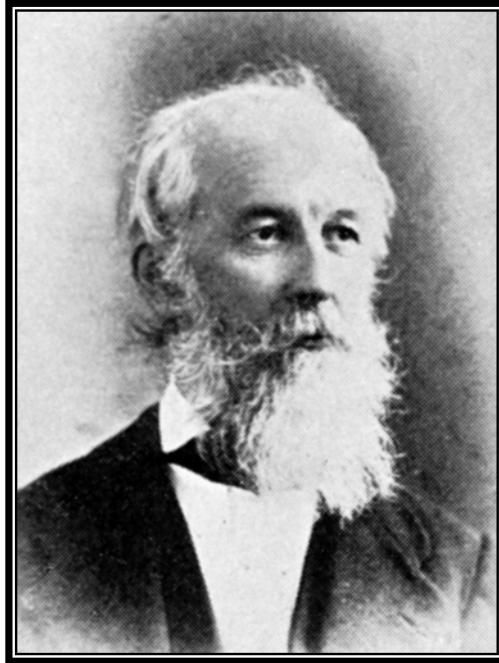


[The following is an excerpt from a book-length, unpublished manuscript by Mark Calney, entitled *Japan's Historic Mission: Completing Fukuzawa's Revolution – The Forgotten History of Japan and the American System*. May 9, 2011]



E. Peshine Smith (1814-1882)

Mr. Smith goes to Tokyo & the National Bank of Japan

After the Meiji Restoration, Wakayama Norikazu became Japan's first public spokesman for protectionism against British Free Trade. A former English interpreter, he became an official in the Ministry of Finance and published his *Hogo Zeisetsu* (Theory of Protectionist Tariffs) in 1870, in which he quotes Carey's list of numerous historical examples of the success of protectionism. The head of the Finance Ministry, Ōkubo Toshimichi, also supported protectionist policies.

That same year, Itō Hirobumi, who would join the Iwakura Embassy in 1871, had been deployed to the U.S. to study its economic system as a model for Japan, including protective tariffs, credit and currency policies, and taxation. On his return he became a staunch promoter of the American System of economics for Japan.

The ideas of the world's foremost economist, Henry C. Carey, became magnified for the Japanese leadership when his friend, Erasmus Peshine Smith (1814-1882), arrived in Tokyo prior to the departure of the Iwakura Embassy.¹

Smith had practiced law in Rochester, New York and had been the chair of mathematics at the University of Rochester. He also wrote editorials for the local

¹ Kido Takayoshi records in his *Diary* that on December 10, 1871 that "About 1 I went to Itō's house with Fukuchi, and talked with the American Smith for a long time. I heard a number of opinions which were new to me." Volume II, pp. 105-106.

Democrat (a Whig newspaper), was editor of the *Washington Intelligencer* and coined the word “telegram.”

In 1854, E. Peshine Smith was appointed Deputy Superintendent of Public Instruction for the State of New York. The appointment was greeted with enthusiasm throughout the state, as expressed by the following from the *New York Times*:

“We do not believe a better selection could have been made. Mr. SMITH, though a good lawyer, has been drawn by his tastes and habits into literary pursuits. He has much familiarity with, and great zeal for, the cause of education. [Albany Evening Journal, Dec. 21, 1854]

“The public and especially the teacher’s profession will rejoice at the appointment announced in the above paragraph. . . . the progressive movements to be evolved by the department must be based on the correct principles of national prosperity; and the execution of these plans require an earnestness and energy of character that know no such thing as discouragement or defeat.

“We believe that Mr. SMITH comes as near to that standard as any man within our knowledge. . . . his enlarged views of national growth and prosperity are clearly presented in his treatise on political economy.” – *New York Times*, February 21, 1855

Later, Smith became Reporter for the New York Court of Appeals. During the Civil War he was assigned Commissioner of Immigration in Washington in 1864, and was then appointed by Secretary of State William H. Seward, his former classmate from Harvard Law School and whose law office he had worked, to become Examiner of Claims for that agency (confirmed by the U.S. Senate on June 7, 1870). His knowledge of international law became an invaluable asset to the U.S. government. In 1871, when Mori asked Secretary of State Hamilton Fish to recommend an American who could serve as an adviser to Japan on international law, it was E. Peshine Smith who immediately came to mind. Consequently, with the approval of President Ulysses S. Grant, Smith became the first foreigner to be employed as a Japanese government official. From 1871 to 1876, he served as a special Adviser in International Law to the Ministry of Foreign Affairs. He also consulted on economic matters with Ōkuma Shigenobu and Ōkubo, attended Cabinet meetings, and occasionally met with the Emperor. He also chose to sometimes dress in samurai attire, including the two traditional swords.

E. Peshine Smith completely reorganized the Ministry of Foreign Affairs and intervened to lead a legal fight for Japan that would be a watershed action that ultimately ended the British Empire’s direction of the heinous trafficking in human flesh known as the “coolie trade.”² Even though the British had nominally resigned from officially engaging in the slave trade, the practice continued and actually escalated under the de facto slavery conditions of the coolie trade. Perpetually committed to the imperial idea of generating wealth from their *Free Trade* ideology of cheap manual labor – slavery, then in the guise of indentured servitude – the British Empire conducted eugenic-style

² The English word “coolie” which came to be used as a derogatory term for a cheap laborer, is devolved from several sources on the Indian subcontinent: *qūlī* in Hindi means “day laborer” and *kuli* is the word for “wages” in Tamil.

experiments on such laborers as the Congolese, Japanese, Bretons, Malagasy, and others to find their “ideal coolie.” They settled on Indians and began shipping them out to plantations and other enterprises in South Africa, Fiji, and South America. More than 500,000 coolies were imported into the islands and countries of the Caribbean Rim.

Following the end of the first Opium War in 1842 the British and Portuguese became heavily involved in recruiting (usually with false promises) and kidnapping Chinese “coolies” for export to the Pacific Islands and South America. It is estimated that from 1850 to 1875 more than 1.2 million Chinese were shipped from the Portuguese colony of Macau to work the sugar plantations of Cuba or the silver and guano mines of Peru.

In July of 1872, on the recommendation of E. Peshine Smith, the Minister of Justice and former student of Guido Verbeck, Soyeshima Taneomi, advised the Meiji government to seize the Portuguese ship *Maria Luz* which was anchored off Yokohama with a cargo of 231 Chinese coolies. One of the Chinese had escaped from the *Maria Luz* twice onto a nearby British warship and, though he reported the brutality of the Portuguese, had been returned to them. Japanese took control of the ship and off loaded the Chinese in order to interrogate them as witnesses to their inhuman captivity. Ōe Taku, the governor of Kanagawa and the person placed in charge of the investigation, informed Captain Ricardo Heriero of the *Maria Luz* that it is “the settled policy of this Empire that no laborers or other persons subject to this Government or enjoying its protection shall be taken beyond its jurisdiction against their free and voluntary consent.” After a trial, in which Captain Heriero was found guilty of brutalizing the Chinese and holding them against their wills, none of the Chinese chose to return to the *Maria Luz* and were sent back to China. Throughout the entire legal proceedings, it was the expert hand of E. Peshine Smith who drafted all the legal briefs, letters, and other documents. This was especially evident in the final judgment which cites in detail the precedents of the U.S. in dealing with the jurisprudence of human “property” and applying the “broader issues of natural justice and equity which are of universal application.”³ In 1862, the *Great Emancipator*, President Abraham Lincoln, had signed into law *An Act to Prohibit the ‘Coolie Trade’ by American Citizens in American Vessels*.⁴ The story of the *Maria Luz* case was published in the *New York Tribune* by its reporter in Japan, Edward H. House, who was a witness in the trial and became so moved by the incident that he made Japan’s cause his own by founding the influential *Tokio Times* newspaper.

While Peru, which had no treaty agreement with Japan, threatened to deploy warships to resolve the matter, the Portuguese Captain sued for the return of his contractual “property” – the Chinese. Ironically, it was Charles DeLong, the U.S. Consul to Japan that had to inform the Japanese government “that at the instance of the government of Peru I have been requested by the honorable Secretary of State [Hamilton Fish] of the United States to act for the Peruvian government in this empire ... and frankly

³ *Papers Relating to the Foreign Relations of the United States*, Government Printing Office, Washington, 1873, vol. I, pg. 548.

⁴ Between 1847 and 1859, an estimated 50,000 “coolies” had been transported on U.S. ships and suffered an 18% casualty rate. The Act also provided for Chinese to openly emigrate to the U.S., provided that a U.S. consul representative at their port of departure had signed their travel permit.



Newly arrived “coolies” on the Caribbean island of Trinidad



*Czar Alexander II of Russia;
Ally of President Lincoln and
mediator of the ‘Maria Luz’ case*

admitting my abhorrence for the so-called coolie-trade, yet, as I have undertaken a charge for a power friendly to my own Government.”⁵

Charles DeLong then arranged for all sides to agree to have the legal matter arbitrated by Czar Alexander II of Russia. A staunch ally of President Lincoln during the U.S. Civil War, Alexander II, who had earlier proclaimed an edict to free the Russian serfs, issued a judgment in 1875 in favor of Japan. But the *Maria Luz* incident had already caused reverberations internationally, as Soyeshima Taneomi recorded:

“This victory for a country which had just entered into the family of nations, in a dispute in which the question of humanity was involved, helped to strengthen its position as an independent nation, and was the subject of much approval in every part of the world.”⁶

In Japan, a month after the judgment issued in the 1872 *Maria Luz* case, the “Emancipation Decree for Female Performers and Prostitutes” was decreed, banning any sale of human beings and freeing any prostitute or other indentured servant from their contracts. In 1873, the government of Peru officially outlawed the “coolie trade.”

Though the *Maria Luz* case was of historic importance, it was E. Peshine Smith’s work in developing the fledgling economy of Japan that remains his most important legacy.

In 1858, Henry Carey published his three volume work, *Principles of Social Science*. It was written as an effort to demonstrate that the scientific principles of economics, as demonstrated successfully by the American System of political economy, reflect the same physical principles that govern the universe and the social sciences of

⁵ *Papers Relating to the Foreign Relations of the United States*, Government Printing Office, Washington, 1873, vol. I, pg. 528.

⁶ *Fifty Years of New Japan* by Okuma Shigenobu; Smith, Elder, & Co., London, 1910, vol. I, p. 98.

humanity – i.e. that the human Mind, where resides the creative potential which distinguishes him from the beasts and is that which the Creator made in his image. He spares no effort to show the fallacious nature of the opposing view of Mankind, under such chapter headings as the “Inevitable tendency of the Ricardo-Malthusian doctrine, that of making slavery the ultimate condition of the laborer” and “The system of the British school a retrograde one - had its origin in a retrograde policy.”

In Carey’s own preface to that work he complements his former protégé now become collaborator, “To fully develop the law of the perpetuity of matter, in its bearing upon the law of population, was, however, reserved for the author’s friend, Mr. E. Peshine Smith, numerous extracts from whose excellent little *Manuel*, will be found in the present volume.”⁷ The “little *Manuel*” to which Carey refers is *A Manuel of Political Economy* that Smith had published in 1853 and was a devastating attack on the dean of the British East India Company’s Haileybury College – Parson Thomas Malthus.

In his *Manuel*, Smith proffers:

“Is it possible to construct a science of Political Economy? In other words, are there laws grounded in the constitution of things and of man, fixed and invariable succession of effects determined by the causes which precede them, – regulating the progress of men in association with each other, in extending their dominion over matter and their concurrent improvement in intellect and morals? – and are these laws discoverable? What and how many of them have been discovered, is a different question. What is unquestionable is, that there are professors of what is styled a science of Political Economy, teaching in the schools and through the press a body of precepts, tending more or less to the object we have assigned as that of its investigations. On the other hand, it is denied that there is yet such a science. . . . [The British System] would not perhaps, be Political Economy such as we have described it. It would be, as it has been called, ‘the Dismal Science,’ instead of a science of Progress and Hope. . . .”⁸

The ‘science of Progress and Hope’ prevailed in Japan in 1873 when, with the advice of E. Peshine Smith, Ōkubo Toshimichi established the Ministry of Home Affairs and within that the Industrial Promotion Board (*kangyōryō*). On August 1, 1873, the doors of the newly founded First National Bank of Japan opened its doors for business headed by Ōkuma Shigenobu. Those measures were modeled on Alexander Hamilton’s First National Bank of the United States which had allowed the advancement and industrialization of America – what became known as the American System. Japan now had the vehicle by which to develop, and the Asian banking monopoly controlled principally by Britain’s opium-dominated Hong Kong and Shanghai Banking Corporation was seriously threatened.

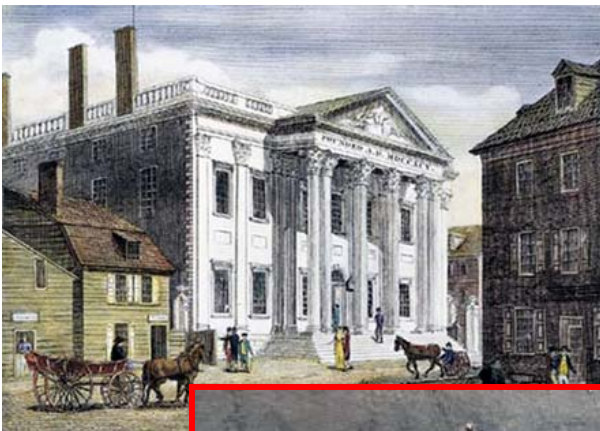
The U.S. Constitution is historically unique in its capacity to provide for the lawful generation of a credit economy, distinct from the monetarist, money economies of European central banks. The sovereign right of the nation (i.e. the people), through its National Bank can issue fiat credit for infrastructure and productive enterprises based on

⁷ *Principles of Social Science* by Henry C. Carey, J.B. Lippincott & Co., Philadelphia, 1858, Volume I, p. vi.

⁸ *A Manuel of Political Economy* by E. Peshine Smith, George Putnam & Co. New York, 1853, pp. 13-15.

future returns to the benefit of the “general welfare”, whereas Central Banks, invariably controlled by private oligarchical interests, lack that ability or inclination towards economic activity based on such Constitutional grounds. After the American Revolutionary War, the newly born American Republic, just like Japan after the Meiji Restoration, had no money or other pecuniary aides that would have allowed for the financing of development. Alexander Hamilton, using the provisions of the Constitution and with the backing of President George Washington, took the Continental debt that had accrued during the war from the various colonies (now states) and allowed, as he wrote, “its conversion into Bank Stock, incorporated with a specie fund” that would be capitalized and circulated by the National Bank with a “proportional benefit to all the public creditors.”⁹ Hamilton was able to structure the U.S. banking system to ensure credit growth was channeled into productive enterprises (e.g. infrastructure projects such as canals and roads, as well as, manufacturing) and not into speculation and usury.

At the time the First National Bank of Japan was established, the country had no significant specie reserve nor did it have any major debt. Rice, not money, had been the major form of exchange. However, what Japan did have in abundance were large numbers of landed aristocracy, particularly of the samurai caste. What Ōkubo and



First National Bank of the United States

It was proposed by Alexander Hamilton, Secretary of the Treasury, to the first session of the First Congress in 1790, backed by President Washington, and chartered the following year. It was built in Philadelphia, Pennsylvania in 1791.



Plaque commemorating the site where the First National Bank of Japan was constructed in Nihonbashi, Tokyo in 1873

⁹ *Report on a National Bank* submitted by Secretary of the Treasury Alexander Hamilton to the U.S. Congress on December 13, 1790.

Ōkuma then did would be considered an anathema to the fiscal conservative, Free Traders of today – they deliberately created a huge national debt! In 1871, they had abolished the feudal “right” of those nobles and samurai to ownership of land, and that land had been reverted back to the nation of Japan. This didn’t mean that people were then thrown off the lands like some imperialist or communist usurpation. It meant that, with the new banking measures, a national debt had been created by which those nobles were paid in government paper money which the government then organized the recipients to deposit in the National Bank or into new industries. That same year the New Currency Act was adopted which established the *yen* as the new decimal currency of Japan, replacing the feudal system of each daimyo producing its own money which had no conversion compatibility with the other daimyos.

Under the 1872 Banking Act, chartered national banks (beginning with four) were required to pay 60% of their cash deposits to the government, in return for government securities bearing 6% interest. Those banks were also allowed to circulate convertible bank notes of their own up to the limit of their holdings in government securities. The subsequent amended Banking Act of 1876 authorized the new national banks to issue nonconvertible bank notes worth up to 80% of their capital. That in turn was paid to the government in return for government bonds yielding 4%.¹⁰ Additionally, the government issued compulsory samurai commutation bonds (the equivalent of the old feudal stipend to the samurai) in the order of 174 million yen, which was *five times* the total government revenue in 1876. The main depositors and holders of those bonds were the *kazoku* (the new combined class of court nobles and former daimyo nobles) at 44.1%; the samurai at 39.9%; and, the merchants at 14.6%.¹¹

This was the nationally sovereign, financial means by which all the modern industries of Japan were built, and the people who built them were not dominated by the old aristocratic families but represented a newly invigorated stratum of the former samurai class. Human creativity became more important than the old trappings of status and riches. Emblematic of that healthy phenomenon was Toyoda Sakichi (1867-1930), the son of a humble carpenter who became known as the “King of Japanese Inventors” for revolutionizing his nation’s textile industry with such innovative technology as his automated power loom that utilized the principle of *Jidoka* (meaning the machine stops by itself if it encounters a problem) and founded the Toyoda Loom Works. His son, Toyoda Kiichirō (1894-1952), established a branch of the company to produce automobiles which eventually became Toyota Motor Corporation, currently the largest automobile manufacturer in the world.

As Japan began to succeed in its commitment to modernize, additional Hamiltonian measures were taken to protect the new nation’s foreign trade which was exclusively financed by the afore mentioned British-dope interest, the Hongkong and Shanghai Bank. In 1887, Ōkuma, who had once again become Finance Minister, established the Yokohama Specie Bank which replaced the British with the Meiji government as the controlling agency over all Japanese foreign trade.

¹⁰ In 1876 there were 6 national banks which rose to 153 in 1879 with none chartered after that date.

¹¹ *A Study of Samurai Income and Entrepreneurship* by Kozo Yamamura, Harvard University Press, Cambridge, 1974, p. 166.

Several months after E. Peshine Smith had concluded his official responsibilities with the Japanese government and had left the country, his influence continued on the pages of the *Tokio Times* through his collaborator Edward House. During 1877 and 1878, the *Tokio Times* published seventeen essays under the banner “Notes on Political Economy Designed for the Japanese Readers.” Though no authorship of those essays was provided by the *Tokio Times*, they were undoubtedly written by E. Peshine Smith with the intention that they be publicly printed in Japan after his departure from the government. Those essays, accompanied by a brief proof of authorship, can be found in the Appendix of this document.

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