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"THE REAL JAPANESE PROBLEM."

AS DESCRIBED BY MR. F. A. MAC KENZIE IN THE LONDON "MAIL."

Viscount Hayashi, speaking not long ago at Tokyo as Japanese Minister for Foreign Affairs, expressed his surprise at "the suspicion prevailing abroad, even in high circles, concerning the alleged military expansion and aggressive policy of Japan." Such suspicion, he declared, was due to "astonishing ignorance of the real conditions in Japan." No statement by Viscount Hayashi can fail to be received with respect in this country. The charming personality and high character of the former ex-Minister to London won for him universal regard and confidence.

A REMARKABLE BUDGET.

It is undeniable that there is a certain amount of uneasiness existing to-day regarding the immediate outlook in Japan. The high hero worship of the early days of the war was bound to be followed by a reaction. That reaction has been helped by three things; the continuous rise in Japanese national expenditure, the recent increase of the Army and Navy, and the wave of speculation now passing over commercial Japan.

Any other country presenting a Budget such as that of the Mikado's kingdom this year would be regarded as on the high road to national bankruptcy. Japan has in the past exhibited such striking financial skill, and her commerce is increasing at so amazing a rate, that no such fear is entertained. Still, the financial outlook is overcast. Broadly speaking, the regular income for the present year is £42,000,000 and the expenditure £61,000,000. The deficit of over eighteen millions is made up from surplus war funds, temporary loans, the sale of Government property, and the like. The Government does not propose any additional taxation, because taxation is still on its war basis and is so high that it is borne by the people with difficulty.

There has rarely, if ever, been a case of national expenditure rising so rapidly as that of Japan has risen. In olden times the Budget came to six or eight millions a year. Even as late as 1893 the total expenditure was only £7,800,000; by 1900 this had risen to £29,000,000. How can this increasing burden be sustained? The one great fact in favour of Japan is that her commerce is also growing rapidly. During 1906 the export trade in Japanese goods rose from £32,000,000 to £42,000,000. Thus the amount received from taxation is increasing considerably. After 1911, when complete tariff autonomy is recovered, Japan will be able to readjust her Customs duties to any extent she pleases. It is generally assumed, also, that Japan has a large balance, between twenty and thirty millions sterling, left over from its war loans. But there are limits to taxation, and at the bottom we have the fact that Japan is essentially poor.

ADVANCES TO BUSINESS RIVALS.

Japan is undoubtedly aided by one of the most able groups of financiers of the time. The Department of Finance at Tokyo has deserved as well of the nation as did Togo or Nogi. But the cleverest financiers cannot accomplish the impossible.

Some uneasiness has been excited in this country by the fact that an appreciable part of Japanese expenditure is caused by Government subsidies and grants to industries that are directly competing with British trade. Here we need to clear our minds of cant. Japan has undoubtedly a right to fight us commercially while co-operating with us politically. We are military friends, but political friendship does not exclude commercial rivalry.

Japan has every right to grant special subsidies to her merchant ships at points where they are seeking to drive British ships off the seas, as she does; Japan has every justification in hampering the foreign capitalist in her own territory, as she does. Japan is only following the example of many Western Powers when she utilises her position in Manchuria and in Korea for the advantage of her own traders and to the detriment of the foreigner. It is absurd for us to wax indignant over this. But the Japanese must not be indignant on their side if our financiers decide, in time, that they will withhold loans that are to be used, wholly or in part, for building up in the Pacific a commerce destructive to our own.

The recent enormous increase in the Japanese Army and Navy has caused some surprise. The 1907 Budget provides for an extra four new divisions to the Army, besides special cavalry brigades, heavy artillery brigades, and artillery with quick-firers. At the same time an alteration is being made in the period of service with the colours that will in a short time add 50 per cent. to the strength of the infantry reserves. Under this new scheme Japan will be able to put in the field a fighting army of 750,000 men and to maintain it with adequate reserves. The infantry are being rearmed and the coast forts have been given new guns.

VASTLY INCREASED ARMAMENTS.

In the Navy, all the Russian ships that were captured are to be thoroughly repaired, refitted, and commissioned. A number of fresh vessels are being laid down, one of them over 22,000 tons in size, or about 18 per cent. larger than our *Dreadnought*. The subsidised and semi-official dockyards in Kobe, Nagasaki, and Osaka are working at high pressure constructing submarines and torpedo-boat destroyers. The growth of naval and military expenditure can best be judged by comparing the figures in the Budgets for 1906 and 1907:

	1906.	1907.
ARMY.	Y.	Y.
Ordinary expenditure ...	50,460,384	53,663,788
Extraordinary expenditure	1,676,742	57,953,380
Total ...	52,137,126	111,617,168
NAVY.		
Ordinary expenditure ...	28,914,073	33,414,695
Extraordinary expenditure	10,615,854	49,067,524
Total ...	39,529,927	82,482,219

What is the purpose of this great increase of armaments? It is certainly unnecessary

for purposes of national defence. Thanks to her geographical position, and to her alliance with Great Britain, Japan to-day is in the most secure position in world politics. Nothing but an aggressive and provocative action on her part can bring about any combination of Powers against her. An invasion of her soil is practically an impossibility. "I beg leave to declare, not only on the part of the Government, but on behalf of the whole nation, that Japan has no aggressive intentions whatever," said Viscount Hayashi. The declarations and the actions of the Government do not apparently support one another.

JAPANESE SOUTH SEA BUBBLES.

The increase of official expenses has been accompanied by a great wave of speculation in business life. During last December alone new companies were established in Japan, or old ones extended, with a capital of about £17,000,000. The new companies begun since the end of the war reckon their capital by the hundred millions. Cotton mills, electric power works, electric lighting stations, shipping companies, banks and insurance are all joining in the mad rush. The inflation of nominal capital is far beyond what real business justifies. The state of affairs in the business world is more and more resembling the situation in England at the time of the South Sea Bubble. No scheme is too mad to obtain support. There is undoubtedly a very solid increase in Japanese business, but this speculative fever is quite apart from it. A race of speculative millionaires is arising.

"All that people are content to trouble themselves about nowadays," said Count Okuma, a well-known statesman of Japan, recently, "is the so-called inauguration of new companies, speculation in shares, horse racing lotteries, restaurants, tea-houses, and what not."

A situation such as that shown by Japan to-day unquestionably presents grave dangers for world peace. The Japanese Government is driven to launch out into schemes of territorial aggrandisement. Financial pressure at home has its corollary in the aggressive policies now being maintained in Manchuria and Korea. We cannot forget that this nation is, and must be for some years, faced by one great temptation. The history of the world has rarely, if ever, shown a Power poor in money but strong in fighting force content to allow a rich and feeble neighbouring nation to go unplundered. Japan is poor, but a supreme fighter. China is a rich, but has not yet developed her fighting force. How long will Chinese territory remain untouched?