

THE CHARACTERISTICS OF FINANCE IN THE MEIJI PERIOD (THE PERIOD OF TAKE-OFF)

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The financiers and merchants had accumulated enormous amounts of capital by the end of the Tokugawa period. The finance of the Meiji period remained in the hands of these men and hence reflected to a great extent a pre-modern type of finance.

Furthermore, the fact that the financial sector was able to contribute to increases in productivity and to become one factor in providing a base for economic take-off may be attributed to financing carried out on the profitable and safe security of landed property. This type of credit is a special characteristic of Japanese finance, and has been one of the factors sustaining the recent high rate of economic growth.

In looking into the economy of Japan in the Meiji period (the take-off period of Japan's economy) and particularly Meiji finance, we must not ignore such economic factors as the commerce and finance of the Tokugawa period. This is because the accumulation of capital in the Tokugawa period by merchants and by those engaged in finance and the functioning of the financial institutions they owned supported the financial structure of Japan throughout the Meiji period.

We must not forget that the economic development of Japan as a whole, and not merely finance, which took place during the Meiji period became possible only with the help of the Tokugawa period, a period of preparation for such conditions for economic development as capital accumulation. In other words, during the Tokugawa period modern elements were already in the process of being formed in economic sphere. Therefore, it is necessary for the purposes of the present paper that we make a brief survey of the state of credit provision in the Tokugawa period.

I. COMMERCIAL CREDIT AND ITS ROLE IN THE TOKUGAWA PERIOD

The rapid development of cities, commerce, and finance during the Tokugawa period was owing mainly to the institution of *sankin kōtai*, the system by which the daimyo had to live in alternate years on their domains and in Edo. In order to meet the expenses of their life in Edo the daimyo had to send rice and other products of their domains to their *kurayashiki* (warehouses) in Edo or Osaka (the daimyo of the western regions of Japan; Chūgoku,

Shikoku, Kyūshū, and Hokuriku had their *kurayashiki* in Osaka, and those of the eastern regions of Japan; Kantō and northern Honshū in Edo) where they sold these products or borrowed money on the security of them from *ryōgaeshō* (exchange brokers), persons engaged in finance, or merchants. In this way products from all over Japan were brought to centres such as Edo and Osaka and from there were sold again to all parts of the country. This resulted in the development of a national circulation of various products and in the promotion of such financial operations as the lending of capital funds.¹

The enlargement of the commodity market and the increase in the volume of transactions promoted an accumulation of capital and the development of a division of labour among the merchants. Clearly defined distinctions developed between *tonya* (wholesaler), *nakagai* (broker), and *kouri* (retailer). The *tonya* formed associations which had particularly large capital resources. Further, the increase in the volume of transactions gave rise to speculative dealings, and persons making vast profits emerged from among the merchants and those engaged in finance. In this way the liquid capital accumulated in the hands of great merchants and of those engaged in finance was invested in lending at high rates of interest to daimyo and *bushi*, in the reclamation of new land for agriculture, in land or house purchases, or in industry, thus producing a further increase in their accumulation of capital.

The development of this type of commercial economy and the accumulation of liquid capital necessarily brought about a development of credit institutions, and this was particularly marked in Edo and Osaka. The largest credit institutions of this period were the exchange brokers followed by the *fudasashi* (a type of merchant banker). In addition, there were pawnbrokers, *tanomoshikō*, and *mujin* (both mutual finance associations), and other persons engaged in finance.

The business carried on by exchange brokers was practically the same as that of a modern bank. These exchange brokers included the *jūnin-ryōgae*,² the *hon-ryōgae*,³ the *zeni-ryōgae*,⁴ and the *komekata-ryōgae*.⁵

¹ At the time of its greatest prosperity Edo is said to have had a population of between 1,300,000 and 1,400,000 (the population of London in 1801 was 860,000), and from the beginning of the 18th century to the first half of the 19th century it was the biggest city in the world. Its population was almost equally divided between the samurai class and those engaged in commerce and industry. Again, Osaka, a purely commercial city, had a population in the order of 400,000 after 1700, while Kyoto had a population of more than 500,000 in the mid-Tokugawa period. It is also said that there were approximately 10 castle-towns (towns having a castle used as a residence by a daimyo) which contained populations of 50,000-100,000, and the development of cities in Japan during the Tokugawa period was greater than might be imagined.

For details see Takao Tsuchiya, *Zoku Nihon keizai-shi gaiyō* (Outline of Economic History of Japan, Continued), Tokyo, Iwanami-shoten, 1953, pp. 222-242.

² The leaders of the company of exchange brokers, and also its overseers, principally engaged in the service of the Shogunate and also acting for the *kurayashiki* of the various daimyo, had enormous power and were the greatest finance capitalists of their time; they numbered as many as 18 or 19 or as few as 6 or 7.

The exchange brokers took in large amounts of gold and silver from the merchants, and made loans to daimyo on the new rice harvested in autumn and to merchants on current account transactions. Many loans were also made on the security of rice and other commodities or on the security of real estate property. There were also large exchange brokers who, in addition to carrying on a general credit business such as deposits, loans, and exchange, also arranged the provision of funds for the Shogunate and the daimyo and handled treasury funds, undertaking the collection of money presented in payment of taxes, etc. These businessmen were called *kawasekata*. It should be noted that credit in the Tokugawa period centred on rice credit, as is exemplified in the loans made to the daimyo on the new rice.

Again, there was a flourishing circulation of bills both because gold and silver currency was heavy and because bankruptcies among the merchants were few and credit was firm. There was a large number of types of bills—commercial bills and notes, accommodation bills, etc.⁶

Thus currency also took the form of credit, and credit institutions developed to a greater degree than might have been expected. Furthermore, accumulation of liquid capital by those engaged in commerce (rice and *sake* wholesalers, shipping agencies, etc.), including those engaged in finance, assumed very large proportions. The feudal lords became financially subordinated to these merchants who held a tremendous amount of power, and who in addition continued to provide credit in the Meiji period.⁷

³ The ordinary exchange brokers whose business included the purchase and sale of gold and silver, the making of loans, the issue of bills, exchange transactions, deposits, etc., whose numbers were extremely large, there being said to have been 367 between 1720-1730 and 360 about 1780. Their capital resources were also great; it is said that about 1830 there were more than 50 of them who had a capital of more than 200,000 *ryō*.

⁴ These sold various commodities, and with the money thus collected carried on their main business, currency changing; they are said to have numbered several thousand.

⁵ A special financial institution at the Dōjima rice market in Osaka which did such business as receiving required money deposits in rice sales and purchases and the receipt of deposits from brokers.

⁶ The currency of the Tokugawa period was principally in gold, silver, and copper (brass) coins. The amounts in circulation were extremely great, the gold and silver coins of the Shōtoku period (1711-1715) amounting to 24 million *ryō* or approximately one *ryō* per head of population, since the population of that time was approximately 26 million. It is impossible to convert one *ryō* of this period to modern values, but it was certainly worth more than ¥10,000 (about \$30).

⁷ Regarding the excellence of the mechanism and functions of finance in the Tokugawa period, the reader is asked to refer to such works as Keitarō Iibuchi, *Nihon shūnyō taikēi zenshi* (A Prehistory of the Japanese Credit System), Tokyo, Gakusei-shobō, 1948 and Sadao Matsuyoshi, *Nihon ryōgae kinyū shiron* (On the History of Credit Provision by Exchange Brokers in Japan), Bungeishunjū-sha, 1932.

II. FINANCIERS IN THE MEIJI PERIOD

In 1868 the Tokugawa Shogunate fell and a new government was set up. All the expenses involved in the setting up of this new government (including the war expenses in the civil war with the *Bakufu* army) were supplied by great merchants and others who had been engaged in the provision of credit under the Tokugawa régime, while the expenses involved in the subsequent establishment and operation of the new institutions were also entirely dependent on them. Again, since the loans from great merchants in each of the fiefs during the Tokugawa period were taken over unaltered by the new government, they became the creditors of the new government and strengthened their power.

In the first years of the Meiji period the government, though it had come into being as the centralized political authority, was unable to set up a nation-wide organization for tax collection, and thus the management of Treasury funds with regard to taxation, income, expenditures, and remittances to and from the state exchequer was carried out through the services of the *kawasekata* and other great merchants from the Tokugawa period who operated on a nation-wide base. The Mitsui, Ono, and Shimada *gumi* (corporations) were charged with the exchange business of the Ministry of Finance, while in the feudal domains, too, the long-established *kawasekata* were retained as the managers of exchange business. The fact that they were also able to handle immense sums in public moneys without paying interest meant that they had secured great privileges.

Again, the trade in rice paid as taxes provided the *kawasekata* with extraordinary profits. After the reform of the land tax when the tax became payable in money, profits increased still further. The new Meiji government was dependent on the land tax (paid in rice) for the greater part of its revenue. Up to 1871, when the feudal domains were replaced by prefectures, each feudal domain disposed of rice paid as taxes as noted above, but after 1871 the central government disposed of this rice itself. It was very inconvenient from the point of view of the state finance that in good years the tax rice became a glut on the market and resulted in falling prices. Therefore, the government decided to reform the land tax and get a safe and assured revenue. Thus, in February, 1872, the Land Certificates Law was drawn up and Land Certificates issued, land values were determined, and rights of ownership in respect to land were firmly established, making it possible for land to be made subject to mortgage and to be bought and sold.⁸ In August, 1873, the Land Tax Act was promulgated and the reform of the land tax began. And so it became possible to obtain a fixed tax paid in money, levied on the basis of land values and unaffected by the state of the harvest. However, all the actual work involved in these measures was done in the traditional fashion by great merchants designated by the *kawasekata*. They

⁸ In the Tokugawa period, the buying and selling of agricultural land was prohibited in principle.

collected rice paid as taxes and were able to obtain as profit the difference between the trade price and the price at which they sold the rice to the government.⁹

After the establishment of the new government the many government bond issues put on the market became, along with land, excellent security for credit, and consequently receiving credit became extraordinarily easy in comparison with the past. Further, the merchants, aware of the profitability of handling Treasury funds and issuing paper currency, were eager to create financial institutions, and their function became more and more precisely defined as financiers.

Table 1. NATIONAL INCOME PERCENTAGE BY SECTOR

Year	Primary Industries	Secondary Industries	Tertiary Industries
1878	61.8	8.5	29.7
1882	59.7	13.0	27.2
1887	52.6	15.9	31.5
1892	53.8	15.9	30.3
1897	48.2	20.3	31.5
1902	44.6	20.9	34.5
1907	45.3	19.7	35.0
1912	42.4	21.3	36.4
1916	32.0	29.8	38.2
1921	31.8	23.0	45.2
1926	26.4	24.3	49.2
1930	17.1	27.4	56.4
1935	20.1	31.3	49.3
1940	24.2	35.8	40.0
1946	38.8	26.4	34.8
1955	22.8	30.3	47.3
1960	15.4	38.1	46.9
1964	12.6	39.7	48.3

Note: The figures up to 1926 are estimates by Professor Kazushi Ohkawa. Those for 1930 and thereafter are published by the Economic Planning Agency.

Source: The Bank of Japan, *Hundred-Year Statistics of the Japanese Economy*, 1966, pp. 32, 44.

On the other hand, as was natural, the most important products in Japan's economy at this time were agricultural products, such as rice and cocoons, as is shown in Table 1. This fact will be readily apparent from the importance of the primary industries in terms of national income produced by the various sectors.

Looking at the value of the principal products of manufacturing industry in 1874 as shown in Table 2, we find that practically all the principal manu-

⁹ A detailed account of these circumstances is given in Kōkichi Asakura, *Meiji-zenki Nihon kinyū kōzōshi* (History of the Financial Structure of Japan in the Early Meiji Era), Tokyo, Iwanami-shoten, 1961, pp. 23-29.

factured products, led by *sake*, were produced from raw materials coming from the agricultural sector.

Again, looking at the breakdown of export commodities, we find that in the early years of the Meiji period raw silk alone accounted for as much as 42.3% of the total value of exports, and with the addition of tea exceeded 70%. Raw silk maintained a level of 30% throughout the Meiji period.

Table 2. VALUE OF PRINCIPAL PRODUCTS OF THE MANUFACTURING INDUSTRY, 1874

Item	Value (thousand yen)	Percentage
<i>Sake</i>	18,605	16.8
Textiles	17,159	15.5
Soysauce	6,338	5.7
Silks	6,165	5.5
<i>Miso</i> (bean paste)	6,137	5.4
Oils	5,443	4.9
Paper	3,951	3.5
Tools and Machinery	3,061	2.7
Fertilizers	3,057	2.7
Dyestuffs	3,033	2.7
Salt	2,394	2.1
Chinaware	2,092	1.9
Others (omitted)		
Total	111,892	100.0

Source: Kazuo Yamaguchi, *Nihon sangyō-kinyāshi kenkyū* (Studies in the History of Industry and Finance in Japan), Tokyo, Tokyodaigaku-shuppankai, 1967.

Table 3. VALUE AND PERCENTAGE OF RAW SILK EXPORTS
(in thousand yen)

Year	Total Value of Exports (A)	Value of Raw Silk Exports (B)	$\frac{B}{A}$ Percentage
1868	15,553	6,572	42.3
1872	17,026	5,699	33.5
1877	23,348	10,061	43.1
1882	37,721	18,639	49.4
1887	52,407	21,639	41.3
1892	91,102	39,591	43.5
1897	163,135	58,718	36.0
1902	258,303	82,573	32.0
1907	432,413	123,182	28.5
1912	526,982	161,587	30.6

Note: Raw silk includes waste silk.

Source: Compiled from *Meiji Taishō kokusei sōran* (Statistical Handbook for the Meiji and Taishō Periods) published by the Tōyōkeizai-shimpōsha, 1929.

Since the principal products were produced in the farm villages, it was natural that there should be a great demand for credit in the rural areas and a great many credit transactions made. The small tenants had little left

to sell after the deduction of their high rents and the amount required for home consumption, and in the end the money paid for agricultural produce collected in the hands of the landlords, the rice and fertilizer merchants, and those engaged in finance. In addition, since financing carried on in connexion with the payment of the land tax occupied an important proportion of total financing,¹⁰ this caused the rise of landlords and other influential financiers in the rural areas. (Of course the great merchants were landlords as well, but here we refer to the landlords living in the villages.)

Thus, these persons engaged in finance, the merchants, the landlords, and other influential persons in the villages created a variety of institutions for themselves, or had the institutions created for them under government suggestion. Consequently these groups came to dominate the financing of the Japanese economy in the take-off period. In the following section we propose to take a general look at these institutions created by the traditional type of financiers dating back to the Tokugawa period, to study the functions of these institutions, and to see what special characteristics were created in finance.

III. THE ESTABLISHMENT OF THE FINANCIAL INSTITUTIONS AND THEIR FUNCTIONS

1. *The Banking Companies*

With the exception of exchange brokers, pawnbrokers, and *tanomoshikō* (all dating from the Tokugawa period), and the quasi-banks¹¹ established by merchants and landlords in the first years of the Meiji period, the first institutions for finance were the banking companies established in the second year of the Meiji (1869) for "the reform of the credit and money system and the promotion of private industry" and for the liquidation of the *Dajō-kansatsu* (Prime Minister Notes) which had been issued in excessive amounts in 1868. These banking companies, too, were established on the basis of the capital resources of such great merchants from the Tokugawa period as Mitsui and Ono, and of influential great merchants and landlords in the provinces.

The business of these banking companies consisted of deposits, the issue of securities, loans of capital funds, exchange, trade in silver dollars and old

¹⁰ The First National Bank, established in 1873, set up offices in northern Honshū in 1876 (in Miyagi and Iwate prefectures) and began business in documentary bills for rice delivery and also made it possible for the people of that region to pay taxes by First Bank bills. Although the staff had had no work at all until then, business picked up for the first time as a result of this move and it even produced observable changes in the balance sheet of the First National Bank. For details see Asakura, *op. cit.*, pp. 140-146.

¹¹ Quasi-banks are described as companies which carry on such business as exchange broking, money-changing, the holding of money on deposit, and money-lending. These companies are thus to be regarded as carrying on business simultaneously in the fields of finance, commodity trading, and productive industry.

gold, and exchange brokerage, in addition to the issue of paper currency. Furthermore, their loans were aimed at forwarding the development of commerce and industry and at the same time rendering smooth the transition of the members of the ex-samurai class into businessmen in commerce and industry. In practice, however, loans were made to the former heads of the feudal domains (the former daimyo, now acting as governors in their former feudal domains) on the security of taxes delivered in rice or of other produce, carrying on in unchanging form the financing of the Tokugawa period. However, it appears that the majority of these funds were loaned to wholesalers and others as shipping funds against rice and other products from the head of the feudal domains. This would seem to be endorsed by the fact that apart from their premises in Tokyo, Osaka, and Kyoto, these companies were all established in port-towns—Yokohama, Kōbe Ōtsu, Niigata, and Tsuruga. However, these companies lasted only three years after their establishment, and in 1872, with the exception of that at Yokohama,¹² all had been dissolved because of adverse conditions of business.

The above banking companies issued currency to excess and did no important work, and they went out of business, defeated by those who had been engaged in finance from the Tokugawa period. However, they possess significance in that they were the earliest organized institutions for finance set up at the instance of the new government.

On the other hand, there was an extraordinarily large number of applications for the establishment of institutions to supply credit by merchants and landlords, but the government did not permit the establishment of institutions employing the appellation 'bank,' first because of the failure of the banking companies, and second because the government had plans for the establishment of National Banks. In this way the establishment of the National Banks came about.

2. *The Establishment of the National Banks*

Taking the American national banks as its model in creating modern banks and with a view to liquidating the paper currency issued to excess since the beginning of the Meiji period and creating a rational supply of funds to industry, the government promulgated the National Bank Act. But even when the Act came into effect (in 1873) no more than four banks were established. The reasons for this were that the general mass of the people were used to the traditional finance (by exchange brokers, pawnbrokers, or quasi-banks)¹³ and that the conditions governing their establishment were

¹² The Yokohama Banking Company became the Second National Bank by reason of being an issuer of silver dollars.

¹³ Remembering the establishment of the First National Bank, Eiichi Shibusawa said, "Banks were set up in 1873, but the old-fashioned businessmen thought they would be put out of business directly, and I am afraid that conciliation of the views of the old and new factions did not go too well. At the First National Bank, which was established with funds put up by Mitsui and Ono, only Mitsui and Ono could borrow

severe (40% of the capital funds had to be put down in specie as a reserve to cover note issues). These four banks—the First National Bank established by the two great merchant houses of Mitsui and Ono, the Second National Bank centred on the raw silk merchants of Yokohama, the Fourth National Bank established by the great landlords in Niigata prefecture, and the Fifth National Bank organized by ex-samurai and merchant capitalists from Kyūshū—had no particular work to do.

Since the liquidation of the government paper currency was not proceeding quickly enough the government revised the National Bank Act in 1876 in order to promote the establishment of National Banks. The main terms in the revision were abolition of the requirement of a specie reserve to cover note issues and the granting of permission for the acceptance as capital funds of government bonds issued in commutation of feudal stipends. Hereupon merchants attracted by the prospects of handling Treasury funds and issuing currency came to establish banks on a speculative basis, and in 1879 when the total of their capital had reached the stipulated limit of ¥40 million, these banks numbered 153. (See Table 4.) However, as a result of the revision of the Act the notes became inconvertible and were issued in excessive amounts. The government, realizing that the establishment of the National Banks was a failure, established the Bank of Japan in 1882 as a central bank. The National Banks, under a second revision of the Act, terminated their business 20 years after their foundation and the withdrawal of their notes began. These National Banks were later reorganized as ordinary banks.

Next let us look at the functions of the National Banks in which the special features of the financiers of the Tokugawa period and of the landlords survived. The National Banks at first functioned as intermediaries in mobilizing merchants' and landlords' credit and in supplementing the government's weak credit with the mobilized funds. They met the need of rice financing which accompanied the conversion of the land tax to money payments. We may discern this from the fact that the First National Bank's business in 1876 began with the issue of documentary bills for rice deliveries.

Next, many of the National Banks mobilized their currency issues, deposits, and even their capital funds for performing functions similar to those of money-lending companies by making long-term loans on the security of bonds, land, and house property. In fact, if we look at the figures for deposits and loans at the National Banks over the years, these represent a conspicuous overloan, with loans amounting to more than three times total deposits, including deposits of public moneys. Furthermore, loans were made on a fixed basis to one person or to one company, so that in some cases the amount loaned to one specific individual was as much as one-third or one-half of the bank's capital. With regard to these circumstances Naoshichi Takizawa

money. So they were caught in a vicious circle, and never extended their business into new fields." *Dai-Ichi Ginkō shi* (The History of the Dai-Ichi Bank), Vol. I, 1958, p. 175.

states as follows:¹⁴

“The National Banks, too, had to issue notes if they wished to make profits, and as means of making loans on the notes which they had issued they induced manufacturing companies to undertake various enterprises. Thus it came about that Directors of the National Banks were involved in these enterprises, directly or indirectly, and loans on the notes issued by these banks were made to these undertakings, so that greater part of these loans became fixed capital.”

It is well known that in many cases the officers of the National Banks held concurrent posts as officers of quasi-banks, private banks, or manufacturing companies. A fair number of instances are to be found of money being loaned without security to quasi-banks run by officers of the banks, and of the quasi-banks lending it again on the security of land certificates, etc., to individuals at high rates of interest, or of lending it to enterprises run by the quasi-banks themselves.

Thus even when the government gave directions for making the National Banks carry on the discounting of commercial bills, results were not easily obtained. In 1893 Ukichi Taguchi, a leading economist and historian of the time, lamented that “the National Banks are no more than banks making mortgage loans on movable and immovable property.” Consequently the National Banks were greatly affected by the panic of 1893, and in order to save them the Bank of Japan made loans on the security of company stocks, a form of loan which had hitherto been forbidden. As a result a start was made to the Bank of Japan’s renouncing its position as a central bank in relation to the commercial banks.

Basically this practice of the National Banks manipulating funds as though they were money-lending companies was due to the character of the great merchants and rural landlords who had provided the credit under the Tokugawa Shogunate.

Let us now summarize the points we have covered so far. As can be discerned from the fact that under the second revision of the National Bank Act of 1883 the National Banks ceased to issue notes and prepared themselves for the transition to private banks, these national banks were completely different from what the government had intended, and simply carried on the business of the merchants and landlords who had capital resources in their hands. Furthermore, even after they had been reorganized as ordinary banks, the vast majority of them were absorbed by or amalgamated with pre-existing powerful private banks.¹⁵ At present there are only seven banks which

¹⁴ Naoshichi Takizawa, *Kōhon Nihon kinyūshi* (A Draft History of Credit Provision in Japan), Tokyo, Yūhikaku, 1912, p. 190.

¹⁵ Up to 1898 all banks other than National Banks, savings banks, and special banks established under special acts were designated “private banks,” while from 1899 on all banks other than savings banks and special banks established under special acts were designated “ordinary banks” (including those which had formerly been National Banks). This categorization is followed throughout the remainder of this article.

retain the names they received in the period of the National Banks—the Dai-Ichi (1st), Dai-Shi (4th), Jūroku (16th), Jūhachi (18th), Shichijū-shichi (77th), Hyaku-go (105th), and the Hyaku-jūshi (114th) Banks. Among the hundred and some score of National Banks formerly in existence only these seven remained influential in their districts after becoming ordinary banks, and amalgamated with a large number of other banks. Among them, we find that the Dai-Shi and Shichijū-shichi banks have maintained throughout an emphasis on agricultural finance, centred on rice in the Niigata prefecture and northern Honshū areas respectively, and have had a firm basis for their banking business. The Jūroku Bank has done business in the Gifu area with local industries producing paper lanterns, candles, etc., and with agriculture, and the Jūhachi Bank with the area round Nagasaki (a port-town), the Hyaku-go Bank with silk reeling, cotton spinning, and agriculture, and the Hyaku-jūshi Bank with agriculture and salt pans. Consequently, it was only the banks which concentrated on nurturing local industries and had as their chief form of business the financing of agriculture, the main industry in the Meiji period, which were able to maintain their prosperity for long, for it seems that the majority existed only as a kind of money-lending company and were either absorbed by influential ordinary banks or went out of business.

Thus we are obliged to come to the conclusion that the fact that the vast majority of the National Banks, with very few exceptions, were absorbed by ordinary banks in the course of time, caused the break-up of these institutions, provided by the government, and their replacement by the traditional non-government financiers and the traditional formula for finance, and herein we find their deep-roots in the past and their special characteristic. Again, the fact that the National Banks were not run as modern financial institutions as the government had intended but were fated to proceed to their dissolution seem to us to suggest that it was impossible to create modern banks in Japan at one stroke and that financial institutions which could meet the needs of the particular stage of economic development were appropriate.

3. The Establishment of the Quasi-Banks

Looking at the establishment of quasi-banks set up with purely non-government funds since the first years of the Meiji period, we see in Table 4 that their numbers increased rapidly after 1879, the year in which the National Banks reached their ceiling figure.

The establishment of banks before 1876 is not clearly shown, but we know from certain concrete instances that a fair number were set up. As is shown in Table 5, these quasi-banks were particularly numerous in the sericultural prefectures, Nagano, Fukushima, Gumma, Yamanashi, and Ishikawa; in Niigata prefecture, a great rice-producing area; in Shizuoka prefecture, an area with many agricultural products such as tea, rice, and raw silk; and in Kanagawa prefecture, where an open port was located. Again, it is worth noting that because many of them were set up by merchants or landlords dating from the Tokugawa period, these institutions were also numerous in

Table 4. ESTABLISHMENT OF BANKS AND QUASI-BANKS
(in thousand yen)

Year	Private or Ordinary Banks		Quasi-Banks		National Banks	
	Number	Capital	Number	Capital	Number	Capital
1873			?	?	2	2,440
1874			?	?	4	3,432
1875			?	?	4	3,450
1876	1	2,000	?	?	5	2,350
1877	1	2,000	?	?	26	22,986
1878	1	2,000	?	?	95	33,596
1879	10	3,290	?	?	151	40,616
1880	39	6,280	120	1,211	151	43,041
1881	90	10,447	369	5,894	148	43,886
1882	176	17,152	438	7,958	143	44,206
1883	207	20,487	573	12,071	141	44,386
1884	214	19,421	741	15,142	140	44,536
1885	218	18,758	744	15,397	139	44,456
1886	220	17,959	748	15,391	136	44,416
1887	221	18,896	741	15,117	136	45,838
1888	211	16,761	713	14,453	135	46,877
1889	218	17,472	695	14,421	134	47,681
1890	217	18,976	702	14,512	134	48,644
1891	252	19,796	678	13,827	134	48,701
1892	270	22,856	680	13,944	133	48,325
1893	545	30,583			133	48,416
1894	700	37,380			133	48,816
1895	792	49,807			133	48,951
1896	1,005	87,899			121	44,761
1897	1,223	147,812			58	13,630
1898	1,444	189,439			4	390
1899	1,561	209,178				
1900	1,802	239,364				
1901	1,867	251,700				
1902	1,841	258,111				
1903	1,754	253,003				

Sources: The figures for Private or Ordinary Banks and National Banks are from *Hundred-Year Statistics of the Japanese Economy*, 1966, pp. 196, 197, 198, and 199.

The figures for Quasi-Banks are from *Nihon teikoku tōkei nenkan* (Statistical Year-book of Japanese Empire) Vols. 1-14 by the Statistics Bureau of Prime Minister's Office, 1949.

areas occupied by a large number of small feudal domains during the Tokugawa period, such as Ōita and Nagano prefectures.

We may note in respect to the Tōhoku region, a rice-growing area, that no quasi-banks were set up (with the exception of Fukushima prefecture) because of the activity of the First National Bank and the Mitsui Bank. In other words, because practically all financing of rice was in the hands of the

Table 5. PRIVATE BANKS AND QUASI-BANKS AT THE END OF 1886
(in thousand yen)

Prefecture	Private Banks		Quasi-Banks		Prefecture	Private Banks		Quasi-Banks	
	Number	Capital per Bank	Number	Capital per Bank		Number	Capital per Bank	Number	Capital per Bank
Tokyo	16	235	3	78	Aomori	2	31	7	11
Kyoto	6	135	—	—	Yamagata	1	30	7	36
Osaka	19	60	4	48	Fukui	3	63	12	10
Kanagawa	10	91	48	25	Ishikawa	2	20	59	17
Hyōgo	8	54	9	18	Toyama	3	60	32	18
Nagasaki	4	96	4	31	Tottori	1	50	2	12
Niigata	1	20	76	40	Shimane	1	60	5	17
Saitama	9	45	29	28	Okayama	7	36	19	23
Gumma	6	36	35	12	Wakayama	1	80	3	20
Chiba	3	41	4	43	Tokushima	2	285	2	10
Ibaraki	3	57	17	18	Ehime	3	66	21	25
Tochigi	2	75	11	6	Fukuoka	6	66	11	27
Mie	1	50	—	—	Ōita	2	40	38	14
Aichi	6	121	4	25	Saga	9	91	6	15
Shizuoka	37	75	45	18	Kumamoto	1	30	4	13
Yamanashi	3	93	75	22	Miyazaki	1	400	9	12
Shiga	1	100	3	70	Kagoshima	—	—	5	13
Gifu	8	36	7	15	Okinawa	—	—	1	100
Nagano	30	48	108	7	Hokkaidō	1	100	—	—
Miyagi	—	—	3	10					
Fukushima	3	63	20	15	Total	220	81 (17,959)	748	20 (15,391)

Note: Value of Capital in parentheses.

Source: Kōkichi Asakura, *Meiji-zenki Nihon kinyū kōzōshi* (History of the Financial Structure of Japan in Early Meiji Era), Tokyo, Iwanami-shoten, 1961, p. 195.

National Bank and the Mitsui Bank, the former handling Treasury moneys and providing credit in connexion with tax payments and the latter issuing documentary bills for rice deliveries, there was no room for the entry of the quasi-banks.

As can be discerned from the preceding two tables, the quasi-banks, which together with the private banks increased rapidly after 1880, reached their peak number 748 in 1886, but, as in the case of the National Banks, it appears that a fair number of them were set up with speculative intentions.

In Masana Maeda's "Kōgyo iken" (Memorial on the Encouragement of Industry), for example, the frenzied establishment of money-lending companies in the boom period between 1877 and 1880 is described in the following words:¹⁶

¹⁶ Printed in Hyōe Ōuchi and Takao Tsuchiya eds., *Meiji zenki zaisei keizai shiryō shūsei* (Collection of Documents on the Financial and Economic Policies in the Early Half of the Meiji Era), Vol. 18, Tokyo, Ministry of Finance, 1931, p. 98.

“Whole villages put their land certificates in pawn to start up factories, or collected government bonds and started money-lending....”

What is more, as we see from Table 5, in some prefectures more than a hundred of these quasi-banks were established, so that we are obliged to think that their subscribers included not only the great landlords and influential personalities but also the medium and small landlords and the cultivating proprietors.

We must now consider the functions of the quasi-banks set up by those engaged in finance since the Tokugawa period, including the exchange brokers and by merchants and landlords. It is clear from the Matsukata Documents¹⁷ and other sources that the greater part of these were in the nature of money-lending companies, but there were among them some which were fairly influential and contributed greatly to the encouragement of industry in the form of local agricultural development, etc. Further, these influential quasi-banks were found in large numbers among those established in the first years of the Meiji period, and as a general rule they developed into National Banks (from 1876) or private banks (from 1880). In particular, we believe that concrete instances of quasi-banks which contributed greatly to economic development, such as those of the Izu Nirayama seisan kaisha (Izu Nirayama Production Company) of Shizuoka prefecture and the Akita kairyōsha (Akita Improvement Society) of Akita prefecture—both subsequently became banks—will be well worth consideration by those countries which are on the road to development. The aims of the undertakings of the Izu Nirayama seisan kaisha, for example, were as follows:

1. Land reclamation
2. Cultivating tea, mulberry, and paper mulberry
3. Encouraging pastoral husbandry
4. Inducing prosperity in the fishery industry
5. Lending funds for the encouragement of industry to people in the prefecture for the purposes of the above enterprises
6. Contributing to the enhancement of the capacity for industrial development by the people in the prefecture by making credit available.

Furthermore, the company had a splendid set of rules, and conditions were provided for the making of loans even to poor people. Again, the Akita kairyōsha undertook the improvement of rice grown in Akita prefecture and

17 In Count Matsukata's collected papers on finance there occurs the passage: "It is usual for agriculturalists to borrow money on the security of their land or houses from banks, companies, or individuals. For this reason the rates of interest are extraordinarily high...." It is also said that loans from money-lending companies such as the quasi-banks and from individuals were much more numerous than loans from the national or private banks. Consequently, it appears that their activity in the rural areas was fairly great. See Ministry of Finance, "Matsukata-haku zaisei ronsakushū" (Collected Writings on Government Finance by Count Matsukata), in *Meiji zenki zaisei keizai shiryō shūsei*, Vol. 1, Tokyo, 1931, p. 458.

contributed greatly to agricultural production. These influential quasi-banks were directed by the landlords so as to exploit to the fullest the functions of quasi-banks, which were capable of every sort of activity—production, purchases and sales, and thus they were able to make contributions to economic development. And since the development of agriculture in this period led to an attainment of national power through the promotion of industrial development and increasing exports, these facts imply that the rural landlords had high level of consciousness not only of their own undertakings but also of the national economy in the initial stage of development.

The government was acutely conscious of the necessity of setting up legal standards for the private banks and quasi-banks, which in general were in the nature of money-lending companies lending money at high rates of interest on the security of land, etc. Standards governing the granting of permission for the establishment of these two types of institution were not even provided with any thoroughness, and these institutions were sometimes established entirely at will. Therefore, the government in 1888 charged the banks with the duty of sending in returns of their deposits and loans, and in 1890 it promulgated, together with the Commercial Code, the Banks Act, and the Savings Bank Act, both of which came into effect in 1893. Thus in 1893 the quasi-banks were more or less transformed into private banks or were dissolved.

Companies providing credit were established in all parts of Japan after 1893, but these carried on a variety of undertakings, such as merchandise sales or warehousing, in addition to financing, and they were essentially of the same nature as the quasi-banks of the pre-1893 period. Their special characteristic was to be found in the fact that they carried on money-lending at the same time as other undertakings. In fact, the exchange brokers of the Tokugawa period also carried on business as clothes dealers, etc., and this state of affairs in the Tokugawa period can be seen to have been carried on into the Meiji period. Furthermore, it is to be noted that Meiji brokers carried on their financing activities by traditional methods, with these activities centred on the agricultural areas which produced the most important products at that time.

4. *The Private and Ordinary Banks*¹⁸

An extraordinary large number of applications for the establishment of private banks were made from about 1870 or 1871, but they were not granted, and the first private bank was created with the establishment of the Mitsui Bank in 1876. These banks increased rapidly in number after the National Banks reached their stipulated ceiling figure, but they did not increase as much as the quasi-banks, and up to 1893 they numbered roughly 200. After the coming into effect of the Bank Act in 1893, the private banks began to be established in earnest, and they, too, increased rapidly until they numbered more than 1,800 in the early 1900's. (See Table 4.)

¹⁸ See foot-note 15.

Consequently, the private banks established up to 1893 were owned by merchants greater in scale than the merchants and landlords who established the quasi-banks, and they were established in the same type of area as the quasi-banks. Apart from special cases, the functions of these banks were the same as those of money-lending companies and differed scarcely at all from those of the quasi-banks and the great majority of the National Banks. The loans-deposits ratio was abnormally high and the total of paid-up capital and deposits was loaned out at high rates of interest. With regard to this, Count Matsukata included in his proposals for the laying down of the Bank Act in 1893 the words: "Private banks are undertaking attempts at trade in goods, engaging in the sale and purchase of stocks and shares or real estate property, or any other type of business considered profitable, no matter what it may be." In other words, we have reason to believe that, regardless of whether they were in the cities or in the country, or whether they were of great, medium, or small size, all the private banks, like the quasi-banks and savings banks, were in a fairly unhealthy state of business.

Even the Mitsui Bank, which was of outstandingly greater size than the rest of the private banks at this period, was obliged to carry out great improvements in its business operations in 1890, beginning with the clearing of its bad debts. Again, the great merchants dating from the Tokugawa period (Mitsui, Kōnoike, Yamaguchi, Kawasaki, and others) were simultaneously engaged in running National Banks and private banks, and it is also noted that there were many cases of smaller merchants and landlords simultaneously running banks and quasi-banks.¹⁹

When we look at the private banks after the Bank Act of 1893, we see first of all that there was no provision in the Bank Act forbidding the private banks from carrying on undertakings other than banking business, and thus the situation to which Count Matsukata drew attention was not to be easily amended. In particular, the number of commercial bills discounted was extraordinarily small, and business was still largely that of "making high-interest loans on the security of uncertain stocks and shares or real estate property."²⁰ But in 1885, after the Sino-Japanese War, enterprises sprang up, most of which were in the spinning industry. Since it was the custom to obtain funds both for running and equipping these enterprises by borrowing from the banks, and the banks were inclined to intensify their money-lending activities. Furthermore, a large part of these banks were located in farm villages with their principal business consisting of lending to farmers in the form of mortgage loans on rice crops or on land. Because of the high rates of interest on these loans, a large number of those farmers who borrowed money from these banks failed to make repayments. As a result these banks and bankers acquired a huge amount of land.

¹⁹ Even in the last years of the Meiji period we find cases of banks, money-lending companies, pawnshops, etc., being run by the same person, with that person also lending out money at high rates of interest as an individual.

²⁰ The *Tōyōkeizai shimpō* of 29th September, 1909, No. 490, p. 6.

Because the banks were placed in these circumstances, the conspicuous over-loans showed no signs of disappearing, and consequently the smaller and weaker banks had to depend on loans from the influential banks, while the influential banks had to depend on loans from the Bank of Japan. For example, Shigeaki Ikeda says, looking back on the state of affairs of about 1897: "All the work of the banks was done by borrowing money from the Bank of Japan. When they received bills they selected them by the criterion of whether or not the Bank of Japan would discount the bill, rather than whether or not the bill was a good one. They then took the bills to the Bank of Japan and earned their brokerage profits."²¹

As is alluded in the above, there were many banks which were in the nature of brokerage banks, and some of them even loaned the money which they had borrowed from the Bank of Japan to a single individual at a high rate of interest. Consequently, in 1897 the Bank of Japan made it possible for clients to do business with it directly, thus attempting to destroy the evil practice of bank brokerage.

Since the private banks used their deposits, capital funds, and even their loans from the Bank of Japan in making loans, most of the private banks, in order to collect as many funds as they could, created subsidiary savings banks and carried on the collection of funds through them. Moreover, since private banks were not allowed to receive deposits of less than ¥5,000 a short cut to collecting small savings was to establish savings banks as subsidiaries. Such influential banks as the Yasuda Bank, the Dai-Ichi Bank, and the Kawasaki Bank also made many loans to medium and smaller enterprises and to wholesalers, and because they did not have any enterprises they created savings banks as subsidiaries and carried on the collection of funds through them.

Among the influential banks the Mitsui Bank alone did not have any savings banks. As we noted above, the Mitsui Bank began to transform its business operations in 1891 with a view to abolishing its functions as a money-lending company, and it gained financial control of a number of powerful enterprises by 1900. As these enterprises expanded there was by 1905 a resultant increase in current deposits from these enterprises, so that the total of the current account deposits exceeded that of the small savings deposits. Thus a source of loan funds was created, and subsequently large loans came to form a substantial part of the loans made by the bank. By 1902 the Mitsui Bank had reduced its loans from the Bank of Japan to zero. The Mitsui Bank was unique in that it did not require savings banks in order to collect funds. The bank created credit with the money deposited back from enterprises. It is important that even so exceptional a bank as the Mitsui Bank barely succeeded in reaching this state of business by the end of the Meiji period.

In general the banks of the Meiji did not provide commercial credit and

²¹ Shigeaki Ikeda, *Zaikai kaikoroku* (Memoirs of the Business World), Tokyo, Sekai no Nihon-sha, 1949, p. 203.

did not operate on the principle of the creation of credit; many were in the nature of money-lending companies providing credit to farm villages or to industries related to agriculture. It would seem that among these, too, a very small number which had specific and sound industries in their possession, such as Mitsui and the Nada Shōgyō Bank (which supplied funds to the brewers) were able to eventually grow into modern institutions of finance in the last years of the Meiji period. This directly reflects the stage of development of the economy and society of that time. Here, too, we see a survival of the power of those engaged in finance in the Tokugawa period and the use of a type of finance which dated from this period.

We may add that the savings banks, like the private banks, were important institutions for finance established by merchants and landlords, but for reasons of space we have omitted an account of them. However, let us note that, apart from a very small number of specialized savings banks the savings banks were generally run on a small scale in the majority of cases. Since they collected deposits with high rates of interest and since many of their loans were of a speculative or personal nature, they immediately closed their doors whenever there was a disturbance of the economy, such as that occasioned by a slump or financial panic, and such an action on the part of the savings banks also had an effect on the ordinary banks. In this sense it may be said that savings banks were more like the quasi-banks than were the ordinary banks. Furthermore, among the items given for security for loans made by savings banks between 1902 and 1915, the largest single item was real estate property which accounted for 40% of the securities. Negotiable securities occupied first place as security for loans at one time prior to 1902, but losses were suffered in the sharp fall in the price of negotiable securities in the financial panic of 1901, and thereafter the safest and surest form of security, real estate property, once again became predominant. After healthy enterprises had come into being under the influence of World War I, loans backed by negotiable securities increased in number. This also proved to be the case for ordinary banks.

5. *The Power of the Smaller Financial Institutions and of Individual Money-lenders*

Throughout the Meiji period money-lending companies such as the quasi-banks, the so-called "smaller financial institutions" —e. g., the pawnbrokers, *mujin*, or *tanomoshikō*—and the individual money-lender dominated finance for the common people, and the volume of funds at their disposal equalled that of the banks. The following instances enable us to discern their power; the amount loaned by pawnbrokers between 1884 and 1886 exceeded the amount loaned by the private banks in 1888 (Table 6), and the Matsukata Documents state that practically the whole of peasant indebtedness, amounting to approximately ¥300 million in 1885, was due to these smaller institutions and to individual money-lenders. Further, from 1887 many trust companies, the incorporated form of the pawnshops, and savings companies, and *tanomoshi*

companies, the incorporated form of the *mujin*, were established in large numbers throughout the country. Together with the existing money-lending companies and individual money-lenders they held enormous power. Since many of their activities were excessive the Bank of Japan carried out an on-the-spot survey of these smaller financial institutions and individual money-lenders in the last years of the Meiji period, mobilizing the services of all its branches to do so. The results of the survey made it clear that, even in the last years of the Meiji period, the power of these money-lenders was extraordinarily great. For example, in the report of the survey for the Hakodate area in Hokkaidō it is explicitly stated that in that area the amount lent by the smaller financial institutions was greater than that lent by the banks.

Table 6. COMPARISON OF VOLUME OF FUNDS HELD BY PAWNSHOPS AND PRIVATE BANKS
(in thousand yen)

(A) Pawnshop Lendings			(B) Private Bank Deposits and Loans		
Year	Number of Pawnshops	Amount of Loans	Year	Loans Outstanding	Deposits Outstanding
1884	23,766	22,413	1888	25,109	14,527
1885	24,724	24,845	1889	36,698	24,904
1886	24,910	25,410	1890	39,532	24,690
			1891	33,067	20,590

Note: Figures for the numbers of the private banks are not available until 1888. National figures for the number of pawnshops are available only for the three years given in the Table.

Source: Kōkichi Asakura, *Meiji-zenki Nihon kinyū kōzōshi*, p. 279.

“Examining the book of the Hakodate Association of Banks, we find that whereas deposits are always ¥9-10 million, loans are ¥6-7 million... and there are astonishing instances of the vast power wielded by individual money-lenders. To give a general account covering the various areas, ordinary money-lending by individual money-lenders having more than ¥10,000 on loan is carried on by 44 or 45 persons to a total of ¥4.3 million; loans to marine products traders are made by 34 or 35 persons to a total of ¥1.3 million; ¥0.43 million is on loan by three money-lending companies and ¥0.4 million by 130 pawnbrokers; and mutual loans amount to ¥0.75 million with three mutual loans companies with loans of ¥0.45 million. The total is ¥7.67 million, so that with the addition of small loans of less than ¥10,000 and loans made to marine products traders the grand total should easily be in excess of ¥8 million. It appears that the amount loaned from outside the Association of Banks exceeds the amount lent by the banks which are members of the Association...”²²

Again, if we show the numbers of individual money-lenders and their working capital (Table 7) we may discern that throughout the Meiji period

²² Kōkichi Asakura, *op. cit.*, pp. 299-301.

the total was not very much less than the paid-up capital of the ordinary banks.

Table 7. NUMBERS OF INDIVIDUAL MONEY-LENDERS AND THEIR WORKING CAPITAL

Year	Number of Individual Money-lenders	Working Capital (million yen)	Ordinary Banks Paid-up Capital (million yen)
1903	36,524	107	253
1904	43,096	137	248
1905	53,920	185	252
1906	59,458	200	256
1907	58,928	200	286
1908	64,581	241	295
1909	68,429	268	311
1910	68,058	275	315
1911	60,483	265	327
1912	60,064	277	369
1913	60,418	291	391
1914	59,652	305	401
1915	45,646	302	357
1916	46,383	301	374
1917	48,212	311	436
1918	49,383	325	513
1919	49,013	335	717
1920	49,792	376	963
1921	52,981	453	1,044
1922	60,392	536	1,450
1923	69,699	644	1,491
1924	74,902	666	1,507
1925	81,647	730	1,488
1926	76,201	733	1,484

Note: The figures for numbers of money-lenders are from the Annual Statistical Report of the Tax Bureau. It should be noted that the figures for 1903-1914 and 1915-1926 are not strictly comparable, since the money-lenders subject to taxation differ between the two periods.

Source: The Bank of Japan, *Hundred-Year Statistics of the Japanese Economy*, 1966, p. 538.

Consequently, it is an unquestionable fact that the volume of funds at the disposal of the smaller financial institutions, made up of the total of the pawnshops, money-lending companies, *mujin*, companies analogous to *mujin*, and individual money-lenders, was greater than that of the ordinary banks and the special banks established by the government.²³

²³ Since expropriation of the agricultural villages by these smaller financial institutions and individual money-lenders was excessive from the second decade of the Meiji period, many were of the opinion that agricultural financial institutions supplying long-term loans of funds to agriculture at low rates of interest, or credit associations financed by

V. THE CHARACTERISTICS OF MEIJI FINANCE AND LESSONS TO BE LEARNED FROM IT

It should be clear from the above account that the financial institutions of Japan in the Meiji period were created by credit institutions in the Tokugawa period, and that the functions of the institutions for finance were also strongly coloured by them. Let us now discuss the special characteristics of the type of financing which these institutions created.

(1) First, it is important that finance in the Meiji period was entirely in the hands of the credit institutions discussed above. For example, as is shown in Table 8, more than 85% of peasant indebtedness in the last years of the Meiji period was in loans made by individuals, money-lending companies, *mujin* and *mujin* companies analogous to the same, ordinary banks, and savings banks. Only 13% of loans were made by the institutions set up for the purpose of agricultural finance, the Nippon Kangyo Bank, the Agricultural and Industrial Banks, and the Industrial Co-operatives. This shows that when the Nippon Kangyo Bank and the other institutions were set up agricultural finance was already entirely in the hands of the merchants and landlords and the institutions which they had established.²⁴

corporate credit, should be set up. As a result the Nippon Kangyo Bank and the Agricultural and Industrial Banks were set up in 1896, and the Industrial Co-operatives in 1900. Next, in 1900, the Hokkaido Takushoku Bank was set up for the purposes of the development of Hokkaidō, while in 1902 the Industrial Bank of Japan was established as a bank for making loans on the security of movable property. Like the Bank of Japan, the Nippon Kangyo Bank, the Hokkaido Takushoku Bank, and the Industrial Bank of Japan were created at the instance of the government, and we note the fact that they were not set up by those who were the financiers in the Tokugawa period.

²⁴ This tendency continues into the Shōwa period. Thus, as is shown in the accompanying table, at the end of 1929 a total of 13% of peasant indebtedness was in loans made by ordinary banks and savings banks, with 56% in loans made by individuals or professional money-lenders. The above two sources amounted to 70%, while the percentage accounted for by the Nippon Kangyo Bank and the Agricultural and Industrial Banks was practically unchanged from the Meiji period.

Survey of Peasant Indebtedness to Financial Institutions, 1929

Institution	Amount (million yen)	Percentage
Nippon Kangyo Bank	338	7.39
Agricultural and Industrial Banks	306	6.68
Hokkaido Takushoku Bank	75	1.6
Industrial Co-operatives	635	13.85
Ordinary and Savings Banks	578	12.61
Individuals and others	2,589	56.49
Postal Life Insurance and others	61	1.35
Total	4,585	100.0

Source: Kōkichi Asakura, *Nogyō kinyūron* (The Treatise on Agricultural Finance), Tokyo, Shisakusha, 1949, p. 54.

Table 8. SURVEY OF FARMER INDEBTEDNESS TO FINANCIAL INSTITUTIONS, 1902

Institution	Amount (thousand yen)	Percentage
Nippon Kangyo Bank, Agricultural and Industrial Banks, Hokkaido Takushoku Bank	76,601	10.3
Other Banks (Ordinary and Savings Banks)	131,363	17.6
Industrial Co-operatives and Other Bodies	21,821	2.9
Money-lending Companies and Individual Money-lenders	151,145	20.3
Pawnshops	9,381	1.3
Merchants	12,326	1.7
<i>Mujin</i> and <i>Mujin</i> Companies Analogous to the same	62,910	8.4
Private Persons	296,934	39.8
Others	12,550	1.7
Total	746,033	100.0

Note: Ministry of Finance figures.

Source: Kōkichi Asakura, *Nōgyō kinyūron* (The Treatise on Agricultural Finance), Tokyo, Shisakusha, 1949, p. 52.

(2) Because the power of the financiers was so strong they not only ran their own financial institutions but also gained control over enterprises. As a result, these financial institutions came to make a large number of long-term fixed loans in the forms of equipment funds for enterprises (making huge loans to the shareholders of the enterprises under their control, etc.), with the result that the development of commercial finance was restricted. The lending aspect of their business thus inevitably became strong. Consequently, during the first half of the Meiji period, the Bank of Japan was more in the nature of a nucleus for industrial finance, rather than the central institution for commercial finance. Thus the influential ordinary banks provided working funds by collecting capital, sometimes using subsidiary savings banks for this purpose.

(3) The funds thus collected were lent at high rates of interest in the form of long-term loans. The reason for the development of this type of loan now comes into question. It seems to us that one reason is to be found in the type of borrowers, and a second in the type of articles pledged as security.

(a) First, the question of the types of borrowers: As we have already seen in Table 1, throughout the Meiji period the primary sector accounted for half of the national income produced, and as is clear from Table 9, even in the last years of the Meiji period the principal industries were those which had agricultural products as their raw materials, such as the products of the brewing industries (*sake*, soysauce, etc.), and raw silk.

Consequently, it was natural that credit should be provided principally for agriculture and its related industries, and it was inevitable that many of the financial institutions made loans on the security of real estate property (agricultural land, etc.) and negotiable securities, which promoted the

Table 9. VALUE OF PRINCIPAL PRODUCTS OF INDUSTRY, 1912

Type of Product	Value Produced (thousand yen)	Percentage
Food and Drink Industries	70,425.0	5.3
Mechanized Flour Milling	25,396.2	1.9
Sugar	13,723.2	1.0
Tea	13,591.8	1.0
Brewing Industries	246,792.2	18.7
<i>Sake</i>	173,235.2	13.1
Soy sauce	48,897.5	3.7
Textile Production and Processing	692,564.9	52.3
Cotton Spinning	186,673.8	14.1
Raw Silk	168,816.0	12.7
Woven Fabrics	287,580.1	21.7
Machines and Tools Industries	53,729.2	4.1
Machinery	15,147.1	1.1
Shipping	16,787.6	1.3
Metal Products	22,448.7	1.7
Pottery Industries	45,363.0	3.4
Chinaware	13,269.9	1.0
Paper-making Industry	36,490.8	2.8
Japanese Paper	19,781.9	1.5
Western Paper	16,405.6	1.2
Other Chemical Products	90,988.9	6.9
Fertilizers	34,676.7	2.6
Matches	12,610.5	1.0
Articles in Bamboo, Wood, and Straw	27,451.8	2.1
Other Products of Industry	60,438.1	4.6
Printing and Bookbinding	16,093.0	1.2
Total	1,321,224.1	100.0

Source: Toshio Furushima, "Sangyō shihon no kakuritsu" (The Establishment of Industrial Capital), in *Iwanami Kōza: Nihon Rekishi* (Iwanami Lectures: The History of Japan), Vol. 17, Tokyo, Iwanami-shoten, 1962, p. 214.

acquisition of land by the managers of these institutions. Furthermore, this kind of finance for agricultural development helped build the basis for industrialization. In fact, if we look at the index of industrial production for Japan we will see (Table 10) that industrial production had increased a good deal by the end of the Meiji period. It was on this basis that the leap in industrial production in the Taishō period during the World War I proved possible.

Because of this increase in industrial production, by 1905 the proportion of total exports occupied by finished goods exceeded the proportion of total imports occupied by finished goods. By the same year, the current account deposits at the Mitsui Bank had increased and large loans became predominant, and the bank began to assume the appearance of a modern banking institution. In other words, it was only when this social and economic basis had

Table 10. PRODUCTION INDEX FOR THE MANUFACTURING INDUSTRY AND AGRICULTURE

Year	Manufacturing Industry Total Production	Of Which Spinning Industry	Agriculture Total Production	Of Which Sericulture
1879			1	1
1880	1	1	1.02	1.1
1882	1.04	1.03	1.02	1.35
1887	1.70	2.54	1.3	1.2
1892	2.77	7.53	1.36	1.5
1897	5.17	14.65	1.22	2.1
1902	9.35	19.51	1.33	2.5
1907	17.50	30.66	1.71	3.4
1912	27.08	39.99	1.8	4.5
1916	37.33	52.78	2.1	5.7
1918	48.55	62.25	2.0	6.8
1920	53.32	70.53	2.0	6.3
1921	52.25	66.93	2.0	6.3
1926	84.35	122.04	2.14	8.7

Notes: The index for Manufacturing Industry is based on the average of the years 1921-1925 and starts from 1880.

The Index for Agriculture is based on the average of the years 1925-1929 and starts from 1879.

Source: Based on the Tables on pages 94, 95, and 96 of *Hundred-Year Statistics of the Japanese Economy*.

Table 11. PROPORTION OF IMPORTS AND EXPORTS OCCUPIED BY FINISHED GOODS (Percentage)

Year	Exports		Imports
1868	1.1	<	60.6
1893	24.5	<	33.1
1898	25.9	<	28.1
1905	32.0	>	26.8
1935	58.1	>	11.6
1957	70.8	>	14.5

Source: Kōkichi Asakura, *Meiji-zenki Nihon kin'yū kōzōshi*, p. 333.

been formed that the financial sector, too, could become modern; it is very difficult to create modern financing at one stroke.

(b) Next comes the second question, that of security, or the question of why it was possible to collect funds by using great many methods and carry on lending in the manner of the money-lending companies. One thing which provides light on this question is the rise in the price of land. As we have already seen, real estate property has been the safest and most reliable security in Japan, and fixed collateral in current business in the Meiji period consisted in most cases of land certificates.

The area of cultivated land in Japan occupied only about 16% of the

scanty national territory and the area occupied by urban areas is still smaller. The rent for agricultural land before the war was high, and the price of land in the urban areas was permanently inflated by industrial development and population increase. Conditions were fully present for using both agricultural and urban land as security for loans. For example, between the beginning of the Meiji period and 1936, the price of rice, commodity prices, and wages all showed a rise of about 10 times, but the sums on deposit with the banks rose by 146 times, while in the case of land prices, although accurate figures are not to be had, such land as that in the Tokyo urban area showed a rise of several hundreds times in no small number of cases. At all events, it is undeniable that the financial institutions of the Meiji period were able to maintain the appearance of money-lending companies by means of their loans on the security of land.

Table 12. FACTOR OF INCREASE OVER 1888 AS OF 1936 (in nominal terms)

GNP ¹	25.52 times
Price of Rice	6.0
Carpenter's Wages ²	9.0
Plasterer's Wages ²	9.4
Wages of Servants in Husbandry ²	6.36
Female Silk Reeling Operative's Wages ²	5.9
Bank Deposits ³	146.0
Land ⁴	

- Sources: 1. From *Hundred-Year Statistics of the Japanese Economy*, p. 32. Professor K. Ohkawa's estimates.
 2. *Ibid.*, pp. 22 and 73.
 3. *Ibid.*, pp. 194 and 195.
 4. Figure fluctuated from 3 to several hundreds in different places.

In fact, the area of tenant land increased throughout the Meiji period, and it was those merchants and landlords running the financial institutions who increased their landholdings as mortgages were foreclosed.

Table 13. PERCENTAGE OF CULTIVATED LAND CULTIVATED IN TENANCY

Year	Percent
1873	31.10
1883	36.75
1887	39.34
1914	46.2
1930	47.0

Source: Kōkichi Asakura, *Meiji-zenki Nihon kinyū kōzōshi*, p. 322.

(4) The example of financial institutions safely making loans with the help of land as security is one which is still to be seen today, one hundred years after the beginning of the Meiji period. Japan's economy, which in 1945 had received an annihilating blow by defeat in war, made such strides in growth after 1955 as to astonish the world, and during this period the

rise in land values exceeded all imagination. There was an extraordinary rise in the price of industrial sites, land in urban areas, and agricultural land on the outskirts of cities. Agricultural land sold last year (1966) by the peasants from a certain part of Shizuoka prefecture for use by the Tokyo-Nagoya expressway, for example, was ¥3 million per *tan*. As this land was provided to the peasants in 1945 under the provisions of the Land Reform at the price of ¥300 per *tan*, this shows a price-rise of 10,000 times in twenty years. It is not uncommon for land in the urban area of Tokyo to have increased in price 20 or 30 times in the last ten years. If we now look at the general trend of land values over the whole country by the index for urban land prepared by the Japan Real Estate Institute (these figures are said to be underestimates) we see that, whereas the prices rose by only 2.6 times in the ten years between 1936 and 1946, they rose by nearly 1,000 times between 1946 and 1966.

Table 14. COMPARISON OF INDEX FIGURES FOR ALL-JAPAN URBAN LAND PRICES AND COMMODITY PRICES

Year	Index of All-Japan Urban Land Prices (A)	Bank of Japan Wholesale Price Index (B)	(A) (B)
1936	1.0	1.0	1.00
1946	2.6	7.6	0.35
1951	76.0	318.7	0.24
1956	346.1	333.0	1.04
1961	1,156.2	338.0	3.42
1966	2,368.0	352.8	6.71

Source: Shigeto Tsuru, "Tochi taisaku wo kangaeru" (Thoughts on a Land Policy), *Sekai*, February, 1967.

At the time of the purchase of land for the Tokyo-Nagoya expressway in Shizuoka prefecture, there occurred an increase of ¥80 million in the deposits made with local banks while the agricultural co-operatives increased their deposits by several hundred million yen. Therefore, a fair amount of the increase in the deposits of the financial institutions was due to money received from the sale of land, the value of which is still rising.²⁵

On the other hand, since there has been a conspicuous rise in the prices of factory mortgages (including their land) as security for debt, large loans have been confidently supplied to enterprises. For example, at ledger prices the value of the land owned by a certain large steel firm was ¥3,300 million in March, 1965, but the market value of the land was ¥78,000 million, giving a net balance of assets of ¥74,700 million, a figure which is said to be almost as large as the firm's capital fund.

²⁵ According to a survey carried out by the Central Co-operative Bank of Agriculture & Forestry, 35% of the increase in deposits by agricultural co-operatives on the outskirts of the cities in 1965 was derived from land sales. We have reason to believe that this state of affairs also existed in the Meiji period.

Table 15. FACTOR OF INCREASE OVER 1946 AS OF 1966
(in nominal terms)

GNP ¹ (1965)	66.1 times
Wholesale Price Index ²	22.9
All Banks Deposits ²	164
Urban Land Values ³	725

Source: 1. By Economic Planning Agency.
2. By the Bank of Japan.
3. By Japan Real Estate Institute.

In greater or lesser degree all the great enterprises are in this financial condition. For this reason the financial institutions can confidently lend equipment investment funds to these enterprises, and so production rises. (This, too, is the same state of affairs as existed in the Meiji period.) Consequently, at present the ordinary banks are still making long-term loans, and thus possess an aspect which cannot be said to exist in the strict sense in commercial banks financing. The present situation in which the rise in land values is causing an increase in deposits and increasing the power of the financial institutions by making lending safe is one which, we feel, is characteristic also of the now long-past Meiji period. This would seem to show that these special characteristics of traditional financing have had the strength to endure to the present.

(5) Let us now pick out a few lessons for the developing countries. For a country to press forward towards a modern economy and realize an economic take-off, a sufficient preparatory period and accumulation of capital (such as occurred in the Tokugawa period in Japan) are necessary before this can take place. Furthermore, it should be noted that non-government accumulation of capital is important. One must not dream of the development of machine industry, or the completion of modern financial institutions, from the very first. That is to say, it is important to be conscious of the homely fact that "Rome was not built in a day."

Japan has benefited from the safest and most profitable form of security for debt—land. This rise in the value of land has helped to maintain the traditional system of finance and its special characteristics and these have, in turn, helped to sustain her high economic growth rate. It is important for developing countries to recognize that this method of financing was rather peculiar to Japan; and that therefore, it is important to realize that each country should find opportunities for financing and development appropriate to its own conditions and to seize them whenever and wherever they may appear.