The Development of a Credit System in Seventeenth-Century Japan

At the beginning of the seventeenth century, Japan was just emerging from a long period of internal strife and was beginning to settle down under a centralized feudal system introduced by the newly established Tokugawa government. In the following period of peace, economic development was very rapid. Along with commercial development and the monetization of important sections of the economy, a system of credit institutions evolved, notably in Osaka, which by the end of the century was not inferior to those existing in Europe at that time. The financial innovations and developments of the first half of the century were systematized in the latter half, and the resulting credit system became an indispensable part of Japan's economic life. In particular it played an important part in facilitating the spurt in Japan's economic development which occurred roughly between 1690 and 1740.

This discussion is divided into three parts, dealing respectively with (I) the economic background, (II) early development up to 1662, and (III) the formative period from 1662 to 1695. The series of currency debasements and reforms which began in that year and their effects on the Japanese financial system lie beyond the scope of this article.[1]

I

Stimulated by the physical separation of consumption from production, the opening of foreign trade and the need to mobilize production for protracted local wars, commercial activity had been growing in volume, scope and complexity for a century before the beginning of the Tokugawa period in 1603. The emergence of a military upper class taking no part in production, the growth of towns, both around the strongholds of territorial rulers and at strategic points on major com-

[1] For recent discussions of these see Sakudō Yōtarō, *Kinsei Nihon Kahei-shi* [A History of the Currency of Early-modern Japan] (Tokyo: Kōbundō, 1958), and Kobata Atsushi, *Nihon no Kahei* [The Currency of Japan] (Tokyo: Shibundō, 1958).

munication routes, created centers of consumption separated from production. At the same time these towns attracted numbers of more prosperous landowners who had long been prominent in local commerce and industry. Quickly losing their links with the land, this new class of "townsmen" became active as wholesale merchants, and as official purveyors, contractors and often financial agents to territorial barons. The territorial barons for their part encouraged this commercial activity as a source of economic and strategic strength, and progressively swept aside obstacles to its development. The exclusive trading privileges of the medieval guilds (backed by the—by then—powerless aristocracy and religious bodies) were abolished in most of the major fiefs in the last quarter of the sixteenth century, and local barons *(daimyo)* asserted the right to grant freedom of entry to all markets in their territories. Soon, however, new groups of privileged merchants appeared which owed their position to close association with the territorial rulers. Under the Toyotomi hegemony (1585–1598) commerce was further stimulated by the growth of Osaka as a large consumption center and entrepôt, standardization of weights and measures, expansion of foreign trade and the demands of the Korean wars (1591–1598).

With the establishment of the Tokugawa government, commerce expanded rapidly, and Osaka became to an increasing extent the center of commercial activity. Although heavily damaged in the campaign of 1615, Osaka recovered quickly with official encouragement,[2] and by the 1630's was well established as the center of the growing commercial sector of Japanese economic life.[3]

Fairly well-defined patterns of trade developed, of which the most important were the flow of goods into Osaka and from Osaka to Edo (modern Tokyo). Goods, of which rice was the most important, flowed into Osaka from western, central and northern Japan.[4] Much of this

[2] The government went out of its way to restore Osaka both physically and commercially. Its direct administration by the central government from 1619 gave it great commercial advantages. See *Ōsaka Ramshō-sho Ikken* [A Paper on the Beginnings of Osaka] and *Ōsaka Sangō Chōchū Ontoritate Shōdenki* [A Relation of the Favours bestowed on the Citizens of the Three Wards of Osaka] (1780?). Both of these documents are printed in Ōsaka Shiyakusho [Osaka Municipal Government] (ed.), *Ōsaka Shishi* [History of Osaka City] (2nd ed.; Osaka: Ōsaka Shiyakusho, 1927), V, 1–28.

[3] Although large areas of the economy were still on a subsistence basis, and the peasant economy remained basically so for at least another century and a half, the commercial sector was already important for public finance (central and local) and for economic development in general.

[4] The high cost of overland transport of so bulky a commodity as rice made it preferable to send rice by sea from the northern provinces (Dewa, Mutsu) around the southern tip of Honshu to Osaka and thence to Edo. The problems of this (for those days) long sea haul

flow consisted of taxes in kind consigned by feudal lords to Osaka for conversion into cash. For this purpose, most *daimyo* maintained warehouses and agents in Osaka.[5] By no means all of the traffic into Osaka was of this nature, however. The products of commercial agriculture, fishing and rural handicraft industry also were sent from a wide hinterland to Osaka wholesalers. Imports and exports through the port of Nagasaki were mainly channeled through Osaka, although there was a regular direct traffic between Kyushu and ports in northern Honshu.

The development of regular large-scale trade over long distances made for more complex commercial organization and a multiplication of the hands through which goods passed before reaching the consumer. By the mid-seventeenth century the route was typically: producer—local wholesaler—shipper—receiving warehouse—wholesaler—distributor—retailer—consumer.

At the same time, specialization in trade became more and more minute. Goods were divided by commodity, origin and destination, and one wholesaler normally specialized in one or a few commodities from, or consigned to, one or a few localities. This specialization meant that most firms dealt with only a few suppliers and outlets, with whom they built up close and often long associations. Tendencies towards specialization and fixation of trading patterns were strengthened by severe limitation of foreign trade after the 1630's, which made merchants all the more anxious to preserve their share of domestic markets. This anxiety found expression in the formation of trade associations (*nakama, kabunakama*) aimed largely at restraining competition and strengthening the mercantile position of members through combination. The formation of these associations facilitated the emergence of credit relationships between people or firms habitually trading with one another, and this was reinforced by the principle of collective responsibility which they adopted. As a result, the degree of trust between merchants was widely noted by contemporary writers.[6]

---

were not finally settled until the 1670's when Kawamura Zuiken organized regular sea routes right around the main island of Japan. See Arai Hakuseki (1657–1725?), *Ōu Kaiunki* [Record of the Sea Transport of Mutsu and Dewa], in Takimoto Seiichi (ed.), *Nihon Keizai Taiten* [Collected Japanese Economic Writings] (Tokyo: Shishi Shuppan-sha; Keimeisha, 1928–29), IV, 233–41.

5 By 1626 there were 111 of these warehouses. See *Dōjima Kyūki* [Records of Dōjima], in Kokusho Kankōkai, [Association for the Publication of Japanese Books] (ed.), *Tokugawa Jidai Shōgyō Sōsho* [Collection of Writings on Tokugawa Period Commerce] (Tokyo: Kokusho Kankōkai, 1913), II, 9.

6 The novelist Ihara Saikaku wrote later in the century, "Though it be a matter of a thousand or ten thousand *koku,* once two parties have clapped hands over a deal neither retracts an inch from his promise." Ihara Saikaku (trans. G. W. Sargent), *The Japanese Family Storehouse* (Cambridge: Cambridge University Press, 1959), p. 22.

In contrast to Osaka where, because of its position as a commercial entrepôt, the bulk of transactions was between wholesalers and most purchases were for resale, the trade of Edo was typically retail trade. Sales within Edo were therefore mainly for cash,[7] and credit relationships tended to arise not within Edo itself, but between Edo merchants and their suppliers in Osaka, Kyoto, and to a much lesser extent, other production centers. These external credit relationships were important in the development of remittance by bill of exchange.

Until the early seventeenth century Japan's supply of coinage was inadequate even for the predominantly subsistence economy of the time. No coins were minted from the tenth century to the end of the fifteenth century, and payments were made in unminted gold and silver (by weight) and copper coins imported from China.[8] Although 135 types of gold coin were minted by warring barons to meet campaign expenses during the sixteenth century,[9] a unified national coinage was achieved only in the 1630's, when the Tokugawa government was finally able to gain general acceptance for the gold, silver and copper coins which it had issued in fairly large quantities.[10] The gold unit was the standard 1 *ryō* piece (*koban*) officially valued at 4,000 copper coins or 50 *me* of silver.[11] Silver and copper were not, however, subsidiary coin-

[7] There seems to be little foundation for the idea that cash sales were an innovation by the Mitsui softgoods store in Edo when they hung out their famous sign which, freely translated, reads, "Cash sales mean lower prices." Retail sales had always been for cash except for the supply of better quality goods to the upper classes by old-established "merchants by appointment." Mitsui's practice, followed by other "modern" drapery stores of the time, was successful in capturing this trade. See Mitsui Takasumi, "Edo Jidai ni okeru Tokushu Shōgyō toshite no Gofukuya to Ryōgaeya," [Bankers and Drapers as a Special Type of Commerce in the Edo Period], *Shakai Keizai Shigaku,* II, No. 9 (Dec. 1932), 57–61, and Nakada Yasunao, "Tenna Nenkan Shinkyū Shōnin-sō no Kōsō," [The Struggle between Old and New Merchants during the Tenna Era], *Nihon Rekishi,* LXXI (May 1954), 21.

[8] These were the "Eiraku-sen," so called because most of them bore the name of the Chinese Ming Emperor Yung-lo (pronounced "Eiraku" by the Japanese).

[9] See Nakamura Kōya, *Genroku Kyōho Jidai ni okeru Keizai Shisō no Kenkyū* [A Study of Economic Thought in the Genroku-Kyōho Period] (Tokyo: Kokumin Bunka Kenkyūkai, 1927), p. 426; and Delmer M. Brown, *Money Economy in Medieval Japan* (New Haven: Far Eastern Association, 1951).

[10] Particular difficulty was encountered in gaining acceptance for its copper coins. Edicts enjoining their use were issued in 1609 (twice), 1616, 1618 and 1625. See Ōsaka Ryōgaeshō Kumiai [Osaka Money Changers' Association] (ed.), *Ryōgaeshō Enkakushi* [A History of the Background of Money Changing], printed in Kuroha Hyōjirō (ed.), *Ōsaka Shōgyō Shiryō Shūsei* [Collected Materials on the Commerce of Osaka] (Osaka: Ōsaka Shōka Daigaku Keizai Kenkyūjo, 1934–40), III, 155 ff. These edicts were not effective, and it was only after further large issues in 1636 and the following years that the Tokugawa copper currency became the generally accepted standard.

[11] These ratios were fixed by the government in 1609. With the increased issue of copper coins, their value fell so far that in 1656 the government authorized transactions in copper coins at the market rate. This authorization was withdrawn in 1659, but the market value of copper coins continued to fall throughout the century. See *Ryōgaeshō Enkakushi,* pp. 173–74. 1 *me* = 3.750 grams.

age. Gold, silver and copper were all equally standard legal tender. In practice, however, copper was the normal medium for small transactions, while gold was used for larger cash payments. Silver was still valued by weight and not by tale and was not widely used in day-to-day purchases. The monetary situation was complicated by the survival of some non-standard coins and by the adoption of gold as the unit of account in eastern Japan (of which Edo was the center), and of silver in the west (based on Osaka).

The usual explanations for this difference point out that silver was mined in western Japan and gold in eastern Japan, and that silver currency was actually used in the west whereas gold and copper were used in the east.[12] This is not very convincing, particularly since the system persisted after silver had practically gone out of use as a medium of exchange. The silver system was a decimal system based on the decimal system of weights and was therefore very much more convenient for accounting purposes. In the calculation of interest, commissions or discounts in particular, it possessed overwhelming advantages over the clumsy gold system. If, however, business consisted predominantly of cash transactions in gold units, the keeping of accounts in silver units had the disadvantage of making it difficult to check cash in hand. This was the case in Edo, where retail trade predominated and almost all transactions were in cash. In Osaka, on the other hand, credit sales were far more common and settlement was made by setting off book credits or, later, by the use of checks expressed in silver. There were, therefore, fewer practical obstacles to the use of the far simpler silver accounting system, which had the added advantage of not being closely associated with a current coin which might be liable to debasement.[13]

As we have seen, most transactions in Osaka were not settled immediately for cash. Settlement was made either periodically, usually once every two months, or a specified period after delivery of goods. In the meantime, liability to pay or right to receive these sums was recorded in the form of book credits and debits. This presupposes a fair degree of development of accounting techniques.

[12] The traditional arguments are marshalled by Miyamoto Mataji in his article under the heading "Kinzukai Ginzukai," [Gold Usage and Silver Usage], in Keizaishi Kenkyukai [Association for Economic History Research] (ed.), *Nihon Keizaishi Jiten* [Encyclopedia of Japanese Economic History] (Tokyo: Nihon Hyōron Shinsha, Compact ed., 1954), I, 386.

[13] This situation of multiple currencies and varying units of account, not necessarily related to any current coin, is basically no different from that which prevailed in Europe down to the end of the eighteenth century. Compare L. Einaudi, "The Theory of Imaginary Money from Charlemagne to the French Revolution," in F. C. Lane and J. C. Riemersma (eds.), *Enterprise and Secular Change* (London: Allen and Unwin, 1953), pp. 229–61.

From the beginning of the Tokugawa period merchants kept reasonably complete business records.[14] Records of purchases and sales, order and delivery books, cash books, receipt books, stock books, records of wages and salaries and operating expenses were regularly kept by larger firms. In addition, all credit transactions were recorded in a ledger-like book, usually known as the *daifuku-chō* or *dai-chō*. This important record usually opened with a record of capital accounts and frequently included notes of other than credit transactions. Practice was by no means uniform, and a formal system of double entry with amounts entered in columns was never used.[15] Nevertheless, in some cases at least, all the records necessary for a double entry system were available. No complete set of books is known to have survived from the seventeenth century,[16] but annual financial statements which do survive indicate that these supporting records must have existed.[17]

II

No organized credit "system" can be said to have existed before its establishment under the *Jūnin Ryōgae* or "Big Ten" bankers, for which the first steps were taken in 1662. The first half of the century, however, saw the development of most of the essentials of such a system which only awaited organization. In particular this period saw the emergence of specialized bankers and a development from book credit to bills of various types. During the same period lending to *daimyo* and other members of the governing class, as well as to merchants, became prominent.

Japanese bankers of the early seventeenth century came into banking business by three main routes. Money changers, merchant financiers and financiers of *daimyo* were all moving closer to banking business. This was particularly the case in Osaka, already the center of commercial

14 According to Miyamoto Mataji's article under the heading "Shōgyō Chōbo," in *Nihon Keizaishi Jiten*, I, 796–98.

15 Principally because the universal use of the abacus, or counting frame, made it, for technical reasons, unnecessary to separate debit and credit items in columns.

16 The records of the Mitsui Archives now preserved in the Historical Archives Division of the Japanese Ministry of Education *(Mombushō Shiryōkan)* form the most complete collection now available. This huge collection dating from the late seventeenth century could provide material for a fascinating study of Japanese accounting methods.

17 Financial statements surviving from the seventeenth century consist of a balance sheet of assets and liabilities followed by a statement of income and expenditure. These are arranged so that closing net worth appears as the balance in each case. The annual statements *(sanyōchō)* of Kōnoike Zenemon preserved in *Kōnoike Shinden Kaisho* (near Osaka) provide a good example.

life for merchants and feudal clans alike. In Osaka, banking business is said to have begun around the 1630's.[18]

Money changers *(ryōgae)* were an essential institution at a time when there were still many types of currency in circulation. Their work was to value and exchange coins for a small commission, and their profit was made on a gap between buying and selling rates for gold as against silver or copper. In these early days this gap was about one third of 1 per cent. In addition, they charged a commission of about one third of 1 per cent.[19] Although the government published official gold/silver and gold/copper exchange rates, it does not appear to have been prepared to buy or sell gold in sufficient quantities to maintain these rates in the market, and the market rates varied from day to day, silver showing a general tendency to rise somewhat between 1636 and 1694. Since in one of the two major centers (Osaka) business was done in terms of silver and in the other (Edo) in terms of gold, the rate of exchange between the two was very important. In the 1650's representatives of the leading money changers of Osaka met in Kōraibashi Street each morning to determine the market rate for the day,[20] and from 1662 this procedure was officially recognized. Although time transactions in gold were forbidden until after the middle of the eighteenth century, they seem to have been a regular practice in Osaka as early as the middle of the seventeenth century, and forward transactions on margins were a significant factor in the market before 1660.[21]

Substantial money changers appeared in Edo after the establishment of the Tokugawa mint there in 1595, and until the 1650's they operated within a small area around the mint in Nihombashi. In addition to their ordinary functions, the leading money changers of Edo formed close connections with the government and acted as its agents for the receipt, inspection and remittance of government revenues.[22]

Money changers in Edo, Osaka and Kyoto[23] were accepting deposits

18 See Sakudō Yōtarō, "Kinsei Shinyō Taikei to Keizai Hatten no Mondai," [The Problem of the Credit System and the Economic Development during the Shogunate Period], *Ōsaka Daigaku Keizaigaku,* VII, No. 3 (Nov. 1957), 64–103.

19 See Matsuyoshi Sadao, *Nihon Ryōgaeshō Kinyūshi-ron* [A History of Japanese Money Changer Finance] (Tokyo: Bungei Shunju-sha, 1932), pp. 85–87.

20 See *Ryōgaeshō Kyūki* [Records of the Money Changers], in *Ōsaka Shōgyō Shiryō Shūsei,* IV, 157–58.

21 See *Ryōgaeshō Kyūki,* p. 158, and *Ryōgaeshō Enkakushi,* p. 178.

22 See Matsuyoshi, *Nihon Ryōgaeshō Kinyūshi-ron,* p. 12, and Honjō Eijirō, *Nihon Keizaishi Gaisetsu* [An Outline Economic History of Japan] (rev. ed.; Tokyo: Nihon Hyōron-sha, 1940), p. 262.

23 For a description of some early money changers in Kyoto (written about 1727), see Mitsui Takafusa (trans. E. S. Crawcour), "A Record of Observations on Merchants," *Transactions of the Asiatic Society of Japan,* 3rd Series, VIII (1961).

and making loans in the 1640's and probably considerably earlier.[24] No interest was paid on deposits which were held for the convenience of the depositor. Advances were made at interest rates of around 15 per cent.[25] Although smaller money changers and most of the Edo money changers did not develop far from their original function, a number of the leading ones, particularly in Osaka, were well on the way to becoming bankers by the 1660's.

The wholesale merchants *(tonya, toiya)* of Osaka and Kyoto came into financial work through their practice of making advances to their suppliers and selling on credit. The wholesalers of Osaka in particular regularly advanced part of the value of goods consigned to them. Sometimes these advances were made in the form of bills, sometimes in the form of materials. Where the producers were fairly close to Osaka, the advances were made directly to them. Where they were further away, the advances were usually channeled through an intermediary, for example, through a shipper. These advances were made both when the wholesaler bought on his own account for resale and when he sold goods on commission. Interest was normally charged on advances, and the advance and interest were recouped when the goods were sold. Whereas the wholesaler paid over part of the price of the goods before taking delivery, his sales were usually made on thirty-day or sixty-day bills.

At any time, therefore, these wholesalers were lending substantial amounts, and the lending side of their business tended to become more important as their capital increased. Eventually many of them did nothing else, some becoming full-fledged bankers, but some retaining the title of wholesaler while being in fact specialized financial organs for an industry or group of industries. Some, like Mitsui, were able to dovetail trading and financial operations, since their large-scale purchases in Kyoto and Osaka and sales in Edo enabled them to provide exchange facilities between these centers.

The Osaka commercial and financial agents of the feudal clans have already been mentioned. Though not necessarily financiers originally, they all became so through this work.

The reception, handling, storage and disposal of rice and other income

24 The money changer Tennōjiya Gohei began business in 1628. Within thirty-five years he was the leading banker of Osaka. See Miyamoto Mataji, "Ōsaka no Shōgyō to Kurayashiki," [The *Kurayashiki* and the Commerce of Osaka], in Honjō Eijirō (ed.), *Kinsei no Ōsaka* [Osaka in the Early Modern Period] (Osaka: Kansai Keizai Dōyūkai, 1959), p. 143.

25 See Mitsui Takafusa, "A Record of Observations on Merchants," and Nakada Yasunao, "Shoki Mitsui no Kinyūgyō no Jittai," *Nihon Rekishi,* XCVIII (Aug. 1956), 4–5, and the records of Kōnoike Shinden Kaisho.

in kind of the feudal clans *(han)* was handled by the *kuramoto* who, by the middle of the century, were normally merchants.[26] In the early days rice was sold by tender from the *daimyos'* warehouses to selected rice brokers, and in the 1640's, and for some time thereafter, a good deal of it passed through Yodoya, whose rice-broking business became the forerunner of the rice exchange.[27] On paying for the rice, the successful bidder was given a receipt which he then exchanged for a delivery order. Rice was supposed to be taken out of the warehouse within a specified time, but this was not always done, and the delivery orders were traded freely. These warehouse delivery orders *(komegitte, kura azukari tegata)* circulated so well that *kuramoto* could safely issue more than were covered by rice in store. Further credit was created by sales of rice for future delivery against a deposit, usually of one third. An ordinance against this practice issued in 1654 seems to have been ignored.[28] There soon grew up a speculative market in these delivery orders or "rice bills" which became very active towards the end of the century.

The job of the *kakeya* or financial agent was to receive payment for sales from the warehouse and to remit the proceeds to the *daimyo's* clan as required. These funds were normally left on deposit with the *kakeya* free of interest until required and were used by him in his business. In addition, the *kuramoto* or *kakeya* (both offices were frequently held by the same person) at an early stage began to make interest-bearing advances to *daimyo* on the security of the next rice crop and in this way became large-scale lenders. Interest rates appear to have been about average for those days (12–15 per cent per annum),[29] but miscellaneous charges and accumulated debts made the total interest burden heavy. Proceeds of sales from the warehouses were usually divided into three parts, of which one part was remitted to Edo to defray expenses there, one part was sent to the fief itself, and the remaining part held in Osaka.

26 Dōjima Kyūki, p. 27.

27 See Dōjima Kyūki, p. 27.

28 This ordinance which is printed in *Ōsaka Shishi,* III, 47, forbids the sale of rice on one-third deposit. It mentions that rice tickets passed through up to ten hands in a day. Similar restrictions on trade in rice bills were promulgated repeatedly in the following years. See Ordinances of 1660, 1661 and 1663 printed in *Ōsaka Shishi,* III, 67, 68, 72–73.

29 See Nakada Yasunao, "Shoki Mitsui no Kinyūgyō no Jittai," and *Kōnoike Zenemon Sanyōchō.* There has been some divergence of opinion about these rates. See Kōda Shigetomo, *Nihon Keizaishi Kenkyū* [Studies in Japanese Economic History] (Tokyo: Ōokayama Shoten, 1928), p. 511, and Nomura Kanetarō, "Daimyōgashi ni Tsuite," *Mita Gakkai Zasshi,* XXIX, No. 2 (Feb. 1935), 170. Preliminary analysis of loan documents currently available at the University of Osaka indicates that rates for loans to *daimyo* were, if anything, slightly higher than for loans to merchants. Material for the seventeenth century is, however, scanty.

The step from book credit to the issue of credit notes or bills of various types is not a very great one. A bill is, after all, essentially not much different from an extract of a ledger on a separate sheet of paper. If any advantage can be gained by making such extracts, there should be no difficulty in making them. Advantages for Osaka merchants were ease of settlement and expansion of money supply to an extent dependent on the negotiability of the notes or bills. Special conditions in Osaka made these two advantages particularly important. We have already noticed the practice of settling periodically on specific settling days. This meant that while cash was relatively idle for most of the time, it was very likely inadequate on settling days. The silver in which accounts were kept in Osaka was certainly insufficient to provide means of settlement, and settlement in cash therefore involved conversion into gold at fluctuating rates of exchange. The need to weigh silver for each transaction paid in actual silver and the difficulty of detecting counterfeit coins added to the inconvenience. The convenience of the silver accounting system was therefore in danger of being outweighed unless some means were available for overcoming these difficulties associated with settlement and currency.

The means were first provided by the expanded activities of the finance houses, particularly of the money changers. The first recorded issue of notes was in 1617, when silver notes were issued in connection with the construction of the Edobori canal. They were probably issued either by the contractors or their agents and carried the inscription, "Sesshu Ōsaka Edoborikawa silver note. Everyone can use it. It is an everlasting treasure." [30] There is, however, no evidence that they were widely used or that they were in circulation for any length of time. In form they resembled the convertible paper currency later issued by *han* governments, rather than *tegata* or notes issued by merchants and bankers.

The first commerical bills to enjoy a reasonably wide circulation were the rice delivery orders already described. At about the same time, the use of notes or commercial bills by merchants was encouraged by a government order of 1648 stating that legal claims for payment for goods would not be heard unless supported by documents made at the time of the transaction. These documents were not to be rough memoranda but proper bills *(tegata)*.[31]

[30] *Ōsaka Shishi*, I, 122.

[31] *Ōsaka Shishi*, III, 17.

It was not until the emergence of something approaching banking that bills became widely negotiable and came into general use. We have already seen that money changers first began to offer regular banking facilities about the 1630's. Foremost among these early bankers was Tennōjiya Gohei. Notes issued by him from around 1640 seem to have been the first to enjoy wide acceptance.[32] These notes were probably deposit receipts *(azukari tegata)*.[33] If so, they would hardly amount to the great innovation which they were later regarded as having been, since any money changer accepting deposits might have been expected to issue a receipt.[34] Although none of his early notes now survive, it seems likely that his innovation was to issue deposit receipts in conveniently small denominations, and this may well have accounted for their immediate popularity. At all events they were widely current by the 1650's, and his practice was soon copied by other money changers.[35] Tennōjiya formed an association with two of them—Kohashiya[36] Jōtoku and Kagiya Rokubei—and with the advantages which this association provided, bills circulated even more widely.[37] By 1660 the economic life of Osaka had come to revolve around the new-style money changers.[38] Although similar practices were adopted by Edo money changers at about the same time or soon after, they did not catch on and notes never circulated widely there.[39]

32 See *Ryōgaeshō Enkakushi*, p. 9. The tradition that he got the idea of issuing notes from reading about the practice of Aoto Saemoni Fujitsuna, a minister of the Kamakura government in the thirteenth century, seems rather doubtful. Bills of exchange were used in those days, but so far as I know there is no evidence of the circulation of negotiable deposit receipts at that time. The story may have been circulated to give Tennōjiya's bills added prestige.

33 See Sakudō Yōtarō, Kinsei Shinyō Taikei to Keizai Hatten no Mondai," p. 93.

34 *Ryōgaeshō Enkakushi, Dōjima Kyūki* (already cited), and *Shōji Kanshū Mommoku narabi ni Hōtō Shoan* [Draft Questionnaire and Replies on Commercial Usages] (printed in *Ōsaka Shishi,* V, 471–526), in crediting Tennōjiya Gohei with the invention of bills *(tegata)*, all say that he was the *only* money changer *("ryōgaeshō")* in Osaka at the time. Since there were then dozens of money changers in Osaka as well as in Kyoto, Edo and other places, this statement cannot be taken at face value. He was, however, the only member of the later Big Ten who was in the money-changing business at that time.

35 See *Ryōgaeshō Enkakushi,* p. 9.

36 This is the usual reading of this name. In the index to *Ōsaka Shōgyō Shiryō Shūsei,* III, however, it is listed under "O," indicating a possible reading of *"Ohashiya."*

37 See *Ryōgaeshō Enkakushi,* p. 9.

38 See Sakudō Yōtarō, "Kinsei Shinyō Taikei to Keizai Hatten no Mondai," p. 79.

39 See Mitsui Takasumi, *Ryōgae Nendaiki—Gempen* [Annals of the Money Changers—Text] (Tokyo: Iwanami Shoten, 1932), p. 10, and Mitsui Takasumi, *Shinkō Ryōgae Nendaiki Kanken* [Key to the Annals of the Money Changers] (Tokyo: Iwanami Shoten, 1933), I, 221.

III

Despite the early success of Tennōjiya Gohei's notes, it was only after the organization of the Osaka bankers into a regular credit system that the use of notes became general and eventually almost universal in that city.[40]

The first steps towards setting up something like an organized banking system in Japan were taken at Osaka in 1662. In that year the Eastern Town Magistrate of Osaka, Lord Ishimaru of Iwami, officially appointed the city's leading money changer, Tennōjiya Gohei, and two other substantial money changers of that time, his associates Kagiya Rokubei and Kohashiya Jōtoku, to supervise the Osaka money market and to buy up gold coins on behalf of the government.[41] Soon afterwards their number increased to six, and in 1670 a group of ten leading Osaka financiers was officially commissioned to take responsibility for the proper operation of the money market and to act for the government when required.[42] These ten were permitted to wear two swords and were exempted from ordinary civic duties. Although its numbers later varied, this controlling group was always known as the "Ten Money Changers" *(Jūnin Ryōgae)*. Its members were all leading commercial and financial agents of the feudal clans. Under the control of these ten, the remaining bankers *(honryōgae)* were organized in twenty-two groups roughly on a geographical basis.[43]

This organization had the effect of greatly strengthening the credit of Osaka bankers and facilitating the use of bills, but it is very doubtful whether these were the principal objects of the Town Magistrate who introduced it. It would seem to have been part of a wider policy of bringing order into the city's commercial life in general. The main objects of this policy were to provide channels for official control and means for settling commercial disputes before they reached a magistrate's court. A number of trades were organized in this way between

[40] By the end of the Tokugawa period (mid-nineteenth century), 99 per cent of Osaka's transactions were made by bill according to Sakudō Yōtarō, "Kinsei ni okeru Kawase Tegata no Hattatsu," [The Development of the Bill of Exchange in the Tokugawa Period], *Ōsaka Daigaku Keizaigaku*, VIII, No. 1 (Apr. 1958), 97.

[41] See *Ryōgaeshō Enkakushi*, p. 9.

[42] See *Ōsaka Shōgyō Shūkan-roku* [Record of the Commercial Usages of Osaka], in *Ōsaka Shōgyō Shiryō Shūsei*, I, 228. The original ten were Tennōjiya Sakubei, Tennōjiya Gohei, Hondaya Yaemon, Shinya Mokuzaemon, Kōnoikeya Kiemon, Izumiya Heibei, Shinya Kuroemon, Kagiya Rokubei, Sukematsuya Rihei and Sakamotoya Shōzaburō. (*Ōsaka Shishi*, I, 400.) It is not clear why Kohashiya dropped out.

[43] See *Ōsaka Shishi*, I, 400–1.

1630 and 1660 including land transport (1620), shipping (1636), pawnbrokers (1642), scrap metal dealers (1645), secondhand dealers (1645) and timber merchants (1654).[44] As this list suggests, official interest was centered on trades which had a close connection either with government works (for example, shipping, timber) or police supervision (for example, pawnbrokers, secondhand dealers). The steady flow of ordinances issued by the Osaka Town Magistrates on the subjects of the currency and the gold/silver market[45] indicates that their main concern was in exercising control in this field rather than promoting the circulation of bills of which they were officially suspicious.

The Big Ten collectively possessed some of the characteristics of a central bank. They handled government business, exercised some control over the gold/silver market, held the final reserves of the banking system and acted as lenders of last resort. No one could open a banking business without first obtaining their approval and agreeing to observe their regulations.[46]

The bankers who made up the twenty-two groups probably numbered about 150.[47] The largest, like the Big Ten, dealt mainly with government and the feudal clans. The remainder did most of their business with merchants, usually wholesale merchants. Merchants normally kept the bulk of their funds on deposit with a banker. The smaller bankers came to an arrangement with a larger colleague under which they kept their funds on deposit there, and in return were given an assurance that overdrawing up to an agreed limit would be permitted in case of a run of withdrawals. This arrangement was repeated up the scale until each of the biggest bankers had a chain of smaller bankers directly or indirectly under his aegis.[48]

Outside of this organization of *honryōgae* there were three other groups in Osaka. The *Zeni-ryōgae* were merely money changers and were very numerous. The *Minami-ryōgae* were also money changers but also accepted deposits and made loans on a comparatively small scale. They received their name from their location ("*minami*" means

44 See *Ōsaka Shōgyō Shūkan-roku,* pp. 14, 15, 231, and *Shohotsu Gonjō sōrō Chōmen no Utsushi* [Copy of a Booklet setting forth Origins] (1753), in *Ōsaka Shishi,* V, 18–28.

45 See *O-fure oyobi Kōtatsu* [Ordinances and Proclamations], in *Ōsaka Shishi,* III.

46 See *Ōsaka Sekiji no Shinyō Seido* [Osaka's Credit System of Former Times], in *Ōsaka Shishi,* V, 550.

47 I can find no record of the actual number at this time. At the very end of the century there were 155 (see *Naniwa Maru,* referred to in *Ōsaka Shishi,* I, 541). By the end of the Tokugawa period the number had fallen to 120 (see *Ōsaka Sekiji no Shinyō Seido,* p. 528).

48 See *Ōsaka Shishi,* I, 401.

"south") and formed a separate group. They did not have financial dealings with the *honryōgae*. The third group consisted of *ryōgae* catering specifically to the financial needs of the rice market. They were known as *"Komegata ryōgae"* ("Rice money changers") or, rather slightingly, *"Yarikuri ryōgae"* (roughly, "Ways and means money changers") and became particularly active about 1670 in providing short-term finance for both spot and time transactions in rice and rice bills.[49]

Although detailed contemporary descriptions of the operation of the Osaka banking system are available from about the last quarter of the eighteenth century, it is much harder to find accurate information about practices in the seventeenth century. The outlines, however, appear fairly clear.

In general, the business of the *honryōgae* (hereinafter called "bankers") was to accept deposits, issue notes and bills, make advances, arrange remittances and make transactions in gold and silver. The following description refers to a period roughly around 1680.[50]

Deposits were not accepted indiscriminately. For a merchant, an account with a banker was a valuable privilege, since it vastly increased his credit and opened the way to obtaining advances on relatively favorable terms when required. Having satisfied a banker as to his credit standing, a merchant deposited the greater part of his liquid capital, both cash and bills. Deposits were normally current deposits and did not bear interest.

The client could use these deposits in any of three ways. First, he could obtain deposit notes *(azukari tegata)* issued by the banker which he could then use for current payments. These were available from the banker in any denominations requested by the depositor and were equivalent to convertible bank notes. They circulated freely and did not require endorsement. If, for any reason, the banker failed to convert the note, the loss was borne by the holder at the time.

Second, the depositor could draw a "withdrawal note" *(furidashi tegata)* which was the equivalent of a check. These could be drawn by the depositor to the amount of his deposit or to a higher amount up to an overdraft limit agreed with the banker. The checks circulated quite freely and were endorsed by each holder in turn. If a check was refused because of lack of funds, the bearer could claim from the previous en-

49 See *Dōjima Kyūki*, pp. 52 ff. and *Ōsaka Shōgyō Shūkan-roku*, pp. 228–30.

50 The following description is based on *Ōsaka Sekiji no Shinyō Seido, Ryōgaeshō Enkakushi* and *Ōsaka Shōgyō Shūkan-roku* (already cited); *Kyūji no Ryōgae Seido* [The Money Changer System of the Old Days], in *Ōsaka Shōgyō Shiryō Shūsei;* Matsuyoshi Sadao, *Nihon Ryōgaeshō Kinyūshi-ron* and Sakudō Yōtarō, "Kinsei Shinyō Taikei to Keizai Hatten no Mondai."

dorser until it finally came back to the drawer. If, on the other hand, payment was refused because, for example, of bankruptcy of the banker, and the drawer did in fact have an adequate credit with the banker, the loss was borne by the bearer.

Third, the depositor could withdraw directly in cash, but this appears to have become progressively rarer, and after the debasement of the currency at the end of the century became quite exceptional. In "cashing" notes or checks, the banker may originally have paid in actual cash. By about the 1670's, however, this had become rare and in "cashing" notes or checks, the banker normally exchanged them for a bill drawn by him on his "parent" bank.

Bankers' advances were made in the form of overdrafts without security to trusted clients. No special loan documents were drawn up for current overdrafts. They were also made on the security of real estate or of goods in store or in transit against warehouse receipts or the equivalent of bills of lading. Interest on these advances was reckoned at a daily rate which varied widely depending on the credit standing of the client and the type of security offered. About 1.2 per cent per month seems to have been a typical rate.

A client who obtained an advance to buy goods could then obtain a further loan on the security of the goods. If loans were made up to two thirds of the value of the goods, he could by repeating the process theoretically borrow up to three times the original advance.

In making short-term advances, bankers to some extent made use of deposits. Some bankers claimed that no more than 10 per cent of deposits were re-lent in this way, but this figure cannot be accepted without question. The actual ratio was a carefully guarded secret and was probably much higher.[51] Since by the 1670's it was rare for any of these advances to be withdrawn in cash, the whole of the advance was added to the deposits in the banking system as a whole. If, therefore, all bankers made it a practice to lend up to two thirds of their deposits, the total creation of credit in the banking system would approach three times the original deposits.[52] Longer-term investments in, for example, land reclamation, mining, or loans to feudal lords were supposed to be made out of the bankers' own capital, and for the bigger bankers it

[51] In 1676 advances made by Kōnoike Zenemon, one of the Big Ten, were about two and a half times his net worth and about one and a half times deposits plus cash holdings. In 1680, advances were one and a half times net worth and about two and three-quarter times deposits plus cash. See *Kōnoike Zenemon Sanyōchō.*

[52] Towards the end of the Tokugawa period, notes issued for sixty to seventy thousand *ryō* were often backed by no more than ten thousand *ryō*. See *Ryōgaeshō Enkakushi,* p. 120.

was the return from these, plus stipends received from *daimyo* which provided their major sources of income.

Forward dated bills *(nobe tegata)* and promissory notes *(yakusoku tegata)* were used, but, according to Miyamoto, bankers did not offer discounting facilities.[53] In practice, a client depositing a time bill would probably have been allowed to overdraw a proportion of its value and this would have been an adequate substitute for specific discounting facilities. If, moreover, most time bills fell due together on fixed settling days, there would probably be little demand for discounting before maturity.

Interbank settlement was effected through the chain of parent-bank relationships. This chain could contain as many as seven or eight links. No precise description of this mechanism is available for the seventeenth century.[54]

During the whole of the Tokugawa period there was a heavy flow of goods from Osaka to Edo and an almost equally heavy flow of government and *han* (feudal) revenues in the same direction. It was therefore possible to avoid the cost, inconvenience and danger of transporting cash between the two centers by setting off payments for goods from Edo to Osaka against revenues to be sent from Osaka to Edo.

This procedure was adopted whenever the opportunity presented itself as early as the 1620's.[55] It became common, however, only after the emergence of a regular gold/silver exchange at Kōraibashi, Osaka, where bills drawn on Edo merchants also could be bought and sold.[56] The setting off of commercial payments due from Edo against remittances of feudal revenues was known as "Edo exchange" *(Edo kawase)* and the procedure was as follows.

To remit money from Osaka to Edo, an Osaka banker—usually the *kakeya* or financial agent of a *han,* remitting *han* revenues—bought bills drawn by Osaka merchants on their Edo customers. He then forwarded to the *han* offices in Edo an order on an Edo banker with whom he had an account. At the same time he sent to his Edo banker the bills drawn on Edo merchants as well as a covering note directing

53 Miyamoto Mataji, *Ōsaka Chōnin-ron* [The Osaka Merchant] (Kyoto: Minerva Shobō, 1959), p. 20.

54 A rather obscure description of the system of settlement in the nineteenth century is given in *Ōsaka Sekiji no Shinyō Seido,* pp. 535–36.

55 See Sakudō Yōtarō, "Kinsei ni okeru Kawase Tegata no Hattatsu," p. 104. Bills of exchange were used from the fourteenth century. See D. M. Brown, *Money Economy in Medieval Japan,* p. 45, and Kurusu Takeo, *Nihon Kinyū Seido Hattatsu no Kenkyū* [A study of the Development of the Japanese Financial System] (Tokyo: Keimeisha, 1929), pp. 173–75.

56 This was probably established in the 1660's, according to *Ōsaka Shishi,* I, 400.

him to pay the proceeds to the *han* offices. Thus, through the agency of the Osaka and Edo bankers, the *han* wishing to remit to Edo in effect paid a merchant in Osaka and collected from that merchant's debtors in Edo. For this service the Osaka banker charged a commission of 1 or 2 per cent. Statements of account were exchanged between the Osaka and Edo bankers five times a year.[57] Since most of the debts of Edo merchants to Osaka merchants were settled in this way, remittances from Edo to Osaka *(kamigata kawase)* were comparatively rare and could only be arranged if an Edo banker happened to hold a bill drawn on Osaka.

A system similar to the *Edo kawase* was officially authorized for the remittance of central government revenues in 1691. Early in that year a group of ten influential bankers operating in Edo, Osaka and Kyoto was commissioned to accept government funds for remittance. A few days later two members of the Mitsui firm were similarly authorized.[58] Accepting government funds in Osaka or Kyoto, these official exchange bankers bought bills drawn on Edo from Osaka merchants and collecting the proceeds in Edo paid them into the government treasury there. Three documents were involved. A "main bill" *(hon-tegata)* was drawn by the Osaka merchant on his Edo banker stating that he had received a sum of government money from, say, Mitsui in Osaka and ordering the Edo banker to pay it to Mitsui in Edo. An "advice note" *(oki-tegata)* was at the same time forwarded by the Osaka merchant to Mitsui in Edo advising them that he had received payment in Osaka and that his Edo banker would pay Mitsui, or, in case of default by the Edo banker, that he would himself assume responsibility for immediate payment. This advice was accompanied by a "supporting bill" *(soe-tegata)* stating his security for performance of these obligations and guaranteed by his local alderman *(machidoshiyori)*.[59] No commission was paid by the government on this business, but as at least sixty days were allowed between receipt of the funds in Osaka and payment in Edo, their interest-free use for that period was a very valuable concession.

Since payments were expressed in silver in Osaka and in gold in Edo, a remittance between the two centers involved a gold/silver transaction.

57 See Sakudō Yōtarō, "Kinsei ni okeru Kawase Tegata no Hattatsu," pp. 104–5.

58 There is no evidence to support the claim that the Mitsuis invented this system. The mechanism was basically no different from the *Edo kawase* system which had been in operation for some time. Although the Mitsui group later got the bulk of this business, they were not among the ten originally commissioned. See Matsuyoshi, *Nihon Ryōgae Kinyūshi-ron,* pp. 230–33.

59 See Sakudō Yōtarō, "Kinsei ni okeru Kawase Tegata no Hattatsu," pp. 101–2.

Payment for goods imported from Osaka into Edo involved a sale of gold and a purchase of silver, while remittances from Osaka to Edo required an opposite transaction. The great bulk of these monetary transactions took place on the Osaka gold/silver market, and demand for and supply of gold and silver coin and bills there produced a rate of exchange between the two analogous to an international rate of exchange between the currencies of two countries. If imports into Edo from Osaka exceeded remittances of revenues from Osaka to Edo, the balance of payments was unfavorable to Edo and the price of gold fell in terms of silver. Thus an expansionist financial policy in Edo would tend to lower the price of gold, and retrenchment there would tend to raise it. Although this was not the only mechanism operating on the gold/silver exchange rate—production and exports of precious metals and changes in price structure no doubt had some significance—it must certainly have been the most important. This mechanism tended to be more or less in equilibrium until currency devaluations at the end of the century. Short-term fluctuations in the exchange tended to be minimized by time transactions, and a longer-run tendency for Edo imports to exceed government and feudal revenues remitted to Edo was largely balanced by silver loans from the Osaka banking system. It is significant that the operation of the system was largely controlled by a small group of about twenty of the leading merchant bankers of the time.

Changes in the relative values of gold, silver and copper affected different classes of society in different ways. A rise in the value of silver, for example, benefited Osaka merchants and *daimyo* transmitting their incomes to Edo. *Daimyo* with heavy debt and interest commitments in silver, however, might well have found that a rise in the price of silver was a net disadvantage. The average run of *samurai* gained from an increase in the value of gold, since at least part of their incomes were received in that form. Edo merchants benefited from a high gold price relative to silver, while the ordinary man in the street who dealt mainly in copper was liable to suffer from a fall in the value of copper coin. These effects might be expected to have been reduced by commodity price changes. A fall in the value of gold should, for example, have been accompanied by price rises in Edo, although there may well have been some lag.

Unfortunately, insufficient statistical material is now available on prices, incomes and the way in which incomes were spent to make possible a quantitative analysis of these effects in the seventeenth century.

Neither is it possible to assess quantitatively the relation of the credit system and money market to such factors as the price of rice, government financial policy, foreign trade or increasing indebtedness of the *han*. The above description of the system and the way in which it developed should, however, provide a basis for an understanding of these matters in general qualitative terms as well as an interesting comparison with similar institutions in more familiar areas.

SYDNEY CRAWCOUR, *Australian National University (Canberra)*