

The London School of Economics and Political Science

Thesis

**Foreign Government Loan Issues on the London Capital Market, 1870 - 1913,
with Special Reference to Japan**

by

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for the Degree of Doctor of Philosophy,**

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Abstract

This thesis examines foreign government loan issues on the London capital market in the period from 1870 to 1913, with special reference to Japan.

Chapter One provides an overview of foreign government loan issues in London. Chapter Two deals with a number of more specific topics: the development of the loan issue organisations on the market, and the role and involvement of various types of financial institutions in loan issue business.

Later Chapters mainly take up the detailed history of Japanese government loan issues, referring to domestic Japanese financial conditions. Chapters Three to Seven examine the development of Japanese government loan issues on the international capital markets. Throughout these operations Japan enhanced its creditworthiness by successfully spreading its loan issue operations from London to New York, Berlin and Paris. Chapter Eight discusses municipal and company loan issues, with a view to comparing them with the government's. Chapter Nine discusses the role of the Japanese government's deposits in London under the international gold standard system, and the effects of the Japanese government loan issues on Japan's foreign trade. The Conclusion summarises the main arguments of the thesis.

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List of abbreviations used

Archives

A.G.A.	Antony Gibbs Archives (Guildhall Library)
A.J.A.A.	American Jewish Association Archives (Cincinnati, Ohio)
A.M.A.E.	Archives du Ministère des Affaires Etrangères (Paris)
A.M.F.	Archives du Ministère des Finances (Paris)
A.N.	Archives Nationales (Paris)
A.S.A.B.A.	Anglo-South American Bank Archives (D.M.S. Watson Library, University College)
B.B.A.	Baring Brothers & Co. Archives
B.C.A.	R. Benson & Co. Archives
B.E.A.	Bank of England Archives
B.J.A.	Bank of Japan Archives (Tokyo)
B.L.P.E.S.A.	British Library of Political & Economic Science Archives
B.T.A.A.	Bank of Tarapacá & Argentina Archives (D.M.S. Watson Library, University College)
B.T.L.A.	Bank of Tarapacá & London Archives (D.M.S. Watson Library, University College)
C.B.A.	Chartered Bank of India, Australia and China Archives
CI.B.A.	City Bank Archives
C.C.B.A.	Capital and Counties Bank Archives
H.A.	C.J. Hambro & Son Archives (Guildhall Library)
H.S.B.A.	Hongkong & Shanghai Banking Corporation Archives (Hongkong)
I.B.P.A.	Imperial Bank of Persia Archives
J.M.F.A.	Japanese Ministry of Finance Archives (Tokyo)
J.M.F.A.A.	Japanese Ministry of Foreign Affairs Archives (Tokyo)
J.N.D.L.	Japanese National Diet Library (Tokyo)
K.A.	Kleinwort & Sons Co. Archives (Guildhall Library)
L.A.	Lazard Brothers Co. Archives
L.B.B.A.	London & Brazilian Bank Archives (D.M.S. Watson Library, University College)
L.J.S.B.A.	London Joint Stock Bank Archives
L.C.M.B.A.	London City & Midland Bank Archives
L.S.E.A.	London Stock Exchange Archives (Guildhall Library)
L.S.W.B.A.	London & South Western Bank Archives
M.A.	Mitsui Archives (Tokyo)
M.B.A.	Midland Bank Archives
M.G.A.	Morgan Grenfell & Co. Archives (to 1910 J.S. Morgan & Co. Archives) (Guildhall Library)
MT.B.A.	Mitsui Bank Archives (Tokyo)
P.A.A.A.	Politische Archiv des Auswärtigen Amts (Bonn)
P.B.A.	Parr's Bank Archives
P.R.O.	Public Record Office
R.A.L.	N.M. Rothschild & Sons Co. Archives
S.A.	J. Henry Schröder & Co. Archives
S.O.A.S.A.	School of Oriental & African Studies Archives (University of London)
U.B.L.A.	Union Bank of London Archives
U.L.S.B.A.	Union of London & Smiths Bank Archives
W.B.A.	Westminster Bank Archives

Others

Add. MS.	Additional Manuscripts (British Library)
C.	Chancery (Public Record Office)
F.O.	Foreign Office (Public Record Office)
Ms.	Manuscripts (Guildhall Library)
T.	Treasury (Public Record Office)

Company and banks

Banque de Paris	Banque de Paris et des Pays-Bas
Banque française	Banque française pour le Commerce et l'Industrie
Baring Brothers	Baring Brothers & Co.
Benson	R. Benson & Co.
Brown Shipley	Brown, Shipley & Co.
Chartered Bank	Chartered Bank of India, Australia & China
Comptoir d'Escompte	Comptoir National d'Escompte
Crédit Industriel et Commercial	Société Générale de Crédit Industriel et Commercial
Erlanger	E. Erlanger & Co.
Gibbs	Antony Gibbs & Sons
Glyn, Mills & Co.	Glyn Mills, Currie & Co. (from 1864)
Hambros	C.J. Hambro & Son
Hongkong Bank	Hongkong & Shanghai Banking Corporation
Huth	Frederick Huth & Co.
Industrial Bank	Industrial Bank of Japan
Kleinworts	Kleinwort, Sons & Co.
Lazard Brothers	Lazard Brothers & Co.
Oriental Bank	Oriental Bank Corporation
Panmure Gordon & Co.	Panmure Gordon, Hills & Co. (1885-1902)
Schröder	J. Henry Schröder & Co.
Standard Bank	Standard Bank of South Africa
The London Rothschilds	N.M. Rothschild & Sons
The Paris Rothschilds	M.M. de Rothschild Frères
Warburg	M.M. Warburg & Co.

Books and journals

B.P.P	British Parliamentary Papers
C.S.S.	<u>Chūgai Shōgyō Shinpō (Domestic and Abroad Commercial News)</u>
D.D.F.	<u>Documents diplomatiques français</u>
G.K.S.	<u>Gaisai Kankei Shiryō (Papers related to Foreign Loans)</u>
G.T.R.	<u>Ginkō Tsūshin Roku (Japanese Bankers' Magazine)</u>
I.M.M.	<u>Investor's Monthly Manual</u>
J.I.B.	<u>Journal of the Institute of Bankers</u>
J.R.S.S.	<u>Journal of the Royal Statistical Society</u>
M.H.S.K.T.	<u>Meijiikō Honpō Shuyō Keizai Tōkei (Hundred-Year Statistics of the Japanese Economy)</u>
M.T.Z.	<u>Meiji Taishō Zaiseishi (History of Japanese Finance in the Meiji and Taishō Eras)</u>
M.Z.	<u>Meiji Zaiseishi (History of Japanese Finance in the Meiji Era)</u>
M.Z.K.S.S.	<u>Meijizenki Zaisei Keizai Shiryō Shūsei (Collected Papers on the Financial and Economic Histories in the Early Period of the Meiji Era)</u>

<u>N.G.H.S.</u>	<u>Nippon Ginkō Hyakunenshi (One Hundredth Anniversary History of the Bank of Japan)</u>
<u>N.G.B.</u>	<u>Nippon Gaikō Bunsho (Japanese Diplomatic Records)</u>
<u>N.K.G.G.S.</u>	<u>Nippon Kōgyō Ginkō Gojūnenshi (Fiftieth Anniversary History of the Industrial Bank of Japan)</u>
<u>S.E.O.I.</u>	<u>Stock Exchange Official Intelligence</u>
<u>S.I.D.</u>	<u>Seigai Inouekō Den (Biography of Inoue Kaoru)</u>
<u>T.K.J.</u>	<u>Takahashi Korekiyo Jiden (Autobiography of Takahashi Korekiyo)</u>
<u>T.K.Z.</u>	<u>Tokyo Keizai Zasshi (Tokyo Economic Journal)</u>
<u>Y.S.G.Z.S.</u>	<u>Yokohama Shōkin Ginkō Zen Shi (Complete History of the Yokohama Specie Bank)</u>

Rates of Exchange (1913)

(£1 sterling=20 shillings=240 pence)

Nation	Currency	Shillings	Pence
France	franc		9 1/2
Germany	mark		11 4/5
Japan	yen	2	1/2
U.S.A.	dollar	4	1 1/2
Hongkong	Hongkong dollar	4	6

Source: S.E.O.I. for 1913, p.1691;
F.H.H. King, The Hongkong Bank in the Period of Imperial China, 1864-1902, vol.1 (Cambridge, 1987), p.xxxviii.

Definition

In this thesis the term 'foreign' means countries outside the British Empire.

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* * *

‘The diplomatic representative makes speeches in a language utterly unknown to his fellow-guests. The financier, not the better for his dinner, confides in English equally unintelligible to the Finance Minister’s relative that the loan, if successful, will be entirely owing to his - the financier’s - abilities; that if unsuccessful, failure will only be attributable to the rotten and bankrupt state of the borrowing country. The relative and the diplomatic representative retire home perfectly satisfied with their relations with British finance, and calculating how many loans the Finance Minister can bring out before the unhallowed cabals of his opponents have forced His Excellency into resignation or exile.’ (Sir Henry Drummond-Wolff, Rambling Recollections, vol.ii [1908], pp.65-66).

* * *

‘.....foreign loan issues are serious matters for a state. Unlike the projects that individual people, unconcerned with the state, privately depended upon low rate foreign capital, the state’s direct borrowing abroad will cause the responsibility of paying it off at the sacrifice of the state. This is very different from the case that an individual goes into bankruptcy or fails in business. Nevertheless, if the state ventures to raise foreign loans, it should not only consolidate its [financial] foundation but also firmly ensure sources of specie for the payment of principal and interest of the loans.....’ (Meiji Zaiseishi [History of Japanese Finances in the Meiji Era], vol.8 [Tokyo, 1903], pp.169-70).

* * *

‘It is not too much to say that the modern foreign policy of Great Britain has been primarily a struggle for profitable markets of investment. To a larger extent every year Great Britain has been becoming a nation living upon tribute from abroad, and the classes who enjoy this tribute have had an ever-increasing incentive to employ the public policy, the public purse, and the public force to extend the field of their private investments, and to safeguard and improve their existing investments. This is, perhaps, the most important fact in modern politics, and the obscurity in which it is wrapped has constituted the gravest danger to our State.’ (J.A. Hobson, Imperialism: A Study, 3rd ed. [1938], pp.53-54).

INTRODUCTION

1

This thesis aims to analyse the character of foreign government loan issues on the London capital market before the First World War. It will address the following questions: firstly, how foreign governments were able to raise funds on the London capital market, and secondly, what the role of financial institutions involved in these operations was? These questions will be answered in relation to the history of Japanese government loan issues on the London capital market in the period from 1870 to 1913.

Consideration will be centred on the London capital market, but the significance of the Paris capital market¹ will also be taken into consideration. Previous research has established that borrowers seeking to improve the terms of loan issues would sound out other main capital markets when London's conditions seemed unfavourable. International market linkages in simultaneous loan issues will be looked into more seriously,² although London became the centre for the Japanese government foreign loan issues.

Some scholars have neglected the role of Japan's foreign borrowings at the early stage of its industrialisation,³ but the importance of Japan's large capital imports after the turn of the century, which resulted mainly from increased military outlay, is generally admitted,⁴ comprising over 20 percent of the total foreign government loan issues in

¹. Platt paid attention to the availability of new capital on the Paris capital market for foreign investment after the turn of the century (D.C.M. Platt, Britain's Investment Overseas on the Eve of the First World War [1986], pp.131-34).

². Landes depicted this as 'its [merchant banking's] very nature of a team activity' which included 'a nucleus of two or three correspondents in different major markets' (D.S. Landes, Bankers and Pashas [Cambridge[Mass.], 1958 [reprinted 1979]], p.16).

³. W.J. Macpherson, The Economic Development of Japan c.1868-1941 (1987), p.34; E.P. Reubens, 'Foreign Capital and Domestic Development in Japan' in S. Kuznets, W.E. Moore & J.J. Spengler (eds.), Economic Growth (Durham[N.C.], 1955), p.179.

⁴. G.C. Allen, A Short Economic History of Modern Japan, 1867-1937 (1972), p.50.

London in the period from 1900 to 1913. The scale of the Japanese government loan issues reached its apogee during the Russo-Japanese War period (1904-1905), and these financial operations on the international capital markets, especially London, New York, Berlin and Paris, attracted a great deal of attention from financiers and public investors.⁵

The activities of Japanese banks in the London capital market before the First World War are another subject of interest. Japan had been a mysterious and unknown country to Western investors in the 1870s, but by about the turn of the century its creditworthiness on the London capital market had improved remarkably. Japanese-owned banks, supported by the Japanese government, played a significant role in enhancing Japan's borrowing position abroad. The banks, in collaboration with foreign financiers, arranged many Japanese government foreign loan issues on favourable terms.

Very little has been said about Japanese financial activities on foreign capital markets before 1914. There has been no serious study of Japanese government foreign loan issues. In fact, H. Feis, the author of the famous book Europe the World's Banker, 1870-1914, published in 1930, devoted only 8 out of his 469 pages to Japanese loans.⁶ M. Takahashi, one of the leading Japanese financial historians, declared that the study of the activities of foreign financiers involved in Japanese government loan issues was impossible because of the unavailability of the relevant historical records.⁷ G.C. Allen mentioned Japan's success in raising loans abroad after the Russo-Japanese War, but did not further elaborate on the reason for this success, or the means by which it was achieved.⁸

⁵. 'Mr. Korekiyo Takahashi', Bankers' Magazine, vol.78 (1904), pp.355-56. He was the Japanese Government Special Loan Commissioner in 1904, 1905 and 1907.

⁶. H. Feis, Europe the World's Banker, 1870-1914 (New Haven, 1930 [reprinted 1964]), pp.422-29.

⁷. M. Takahashi, Meiji Zaiseishi Kenkyū (Study on the Financial History in the Meiji Era) (Tokyo, 1964), p.200.

⁸. Allen, op. cit., p.50; M.S. Gordon, 'Japan's Balance of International Payments, 1904-1931' in E.B. Schumpeter (ed.), The Industrialization of Japan and Manchukuo (New York, 1940), appendix (pp.863-925) and U. Kobayashi, War and Armament Loans of Japan (New York, 1922) did not refer to the loan issue process.

The neglected area of the Japanese government foreign loan issues also forms a part of the wider neglected area of the loan issue process on the London capital market, although, exceptionally, Hall⁹ and Gilbert¹⁰ have scrutinised the Australian governments loan issues. This neglect is curious in view of the long debate about British foreign investment.

The tendency of the British economy to invest capital abroad accelerated from around the middle of the nineteenth century, and by the period just before the First World War had become a very conspicuous phenomenon. The beginning of Britain's relative economic decline in this era stimulated interest in the Victorian foreign investment as one possible explanation. The study of British foreign investment became a controversial topic because of the lack of accurate data. In the mid-1980s Platt raised doubts about the established estimates¹¹ of total British foreign investment before 1914, considering them an over-estimation.¹² Feinstein, on the other hand, has recently defended the widely accepted figures of Paish.¹³ Further controversy has arisen from a re-evaluation of the composition of British foreign investment. While an older generation of economic historians regarded this investment as overwhelmingly portfolio in nature, a new generation of economists and business historians have joined forces to suggest that perhaps as much as 40 percent of British foreign investment before the First World War

⁹. A.R. Hall, The London Capital Market and Australia, 1870-1914 (Canberra, 1963).

¹⁰. R.S. Gilbert, 'London Financial Intermediaries and Australian Overseas Borrowing, 1900-29', Australian Economic History Review, vol.11 (1971).

¹¹. It is said that G. Paish made the most accurate calculations of the amounts of foreign borrowings outstanding based on the Inland Revenue's return of dividends ('Great Britain's Capital Investments in Other Lands', J.R.S.S., vol.lxxii (1909), pp.465-80; 'Great Britain's Capital Investments in Individual Colonial and Foreign Countries', ibid., vol.lxxiv (1911), pp.167-87; 'The Export of Capital and the Cost of Living', The Statist, 14 February 1914, supplement.

¹². Platt, op. cit.

¹³. C.H. Feinstein, 'Britain's Overseas Investments in 1913', Economic History Review, second series, vol.xliii-no.2 (1990), pp.288-95.

was direct, involving ownership and control of foreign assets.¹⁴ The recent argument on 'gentlemanly capitalism' as a historical framework arises from Britain's overseas expansion and its effect on its economy.¹⁵ This introduction will examine some of the most relevant literature on the debates surrounding British foreign investment and Japanese foreign loan issues, before turning more directly to the main topic of the thesis.

Firstly, there have been several estimates of the size of British capital exports, although there has been disagreement about the most appropriate method of estimation, 'direct' or 'indirect'. Hobson,¹⁶ Cairncross¹⁷ and Imlah¹⁸ calculated it for periods before 1914 by the 'indirect method' - the residual of balance of payments deducting trade and some of non-trade items is equivalent to capital transfer.¹⁹ Feinstein detailed the United Kingdom's foreign investment in the period from 1870 to 1965 using this method.²⁰ Clearly this produces a more correct figure for capital movements if the balance of payments data are accurately provided. Yet information on individual loan issues on the

¹⁴. P. Svedberg, 'The Portfolio-Direct Composition of Private Foreign Investment in 1914 Revisited', *Economic Journal*, vol.88 (1978), pp.763-77; J.H. Dunning, 'Changes in the Level and Structure of International Production: The Last One Hundred Years' in M. Casson (ed.), *The Growth of International Business* (1983), chapter 5; P. Hertner & G. Jones (eds.), *Multinationals* (Aldershot, 1986), pp.1-18.

¹⁵. P.J. Cain & A.G. Hopkins, 'The Political Economy of British Expansion Overseas, 1750-1914', *Economic History Review*, second series, vol.xxxiii-no.4 (1980), pp.463-90; 'Gentlemanly Capitalism and British Expansion Overseas, I. The Old Colonial System 1688-1850' and 'Gentlemanly Capitalism and British Expansion Overseas, II. New Imperialism, 1850-1945', *ibid.*, vol.xxxix-no.4 (1986), pp.501-25 and vol.xl-no.1 (1987), pp.1-26; M.J. Daunton, "'Gentlemanly Capitalism" and British Industry 1820-1914', *Past and Present*, no.122 (1989), pp.119-58.

¹⁶. C.K. Hobson, *The Export of Capital* (1914), p.204.

¹⁷. A.K. Cairncross, *Home and Foreign Investment 1870-1913* (Cambridge, 1953), p.180.

¹⁸. A.H. Imlah, *Economic Elements in the Pax Britannica* (New York, 1969), pp.70-75.

¹⁹. P.L. Cottrell, *British Overseas Investment in the Nineteenth Century* (1975), pp. 12-13.

²⁰. C.H. Feinstein, *National Income, Expenditure and Output of the United Kingdom, 1855-1965* (Cambridge, 1972), T37-T39. There is a revised series of foreign investment estimates for the United Kingdom 1870-1920 in C.H. Feinstein & S. Pollard (eds.), *Studies in Capital Formation in the United Kingdom, 1750-1920* (Oxford, 1988), table xvii (pp.462-63).

London capital market, not the exact amount of the total British capital exports, is needed in this thesis. Despite the importance of the previous works, they are largely silent on this matter.

The 'direct method' does give more details of individual loan issues. The Council of the Corporation of Foreign Bondholders²¹ and Jenks²² tabulated foreign government loan issues up to 1876 (1877). Hobson calculated Britain's investment abroad (capital creations) from 1870 to 1912, from the Investor's Monthly Manual.²³ Segal and Simon,²⁴ and Simon,²⁵ including other data, re-calculated new British portfolio 'foreign'²⁶ investment (creations and calls) from 1865 to 1914. Davis and Huttenback revised these studies to show flows of industrial capital distributions.²⁷ These valuable works have provided the annual aggregated amounts of investment, but do not give individual loan issue information directly. On the basis of this literature, this study will investigate the information on individual foreign government loan issues in London.

Secondly, extensive literature has been generated by debates about the influence of capital exports on the domestic British economy.²⁸ It has been suggested that the British economy would have been more successful if some of the capital exported could have been invested in crucial domestic industries.²⁹ This interpretation suggests that a shortage

²¹. Council of the Corporation of Foreign Bondholders, Fifth Annual General Report (1878).

²². L.H. Jenks, The Migration of British Capital to 1875 (1927 [reprinted 1971]), appendix c.

²³. Hobson, op. cit., p.219.

²⁴. H.H. Segal & M. Simon, 'British Foreign Capital Issues, 1865-1894', Journal of Economic History, vol.xxi-no.4 (1961), pp.566-81.

²⁵. M. Simon, 'The Pattern of New British Portfolio Foreign Investment, 1865-1914' in A.R. Hall (ed.), The Export of Capital from Britain, 1870-1914 (1968), p.25.

²⁶. Included Colonies.

²⁷. L.E. Davis & R.A. Huttenback, Mammon and the Pursuit of Empire (Cambridge, 1986), especially chapter 2.

²⁸. S. Pollard made an extensive survey on this issue ('Capital Exports, 1870 - 1914: Harmful or Beneficial?', Economic History Review, vol.xxxviii-no.4 [1985], pp.489-514).

²⁹. W.P. Kennedy, Industrial Structure, Capital Markets and the Origins of British Economic Decline (Cambridge, 1987), pp.158-63; 'Foreign Investment, Trade, and (continued...)

of domestic industrial investment caused by the capital exports finally helped to push the domestic British economy into relative decline. Many have argued that the alleged excessive capital exports arose from defects in British financial organisation, which emphasised the divergence between the City and domestic industries.³⁰ For this study, these arguments have provided useful background data on the involvement of financial institutions, such as the merchant banks, in foreign government loan issues, but surprisingly little detail on the mechanism through which foreign loans were issued. Additionally, the behaviour of Victorian investors has been seen as one of the components of the biased capital market, which accelerated capital exports in the British economy. The higher rate of realised returns on Colonial and foreign securities has been confirmed by Goschen,³¹ Nash,³² Lehfeltdt,³³ Cairncross³⁴ and Edelstein.³⁵ Their yields obviously corresponded to a 'country risk', that is to say, high risks and high returns. Edelstein has explained investors' behaviour in lending abroad on the basis of 'risk-

²⁹(...continued)

Growth in the United Kingdom, 1870-1913', Explorations in Economic History, vol.11-no.4 (1974), pp.415-44; 'Institutional Response to Economic Growth: Capital Markets in Britain to 1914' in L. Hannah (ed.), Management Strategy and Business Development (1976), pp.151-83. Also see M.W. Kirby, The Decline of British Economic Power since 1870 (1981), pp.15-16 and M.H. Best & J. Humphries, 'The City and Industrial Decline' in B. Elbaum & W. Lazonick (eds.), The Decline of the British Economy (Oxford, 1986), pp.223-39.

³⁰. This allegation was repeated in every generation. See the report of the Macmillan Committee - Committee on Finance and Industry, Report, B.P.P. 1930-31, xiii, [Cmd. 3897], para 384 and 397.

³¹. Viscount Goschen, Essays and Addresses on Economic Questions, 1865-1893 (1905), p.21.

³². R.L. Nash, A Short Inquiry into the Profitable Nature of Our Investments (1880), pp.31-32.

³³. R.A. Lehfeltdt, 'The Rate of Interest on British and Foreign Investments', J.R.S.S., vol.lxxvi (1913), pp.196-207 and 415-16; vol.lxxvii (1914), pp.432-35; vol.lxxviii (1915), pp.452-53.

³⁴. Cairncross, op. cit., chapter ix.

³⁵. M. Edelstein, Overseas Investment in the Age of High Imperialism (1982), chapter 5.

adjusted' returns.³⁶ Kennedy has described the bias of the Victorian capital market as the safety - risk averse - preference of British investors acting on the basis of limited information, a limitation that was particularly acute in equity investments in areas of high technology.³⁷ However, the relationship between risks and returns, based on the assumption that the contemporary investors were rational and well-informed, is a key issue of this argument.³⁸ Furthermore, the more one accepts the arguments of economists and business historians that much British foreign investment was direct, the less plausible it is to suggest that all British investors were risk-averse.

Thirdly, historians of diplomacy have examined foreign loan matters in connection with government foreign policy. Feis's pioneering work explored the political relationships between lending and borrowing countries. He emphasised that capital movements from one country to another were often determined by 'political circumstance rather than by economic or financial calculation'.³⁹ Feis and those following in his footsteps rightly stressed that diplomatic relations between lending and borrowing countries formed the most basic structure of loan issue negotiations, but neglected their economic aspect, which appeared particularly in the loan issue terms. This is a subject that this thesis will need to explore. Within this tradition, Platt,⁴⁰ McLean⁴¹ and Edwards⁴² have analysed the role of diplomacy in foreign government loan issues for Egypt, Persia,

³⁶. Edelstein, *op. cit.*, pp.130-40; 'The Rate of Returns on U.K. Home and Foreign Investment, 1870-1913', Unpublished Ph. D. Thesis, University of Pennsylvania, 1970, part ii; 'Rigidity and Bias in the British Capital Market, 1870-1913' in D.N. McCloskey (ed.), *Essays on a Mature Economy* (1971), pp.83-111; 'Realised Rates of Return on U.K. Home and Overseas Portfolio Investment in the Age of High Imperialism', *Explorations in Economic History*, vol.13-no.3 (1976), pp.283-329.

³⁷. Kennedy, *op.cit.*, chapter 5.

³⁸. Pollard, *op. cit.*, p.495. Also see, M. Collins, *Banks and Industrial Finance in Britain 1800-1939* (1990), pp.42-48.

³⁹. Feis, *op. cit.*.

⁴⁰. D.C.M. Platt, *Finance, Trade, and Politics in British Foreign Policy 1815-1914* (Oxford, 1968), especially part iii.

⁴¹. D. McLean, *Britain and Her Buffer States* (1979).

⁴². E.W. Edwards, *British Diplomacy and Finance in China, 1895-1914* (Oxford, 1987).

and China respectively before 1914, but their analyses have not represented the loan issue processes of these countries on the London capital market.

Fourthly, business historians have shown how important foreign government loan issues were to particular banking concerns. There are several detailed histories of merchant banks, such as J.S. Morgan & Co. (Morgan Grenfell & Co.) (Burk),⁴³ J.P. Morgan & Co. and J.S. Morgan & Co. (Morgan Grenfell & Co.) (Carosso),⁴⁴ Baring Brothers & Co. (Orbell⁴⁵ and Ziegler⁴⁶) and Kleinwort, Sons & Co. (Diaper).⁴⁷ From a wider perspective, Chapman has explained the involvement of merchant banks as a whole in the foreign loan issue business.⁴⁸ They all bring out the role of merchant banks in this field. In addition, two recent studies of British overseas banks, the Imperial Bank of Persia (Jones)⁴⁹ and the Hongkong Bank (King),⁵⁰ have shed light upon the loan issue business of those institutions. These histories have provided useful information based on confidential archives, but naturally had the limitation of only examining the loan issues with which these particular banks were concerned.

However, in Britain Japanese government loan issues have not yet been considered in the detailed historical studies. King tabulated the Japanese government loan issues before 1914 which the Hongkong Bank took up.⁵¹ Orbell and Ziegler have given a very

⁴³. K. Burk, Morgan Grenfell 1838-1988 (Oxford, 1989).

⁴⁴. V.P. Carosso, The Morgans (Cambridge[Mass.], 1987).

⁴⁵. J. Orbell, Baring Brothers & Co., Ltd. (1985).

⁴⁶. P. Ziegler, The Sixth Great Power (1988).

⁴⁷. S.J. Diaper, 'The History of Kleinwort, Sons & Co. in Merchant Banking, 1855-1961', Unpublished Ph.D. Thesis, University of Nottingham, 1983.

⁴⁸. S. Chapman, The Rise of Merchant Banking (1984), especially chapter 6.

⁴⁹. G. Jones, Banking and Empire in Iran (Cambridge, 1986).

⁵⁰. F.H.H. King, The Hongkong Bank in Late Imperial China, 1864-1902, vol.1 (Cambridge, 1987), chapter 14; The Hongkong Bank in the Period of Imperialism and War, 1895-1918, vol.2 (Cambridge, 1988), part ii.

⁵¹. King, op. cit., vol.2, pp.143-46, 'Appendix A, Summary of Japanese Public Loans with Hongkong Bank'. Yet his table is incomplete: for instance, S. Samuel & Co. was not an issuer of the bond re-sale in 1897 (p.143); N.M. Rothschild & Sons Co. were one of the loan issuers of the 4 percent loan in 1905 (p.144); there were two Japanese government short-term loan issues in 1912 which the Hongkong Bank undertook.

brief explanation of Baring Brothers & Co.'s involvement in the Japanese government loan issues in London during the Russo-Japanese War.⁵² They have by no means revealed the whole of Japanese government loan issues on the London capital market before 1914.

It is clear from this survey that, while the previous literature on British foreign investment in the English language has provided an enormous amount of valuable background data, discussion of the foreign government loan issue process on the London capital market in general, and about Japanese government foreign loan issues in particular, has been limited.

In Japan, there has been no prominent and original study on British foreign investment, and only a small number of researches which have looked at Japanese government foreign loan issues, primarily because of the dearth of sources.⁵³ Both official histories of the Japanese government and loan issue banks, and the diaries and autobiographies of government loan commissioners who negotiated on loan issues directly with foreign financiers, have provided useful information about Japanese government foreign loan issues. However, it is right to say generally that the study of Japanese government foreign loan issues in Japan is still at the level of fact-finding. The relevant literature on government foreign loan issues is categorised as follows.

Firstly, there are two official histories of the Japanese Ministry of Finance which have discussed the foreign loan issue process from the viewpoint of the Japanese government. These have provided important information for this study. The Meiji Zaiseishi (History of Japanese Finance in the Meiji Era)⁵⁴ included the government foreign loan issues up to 1902; the Meiji Taishō Zaiseishi (History of Japanese Finance

⁵². Orbell, *op. cit.*, pp.68-69; Ziegler, *op.cit.*, pp.312-13.

⁵³. The general perspective of capital imports to Japan has been given by M. Takahashi, *op. cit.* and Y. Horie, Gaishi Yunyū no Kaiko to Tenbō (Recollection and Prospect of Capital Imports to Japan) (Tokyo, 1950).

⁵⁴. Japanese Ministry of Finance, Meiji Zaiseishi (History of Japanese Finance in the Meiji Era), vol. 8 (Tokyo, 1904).

in the Meiji and Taishō Eras)⁵⁵ covered the government foreign loan issues fully from 1870 to 1913. In addition, the Komura Gaikōshi (History of the Diplomat Komura Jutarō),⁵⁶ written by the Japanese Ministry of Foreign Affairs, has described the Japanese government foreign loan issues during the Russo-Japanese War (1904-1905) as one of his diplomatic activities.

Histories of Japanese banks engaged in loan issues have often referred to government (including municipal and company) foreign loan issues. The Nippon Ginkō Hyakunenshi (One Hundredth Anniversary History of the Bank of Japan)⁵⁷ has examined the government foreign loan issues in 1897, 1899, 1904 and 1905 with which the Bank was officially concerned. The Yokohama Shōkin Ginkōzenshi (Complete History of the Yokohama Specie Bank)⁵⁸ has discussed that institution's involvement in the government foreign loan issues in 1899, 1904, 1905, 1907 and 1910, when the Bank acted as one of the loan issue banks on the London capital market. The Nippon Kōgyō Ginkō Gojūnenshi (Fiftieth Anniversary History of the Industrial Bank of Japan)⁵⁹ has been extremely useful for the research of the government foreign loan issue in 1902 and many municipal and company foreign loan issues. However, as has been shown in the survey for the literature in the English language, the restricted perspective of an individual bank history is unavoidable for them.

Secondly, Japanese government loan commissioners of the period have published

⁵⁵. Japanese Ministry of Finance, Meiji Taishō Zaiseishi (History of Japanese Finance in the Meiji and Taishō Era), vol.12 (Tokyo, 1937).

⁵⁶. Japanese Ministry of Foreign Affairs, Komura Gaikōshi (History of the Diplomat Komura Jutarō) (Tokyo, reprinted 1966).

⁵⁷. Nippon Ginkō Hyakunenshi (One Hundredth Anniversary History of the Bank of Japan) vol.1 and 2 (Tokyo, 1983).

⁵⁸. The Bank of Tokyo, Yokohama Shōkin Ginkōzenshi (Complete History of the Yokohama Specie Bank), vol.2 (Tokyo, 1981).

⁵⁹. The Industrial Bank of Japan, Nippon Kōgyō Ginkō Gojūnenshi (Fiftieth Anniversary History of the Industrial Bank of Japan) (Tokyo, 1957).

their diaries and autobiographies. K. Yoshida,⁶⁰ the commissioner of the foreign loan issue in 1873, and K. Takahashi,⁶¹ the commissioner of the foreign loan issues in 1904, 1905 and 1907, have written about their loan issue negotiations with foreign financiers. Most of the studies of Japanese government foreign loan issues in the Japanese language have rested on these sources. Yet it must be emphasised that these records observed the loan issue negotiations only from the viewpoint of the Japanese government (the borrower). It is also necessary to throw light upon the other side on the basis of foreign financiers' (the lenders') records.

Thirdly, there are several general studies of Japanese government foreign loan issues before 1914, although these have largely concentrated on the activities of the Japanese government and Japanese loan issue banks. T. Tanaka has explained the Japanese loan issue in 1870 in relation to railway construction. His descriptions have been based partly on British Foreign Office records.⁶² M. Senda has revealed the Japanese government's loan issue activities in the United States and Europe in the period from 1872 to 1873, drawing mainly upon Yoshida's diary.⁶³ N. Tamaki, using the Bank's official history, has examined the involvement of the Yokohama Specie Bank in the

⁶⁰. T. Tsuchiya & H. Ōuchi, Meiji Zenki Zaisei Keizai Shiryō Shūsei (Collected Papers on the Financial and Economic Histories in the Early Period of the Meiji Era), vol.10 (Tokyo, 1935).

⁶¹. K. Takahashi (T. Uetsuka [ed.]), Takahashi Korekiyo Jiden (Autobiography of Takahashi Korekiyo), vol.2 (Tokyo, 1976).

⁶². T. Tanaka, Meiji Ishin no Seikyoku to Tetsudō Kensetsu (Political Implications of the Meiji Restoration and Railway Construction in Japan) (Tokyo, 1963). Some remarks should be addressed to the fact that the British Foreign Office records which he used were supplied by a British researcher (J.J. Gerson - the author of 'Horatio Nelson Lay: His Role in British Relations with China, 1849-65', Unpublished Ph.D. Thesis, University of London, 1967) (the appendix of Tanaka's book, p.359). For Gerson's study, see chapter 3 of this thesis.

⁶³. M. Senda, 'Meiji Rokunen Nanabu Ritsuki Gaisai no Boshūkatei (Seven Percent Foreign Loan Issue in 1873)', Shakai Keizai Shigaku (Japanese Socio-Economic Journal), vol.49-no.5 (1983), pp.1-26 and 'Meiji Rokunen Nanabu Ritsuki Gaisai no Boshūkatei (Seven Percent Foreign Loan Issue in 1873)', (Faculty of Economics, Nippon University) Keizai Shūshi (Journal of Economics), vol.54-no.1 (1984), pp.60-104.

Japanese government foreign loan issues in the period from 1899 to 1905.⁶⁴ T. Kamaike has discussed the Japanese government loan issues during the Russo-Japanese War;⁶⁵ M. Kajima has also mentioned them from the diplomatic viewpoint.⁶⁶ Both have been dependent overwhelmingly upon Takahashi's autobiography for mentioning the loan issue negotiations with foreign financiers.

It is fair to conclude, therefore, that the studies in the Japanese language are fragmentary. The Meiji Taishō Zaiseishi (History of Japanese Finance in the Meiji and Taishō Era),⁶⁷ it is true, was based only on Japanese records but they are those of the Ministry of Finance. No one has studied Japanese government foreign loan issues using the archives of the British banks acting as loan issuers.

2

The 'backwardness' of research on the mechanism of loan issues in Britain can be ascribed mainly to the problem of sources. Restrictions on access to loan issue banks' papers made the research almost impossible in the past. In addition, the transitory character of loan issue organisations complicated the study.⁶⁸ Loan issue terms published in a prospectus or journal told nothing of the negotiations, which can only be revealed by the loan issue banks' records.

Jacob Viner observed in 1929 that 'no documented and detailed study of this phase

⁶⁴. N. Tamaki, 'The Yokohama Specie Bank: A Multinational in the Japanese Interest 1879-1931' in G. Jones (ed.), Banks as Multinationals (1990), pp.191-216. This article was written in English, but all its primary sources were Japanese printed records.

⁶⁵. K. Kamaike, 'Nichiro Sensō o meguru Gaisai Mondai (The Problem of Foreign Loans during the Russo-Japanese War)' in S. Shinobu (ed.), Nichiro Sensōshi no Kenkyū (Study on the History of the Russo-Japanese War) (Tokyo, 1959), pp.330-53.

⁶⁶. M. Kajima, Nippon Gaikōshi (Diplomatic History of Japan), vol.7 (Tokyo, 1970).

⁶⁷. It has not given detailed explanations of loan issue negotiations with loan issue banks because its sources were limited to Japanese records. For instance, the government's loan proceeds of the second 6 percent loan issue in 1904 have not been disclosed (p.92).

⁶⁸. Cottrell, op. cit., p.33.

of European diplomacy has ever been published by any historian or economist. It has been necessary, therefore, to piece together the miscellaneous bits of information which could be gathered from contemporaneous literature and from the flood of diplomatic documents and memoirs published since 1914. But the secrecy which ordinarily surrounds transactions such as are here dealt with when they occur, the reticence of diplomats even in their memoirs, and the rarity of informative memoirs or biographies of the financiers who participated in the transactions, make[s] it impossible to hope for anything like a complete account, even if all published sources of information had been found and used, of the relations between haute finance and haute politique.⁶⁹

Recently in Britain, 'the secrecy' of the foreign loan issues before the First World War has lifted partially because loan issue banks have permitted access to most of their records. This thesis is based primarily on the research at the archives of Baring Brothers, the London Rothschilds, the Paris Rothschilds, Parr's Bank and the Hongkong Bank, which were involved most deeply in Japanese government loan issues in the period from 1897 to 1910. However, the situation in Japan is different. The banks concerned with the foreign loan issues are still unwilling to admit access to their archives.⁷⁰ Nevertheless, this research could be based on several Japanese banks' archives.⁷¹

The official histories of the Japanese Ministry of Finance are another major problem. These histories are important and useful sources for the study of Japanese government foreign loan issues, but have referred to them without any footnotes or

⁶⁹. Jacob Viner, 'International Finance and Balance of Power Diplomacy, 1880-1914', Southwestern Political and Social Science Quarterly, vol.ix-no.4 (1929), pp.407-8.

⁷⁰. No academic researcher has yet had access to the archives of the Yokohama Specie Bank and the Industrial Bank, however the Yokohama Specie Bank's official histories: Yokohama Specie Bank, Yokohama Shōkin Ginkōshi (History of the Yokohama Specie Bank), vol.1-5 and vol.1-8 (data) (Yokohama, 1920-1936 [reprinted 1976]) and Bank of Tokyo, Yokohama Shōkin Ginkōzenshi (Complete History of the Yokohama Specie Bank), vol.1-6 (Tokyo, 1980-1983), to a considerable degree, provide its business affairs.

⁷¹. I should like to express my sincere thanks to the favour granted to me by the Bank of Japan and the Mitsui Bank.

references.⁷² Therefore, this study is founded on records at the Ministry of Finance Archives, the Ministry of Foreign Affairs Archives, the National Diet Library and the loan issue banks' archives. Both Japanese government's (borrower's) and loan issue banks' (lenders') records will be used in this thesis.

This study is firmly based on business history methodology. As mentioned, published loan issue terms told nothing of loan issue negotiations, and only archival research in surviving records can reveal the details of loan issue negotiations. Each of the Japanese government loan issues will be examined as a case study. Such a close study of the development of these loan issues on the market can provide the basis for generalisations about the whole loan issue process. It is hoped that this thesis will make a substantial contribution to the knowledge about Japanese government foreign loan issues in the period from 1870 to 1913, and also provide new insights into the loan issue mechanism on the London capital market before the First World War.

3

This thesis consists of two parts: a delineation of foreign government loan issues on the London capital market in the period from 1870 to 1913 (Part I), and a case study of Japanese government loan issues before the First World War (Part II).

Part I has no intention of chronicling a specific country's loan issues. As it is impossible to follow in one study all foreign government loan issues on an archival level, only their general nature and character will be outlined. The focus is general. Its purpose is to provide a yardstick for understanding the Japanese government loan issues that will be discussed in Part II. In contrast, Part II provides a detailed case study of Japanese government loan issues in the period from 1870 to 1913, based on archival material in both Britain and Japan. The following is a brief, chapter by chapter, synopsis.

⁷². M.Z., vol.8 and M.T.Z., vol.12.

Chapter 1 will give a historical perspective of foreign government loan issues on the London capital market in the period from 1870 to 1913, mainly based on the Stock Exchange Official Intelligence and the Investor's Monthly Manual. The main table gives the components of individual foreign government loan issues. The geographical distribution of foreign government loan issues, the levels of yields, loan issue commissions and the linkages of loan issue markets will also be examined.

Chapter 2 will discuss the development of loan issue methods, such as syndication and underwriting, on the London capital markets before the First World War. The role and the involvement of the various types of financial institutions acting in the City (clearing banks, overseas banks, foreign banks, merchant banks, the Bank of England and stockbrokers) in Colonial and foreign government loan issues will also be scrutinised.

Chapters 3 to 9 are devoted to a detailed history of the Japanese government foreign loan issues in the period from 1870 to 1913. Japan's success story, from being a dubious foreign borrower in the early 1870s to a respected one after the Russo-Japanese War, suggests the importance of efficient access to foreign markets, and of the borrowers' initiative in loan issue negotiations with foreign financiers.

After the Meiji Restoration (1868), the Japanese government immediately required a great deal of capital to build social institutions and infrastructure for the country's rapid industrialisation. The idea of public loans was totally unfamiliar in the Japan of the time. In Chapter 3 two early Japanese government loan issues will be examined. In 1870 and 1873, the Japanese government raised public loans in London, the purposes of which were to construct a railway and to redeem pensions for the old feudal knight class (samurai). In the 1870s the reputation of Japanese government bonds had not yet been established, and they were regarded almost on the same footing as that of the notorious foreign governments bonds.

In the period from 1874 to 1895, Japanese government's finances relied upon domestic borrowing and tax increases. The government's annual income and expenditure were well-balanced; the financing of the industrialisation in the early Meiji period was

done entirely from domestic savings. Yet the Sino-Japanese War (1895) imposed the burden of military expenditure on Japan's national finances. In order to meet the increased outlay, the Japanese government forged new financial links with the London capital market in the late-1890s. Mainly because of the silver standard in Japan and the character of unlisted bonds on the London Stock Exchange, however, the standing of the Japanese government domestic bonds was not high in the City. The quotation of 5 percent domestic bonds on the London Stock Exchange was finally achieved in 1896, and in the following year the gold standard was also adopted in Japan.

From the end of the 1890s Japan entered the age of international foreign borrowing. Chapter 4 will discuss the three Japanese government foreign loan issues: the re-sale of the 5 percent domestic bonds in 1897, the new 4 percent loan issue in 1899 and the re-sale of the 5 percent domestic bonds in 1902. Now the Japanese government, on a fully-fledged scale, began to organise foreign loan issues for huge armament expenditures, and this reached its peak during the Russo-Japanese War (1904-1905). The Japanese government successfully created a channel to eminent financiers in the City, and gained high creditworthiness among public investors. Not only in London but also in New York, Berlin and Paris, large numbers of Japanese government war loans were floated simultaneously. Chapter 5 and Chapter 6 will show this rapid expansion of the loan issue markets.

Following the Russo-Japanese War the Japanese government raised several conversion loans on the Paris capital market in coalition with London. At this stage, on a competitive footing, Japan came to establish itself as a respected borrower on the international capital markets, as shown in Chapter 7. Chapter 8 will discuss municipal and company foreign loan issues in contrast with the Japanese government loan issues.

Chapter 9 will deal with another facet of these loan issues, that is to say, the role of the Japanese government's specie holdings abroad (zaigai seika) and the repercussions of foreign loan issues on Japan's trade balances with Britain. After 1903 the Japanese government no longer transferred the loan proceeds to Japan, but kept them in deposits

at the Bank of England and London clearing banks. From this source the Japanese government settled the trade deficits in London. These loan proceeds were able to play a significant role in regulating the London money market. These funds, as an unintended consequence, helped the working of the contemporary international gold standard. Given the multilateral trade settlement structure, Britain acted as the largest exporter of both capital and goods to Japan. Britain's large lendings to Japan increased its trade surpluses and minimised losses of gold and foreign exchange.

PART I
FOREIGN GOVERNMENT LOAN ISSUES
ON THE LONDON CAPITAL MARKET

CHAPTER 1

FOREIGN GOVERNMENT LOAN ISSUES

IN LONDON, 1870-1913

The London capital market was deeply involved in Japanese government loan issues in the period from 1870 to 1913. In order to help to understand these financial operations, this chapter presents a general overview of foreign government loan issues on the London capital market before the First World War, giving consideration to trends, geographical distribution, yields, commissions and market linkages. The discussion is not intended to be comprehensive, but it is hoped that this chapter will be sufficient to place the Japanese government loan issues in a proper perspective.

1.1 Trends

Although during the era of 'Railway Mania' between the 1830s and the 1850s British investors poured their funds into domestic railways, Consols remained the primary object for investment for many throughout the nineteenth century because of their safety. As shown in Table 1.1, however, Consols' large share in transactions diminished rapidly after 1863, and many investors sought a prudent way to invest money abroad to return a higher rate of interest than at home. There was now a search for higher anticipated returns from overseas lending. An increased number of foreign government loans were issued in London in the 1860s and the 1870s, and foreign government bonds became the centre of the market. The British economy had by this time entered into the high age of capital exports. After the Franco-Prussian War (1870-1871), Paris lost its foremost position, and conversely London became established in its place as the world's centre for foreign lending.¹ 'Now London has a manifest monopoly of every new issue of any

¹. C.P. Kindleberger, A Financial History of Western Europe (1984), pp.265-67.

importance', The Economist observed, 'the names of other foreign markets are mentioned in the prospectuses, but they obviously play a second part'.²

It was also during the 1860s and the 1870s that London merchant banks briskly expanded their loan issue business. Newcomers, such as Kleinworts, E. Erlanger, Morton, Rose & Co., Speyer Brothers, Seligman Brothers, J.S. Morgan & Co. and Lazard Brothers, emerged in London as cosmopolitan family banking firms.³ Some of them were German-born Jews who came across from the United States. These Anglo-American houses opened London branches and began to issue foreign loans on a liberal scale. Their new business strategy was to take advantage of organising simultaneous loan issues in London and New York.

From about 1880, instead of the foreign government bonds common in the 1870s, Colonial government bonds, and Indian, Colonial and American railway debentures were highlighted on the market, although Britain's foreign portfolio investment always exceeded Colonial portfolio investment except for the period between 1875 and 1879 (Table 1.2). Corporation bonds, domestic and Colonial, were also newly introduced into the market from the late-1870s. Colonial government bonds, Indian and Colonial railway guaranteed debentures and corporation bonds gradually expanded the gilt-edged market.

The volume of new foreign government loan issues had cyclical fluctuations. There was another boom in them in the late-1880s ending in the Baring Crisis of 1890. By 1913, however, foreign government bonds had earned a reputation as a safe form of investment.⁴ Although their volume increased, foreign government bonds were no longer a promising market leader, but rather stable investment objects. Industrial securities now registered more rapid growth.

². The Economist, 27 December 1873, p.1561.

³. L.H. Jenks, Migration of British Capital to 1875 (1927 [reprinted 1971]), pp.267-71; S. Chapman, The Rise of Merchant Banking (1984), p.55; V.P. Carosso, Investment Banking in America (Cambridge[Mass.], 1970), pp.91-92.

⁴. Kennedy labelled the foreign government bonds of 1870 'moderate risk' but they came to be 'safest' in 1913 (W.P. Kennedy, Industrial Structure, Capital Markets and the Origin of British Economic Decline [Cambridge, 1987], pp.128-29).

This section will give a general view of foreign government loan issues on the London capital market. Simon's calculation, the most precise one,⁵ is too aggregated for this purpose, as information on individual, not overall, foreign government loan issues is needed. Table 1.3 shows the individual foreign government loan issues made wholly or partially through the London capital market in the period from 1870 to 1913. As mentioned in the notes, this contains several inevitable defects resulting from the dearth of data which is only available from the financial press.⁶ Table 1.3 must be treated most carefully, because it includes many conversion loans and 'partials', amounts placed outside London simultaneously. This table, therefore, is not able to support a calculation of the amount of British foreign exports or of capital transfers from the London capital market. Its validity is strictly limited to a general overview of foreign government loan issues on the international capital markets, especially London. Despite these shortcomings, however, it should be possible to gain an idea of the nature and character of foreign government loan issues coming before the London capital market in the years from 1870 to 1913.

⁵. M. Simon, 'The Pattern of New British Portfolio Foreign Investment, 1865-1914' in A.R. Hall (ed.), The Export of Capital from Britain, 1870-1914 (1968), pp.38-39.

⁶. Chapman complained 'none of these published sources is complete' (op. cit., p.191 [note 23]).

Table 1.1 Nominal Value of Securities quoted on the London Stock Exchange, 1853-1913

Securities	1853	1863	1873	1883	1893	1903	1913
British government stocks	853.6 (100) [70]	901.9 (106) [56]	858.9 (101) [38]	871.6 (102) [24]	810.2 (95) [12]	936.2 (110) [11]	1013.0 (119) [9]
Corporation stocks (Domestic)	-	-	-	50.0 (100) [1]	91.4 (183) [2]	166.0 (332) [2]	277.1 (554) [3]
Corporation stocks (Colonial & Foreign)	-	-	35.3 (100) [2]	13.0 (37) [0]	43.9 (124) [1]	48.1 (136) [0]	156.5 (443) [1]
Colonial government securities	-	24.7 (100) [2]	47.3 (191) [2]	130.6 (529) [4]	264.9 (1072) [4]	334.6 (1355) [4]	455.7 (1845) [4]
Foreign stocks	69.7 (100) [6]	146.7 (210) [9]	403.9 (579) [18]	831.5 (1193) [23]	2384.6 (3421) [36]	2884.3 (4139) [33]	3133.9 (4496) [28]
Railways Domestic	193.7 (100) [16]	245.2 (127) [15]	374.0 (193) [16]	658.1 (340) [18]	854.8 (441) [13]	1104.6 (570) [12]	1217.3 (628) [11]
Indian	*	68.7	102.0	80.0 (100) [2]	105.5 (132) [2]	134.0 (168) [1]	151.4 (189) [1]
Colonial	*			51.6 (100) [2]	119.0 (231) [2]	154.5 (299) [2]	313.4 (607) [3]
American	-	-	82.7 (100) [4]	307.6 (372) [9]	743.7 (899) [11]	1107.5 (1339) [12]	1729.6 (2091) [15]
Foreign	31.3 (100) [3]	132.0 (422) [8]	168.8 (539) [7]	378.0 (1208) [10]	596.1 (1904) [9]	581.9 (1859) [7]	736.1 (2352) [7]
Industries	66.8 (100) [5]	85.2 (128) [6]	197.1 (295) [9]	269.4 (403) [7]	547.0 (819) [8]	1382.1 (2069) [16]	2078.5 (3112) [18]
Total	1215.1 (100) [100]	1604.4 (132) [100]	2270.0 (187) [100]	3641.4 (300) [100]	6561.1 (540) [100]	8833.81 (727) [100]	11262.5 (927) [100]

Notes: £ million;
 * included foreign;
 () annual index of amounts;
 [] shares of securities;
 - implies nil.

Source: E.V. Morgan & W.A. Thomas, The Stock Exchange (1962), table v (pp.280-81).

Table 1.2 Britain's Colonial and Foreign Portfolio Investment, 1870-1914
 (£000)
 (percent)

Period	Domestic issues (%)	Colonial issues (%)	Foreign issues (%)	Total issues (%)
1870-74	113,634 (39)	46,257 (16)	131,288 (45)	291,179 (100)
1875-79	106,328 (41)	88,813 (35)	61,967 (24)	257,108 (100)
1880-84	135,537 (28)	122,532 (25)	224,020 (47)	482,089 (100)
1885-89	171,554 (28)	148,458 (24)	290,443 (48)	610,455 (100)
1890-94	151,089 (31)	113,002 (24)	219,323 (45)	483,414 (100)
1895-99	231,638 (44)	113,103 (21)	184,895 (35)	539,636* (100)
1900-04	396,715 (50)	179,031 (23)	216,181 (27)	791,927 (100)
1905-09	173,902 (19)	270,991 (29)	483,503 (52)	928,396 (100)
1910-14	218,547 (19)	352,494 (31)	558,670 (50)	1,129,711 (100)

Notes:

* 529,636 is the right figure;
 New portfolio investment (capital called up);
 Intermediate estimate ('entirely taken up in the United Kingdom
 issues, but, in addition to those enumerated in the minimum series,
 includes adjustments for calls whose presence can be inferred from
 existing reports').

Sources:

L.E. Davis & R.A. Huttenback, Mammon and the Pursuit of
 Empire (Cambridge, 1986), pp.35-36 and 40-41.

Table 1.3 Foreign Government Loan Issues in London, 1870-1913

Year	Country	Interest rate (nominal) (%)	Issue price (%)	Issue amount (nominal) (£000)	Market relations	Issue patterns	Loan issuers
1870	Argentina ¹	6	88	1034 ²		M	C. de Murrieta
1870	Austria	5	-	97548 ³	P	M	London Rothschilds
1870	Austria	5	-	105711 ⁴	P	M	London Rothschilds
1870	Chile	5	83	1012 ⁵		M	J.S. Morgan
1870	Egypt	7	78 1/2	7142 ⁶	P	M	Bischoffsheim & Goldschmidt
1870	France	6	85	10000 ⁷		M	J.S. Morgan
1870	Honduras	10	80	2500 ⁸		M	Bischoffsheim & Goldschmidt
1870	Japan	9	98	1000 ⁹		M	Schröder
1870	North Germany	5	96 1/2 ¹⁰	7500 ¹¹		Cl	London Joint Stock Bank
1870	Peru	6	81 1/4 ¹²	11920 ¹³	C	M	Schröder
1870	Romania	7	86	434 ¹⁴		M	C. Devaux
1870	Romania	7 1/2	72	600 ¹⁵	C	F	Anglo-Austrian Bank
1870	Russia	5	80	12000 ¹⁶	P	M	London Rothschilds
1870	Spain	5	80	2318 ¹⁷	P	M	London Rothschilds
1870	Spain	3	29 1/2	34300 ¹⁸		Gn	Spanish Financial Commission
1870	Turkey	6	60 1/2	22000 ¹⁹	C	M	L. Cohen
1871	Argentina	6	88 1/2	6122 ²⁰	P	M	C. de Murrieta
1871	Brazil	5	89	3459 ²¹		M	London Rothschilds
1871	Costa Rica	6	72	500 ²²		M	Bischoffsheim & Goldschmidt
1871	Costa Rica	6	74	500 ²³		M	Bischoffsheim & Goldschmidt
1871	France	5	82 1/2	111119 ²⁴		M	Baring Bros; London Rothschilds
1871	Holland	5	90 1/2	189 ²⁵		M	S. Montagu
1871	Hungary	5	81	3000 ²⁶	C	M	Raphael

¹ Originally the City of Buenos Aires loan.

² I.M.M..

³ Consolidation of public debt; no London issue amount; the unredeemable amount was £175,000,000 (I.M.M. [Quotations]).

⁴ Consolidation of public debt; no London issue amount; the unredeemable amount was £348,000,000 (I.M.M. [Quotations]).

⁵ £1,220,000 (I.M.M.).

⁶ I.M.M.; L.C.P..

⁷ I.M.M.; L.C.P.; the paid-up amount in London was £4,000,000 (Ec, 11 March 1871, p.35).

⁸ I.M.M..

⁹ I.M.M..

¹⁰ L.J.S.B.A., Q.70.

¹¹ I.M.M..

¹² The issue price was at 82 1/2 percent (S.E.Y. [80]).

¹³ I.M.M..

¹⁴ I.M.M..

¹⁵ Conversion; I.M.M.; no S.E.O.I..

¹⁶ Consolidation; I.M.M..

¹⁷ I.M.M.; L.C.P..

¹⁸ Conversion; no London issue amount.

¹⁹ I.M.M.; the issue amount was £22,222,220 (S.E.O.I.).

²⁰ Confederation; I.M.M..

²¹ £3,370,000 (I.M.M.); the issue amount was £3,000,000 (L.A.).

²² I.M.M..

²³ I.M.M..

²⁴ £100,000,000 (I.M.M.); the issue amount was £97,500,000 (R.H.); the paid-up amount in London was £26,960,000 (Ec, 16 March 1872, p.48).

²⁵ No S.E.O.I..

²⁶ I.M.M..

Table 1.3 Foreign Government Loan Issues in London, 1870-1913 (cont.)

Year	Country	Interest rate (nominal) (%)	Issue price (%)	Issue amount (nominal) (£000)	Market relations	Issue patterns	Loan issuers
1871	Liberia	7	85	100 ²⁷		M	Holderness, Nott
1871	North Germany	5	96 ²⁸	7500 ²⁹		CI	London Joint Stock Bank
1871	Paraguay	8	80	1000 ³⁰		M	Robinson & Fleming
1871	Russia	5	81 1/2	12000 ³¹	P	M	London Rothschilds
1871	Spain	6	80	2622 ³²		M	Stern Bros
1871	Spain	3	31	6375 ³³	PC	Gn	Spanish Financial Commission
1871	Turkey	6	73	5700 ³⁴		M	Dent Palmer
1871	USA	5	102 3/8	40000 ³⁵	P	M	Baring Bros; London Rothschilds
1871	Uruguay	6	72	3500 ³⁶		M	I. Thomson, T. Bonar
1872	Argentina	6	76	1225 ³⁷		M	Stern Bros
1872	Bolivia	6	68	1700 ³⁸		M	Lumb. Wanklyn
1872	Costa Rica	7	82	1496 ³⁹		M	Knowles & Foster
1872	France	5	84 1/2	165622 ⁴⁰	C	M	Baring Bros; London Rothschilds
1872	Paraguay	8	85	562 ⁴¹		M	Robinson & Fleming
1872	Peru	5	77 1/2	15000 ⁴²	P	M	Schröder; Stern Bros
1872	Russia	5	89	15000 ⁴³	C	M	London Rothschilds
1872	Spain	3	28 3/4	9000 ⁴⁴	PC	Gn	Spanish Financial Commission
1873	Argentina ⁴⁵	6	89 1/2	2040 ⁴⁶		M	Baring Bros
1873	Chile	5	94	2276 ⁴⁷		O	Oriental Bank Corp
1873	Colombia	4 1/2	-	2000 ⁴⁸		CI	London & County Bank
1873	Egypt	7	84 1/4	32000 ⁴⁹	PC	FM	Imperial Ottoman Bank; Bischoffsheim & Goldschmidt
1873	Hungary	5	80	5400 ⁵⁰	C	M	Raphael
1873	Japan	7	92 1/2	2400 ⁵¹		O	Oriental Bank Corp

²⁷ I.M.M..²⁸ L.J.S.B.A., Q70.²⁹ I.M.M..³⁰ I.M.M..³¹ Consolidation; I.M.M..³² I.M.M.; the issue amount was £2,622,781 (L.A. and L.C.P.).³³ I.M.M.; L.C.P.; the issue amount was £20,907,000 (Fn [89]).³⁴ I.M.M..³⁵ Funded loan; no London issue amount; £41,000,000 (in exchange) (I.M.M.); the issue amount was £41,00,000 at 92 % (R.H.); £45,000,000 and £16,875,000 at 91 % (Ec).³⁶ I.M.M..³⁷ Confederation; I.M.M..³⁸ I.M.M..³⁹ £2,400,000 (I.M.M.); the issue amount was £2,400,000 (S.E.Y. [80] and Fn [89]).⁴⁰ No London issue amount; £120,000,000 (I.M.M.); the issue amount was £141,500,000 (R.H.); the paid-up amount in London £45,600,000 (Ec).⁴¹ £2,000,000 (I.M.M.); the issue amount was £2,000,000 (S.E.Y. [80], Fn [89] and L.A.).⁴² Consolidation; I.M.M..⁴³ Consolidation; I.M.M..⁴⁴ £10,625,000 (I.M.M. and C.L.P.); the issue amount was £10,625,000 (Ec); £35,029,000 (Fn [89]).⁴⁵ Originally the City of Buenos Aires loan.⁴⁶ I.M.M..⁴⁷ I.M.M..⁴⁸ Conversion; I.M.M..⁴⁹ Conversion; no London issue amount; I.M.M.; L.C.P..⁵⁰ I.M.M.; the issue amount was £3,000,000 (Fn [80]); £5,400,000 (L.A.).⁵¹ I.M.M..

Table 1.3 Foreign Government Loan Issues in London, 1870-1913 (cont.)

Year	Country	Interest rate (nominal) (%)	Issue price (%)	Issue amount (nominal) (£000)	Market relations	Issue patterns	Loan issuers
1873	Russia	5	93	15000 ⁵²	P	M	London Rothschilds
1873	Spain	3	-	1482 ⁵³		Gn	Spanish Financial Commission
1873	Turkey	6	58 1/2	8000 ⁵⁴	P	F	Imperial Ottoman Bank
1873	USA	5	102 3/8	60000 ⁵⁵	P	M	Baring Bros; London Rothschilds
1874	Argentina	6	80	357 ⁵⁶		M	Stern Bros
1874	Belgium	3	75 1/2	1440 ⁵⁷	C	M	Baring Bros
1874	Turkey	5	43 1/2	15900 ⁵⁸	P	F	Imperial Ottoman Bank
1875	Brazil	5	96 1/2	5301 ⁵⁹		M	London Rothschilds
1875	Chile	5	88 1/4	1100 ⁶⁰		O	Oriental Bank Corp
1875	China	8	95	327 ⁶¹		O	Hongkong Bank
1875	France	3	-	2380 ⁶²	C	I	-
1875	Russia	4 1/2	92	15000 ⁶³	P	M	London Rothschilds
1875	Spain	3	-	13302 ⁶⁴		Gn	Spanish Financial Commission
1875	Sweden	4 1/2	98 3/4	982 ⁶⁵	C	M	Erlanger
1876	China	8	100	274 ⁶⁶	C	O	Hongkong Bank
1876	Norway	4 1/2	96 1/2	1320 ⁶⁷	P	M	Hambros
1876	Portugal	5	83 1/2	306	P	F	Société de Dépôts et de Comptes Courants
1876	Sweden	4 1/2	96 1/2	1500 ⁶⁸		M	Hambros
1876	USA	4 1/2	103 1/2	60000 ⁶⁹	P	M	London Rothschilds; J.S. Morgan; Seligmans
1877	China	8	98	1604 ⁷⁰		O	Hongkong Bank
1877	Egypt	5	-	10800 ⁷¹	P	F	Comptoir National d'Escompte
1877	Egypt	6	-	20700 ⁷²	P	F	Comptoir National d'Escompte
1877	Hungary	6	83 1/2	4500 ⁷³	PGC	M	London Rothschilds
1877	Portugal	3	50	4000 ⁷⁴	P	M	Baring Bros
1877	Spain	2	par	13213 ⁷⁵	P	Gn	Spanish Financial Commission

⁵². Consolidation; I.M.M.; the issue amount was £8,000,000 (Fn [89]).⁵³. Conversion; no London issue amount.⁵⁴. I.M.M.; the issue amount was £27,777,780 (S.E.Y. [80]); £27,197,000 (Fn [89]).⁵⁵. Funded loan; no London issue amount; the issue amount was £61,682,500 at £102 16s. 2d. per \$500 (about 99 7/10 %) (R.H.).⁵⁶. Confederation; I.M.M..⁵⁷. I.M.M..⁵⁸. I.M.M..⁵⁹. £5,250,000 (I.M.M.); the issue amount was £5,000,000 (Fn [89] and L.A.).⁶⁰. £1,000,000 (I.M.M.); the issue amount was £1,143,000 (S.E.Y. [80]); £1,900,000 (Fn [80] and L.A.).⁶¹. No F.B.H.; the issue amount was £627,675 at 98 8s. 11d. (about 98 9/20 %) (S.E.Y. [80]).⁶². I.M.M.; no S.E.O.I..⁶³. Consolidation; £8,000,000 (I.M.M.); the issue amount was £8,000,000 (Fn [89]).⁶⁴. No London issue amount.⁶⁵. £1,000,000 (I.M.M.); the issue amount was DM20,250,000 (£995,625) (S.E.Y. [80]).⁶⁶. I.M.M.; no S.E.O.I..⁶⁷. I.M.M..⁶⁸. I.M.M.; the issue amount was £2,000,000 (S.E.Y. [80], Fn [89] and L.A.).⁶⁹. Funded loan; no London issue amount; the issue amount was £62,100,000 at £103 1/2 per \$500 (about 100 9/25 %) (R.H.).⁷⁰. I.M.M..⁷¹. Conversion.⁷². Unification; L.C.P..⁷³. Redemption; £3,500,000 (I.M.M.); the issue amount was £8,000,000 (R.H. and L.C.P.); £40,000,000 (S.E.O.I.).⁷⁴. Consolidation; £6,500,000 (I.M.M.); L.C.P..⁷⁵. No London issue amount; the issue amount was £13,397,700 (S.E.Y. [80]).

Table 1.3 Foreign Government Loan Issues in London, 1870-1913 (cont.)

Year	Country	Interest rate (nominal) (%)	Issue price (%)	Issue amount (nominal) (£000)	Market relations	Issue patterns	Loan issuers
1877	Turkey	5	50	5000 ⁷⁶		CI	Glyn Mills, Currie
1877	USA	4	102 3/4	140000 ⁷⁷	P	M	London Rothschilds; J.S. Morgan; Seligmans; Morton Rose
1878	Egypt	5	73	8500 ⁷⁸	P	M	London Rothschilds
1878	Holland	4	98 3/8	3583 ⁷⁹	C	I	B.W. Blydenstein; Exchange & Investment Bank; Jordaan & Co.
1878	Norway	4 1/2	95	1700 ⁸⁰	P	M	Hambros
1878	Portugal	3	50	2500 ⁸¹	C	M	Stern Bros
1878	Sweden	4	88	1000 ⁸²	P	M	Hambros
1879	Austria	4	-	4000 ⁸³	C	I	-
1879	Greece	5	-	999 ⁸⁴		O	Ionian Bank
1880	Denmark	4	-	1648		M	Hambros
1880	Norway	4	97 1/2	881 ⁸⁵	P	M	Hambros
1880	Portugal	3	50 1/2	2200 ⁸⁶	PC	M	Stern Bros
1880	Prussia	4	-	29500 ⁸⁷		CI	London Joint Stock Bank
1880	Russia	4	75	24000 ⁸⁸	C	F	Russian Bank for Foreign Trade
1880 ⁸⁹	Sweden	4	97 1/2	2200 ⁹⁰	PC	M	Hambros
1881	Argentina	6	91	2450 ⁹¹	P	M	C. de Murrieta
1881	Greece	5	74	1250 ⁹²	P	M	Hambros
1881	Hungary	4	75 1/2	16000 ⁹³	PG	M	London Rothschilds
1881	Italy	5	90	14600 ⁹⁴	C	M	Hambros; Baring Bros
1881	Sweden	4	98 1/2	700 ⁹⁵	C	M	Hambros
(1880)							
1881	Turkey	5	83	5000	P	F	Imperial Ottoman Bank
1881	Venezuela	3	-	2702 ⁹⁶		M	Robarts, Lubbock
1882	Argentina	6	92 1/2	817 ⁹⁷	C	M	Morton, Rose
1882	Italy	5	88	14589 ⁹⁸	C	M	Hambros; Baring Bros

⁷⁶ I.M.M..⁷⁷ Funded loan; no London issue amount; the issue amount was £143,850,000 at £102 3/4 per \$500 (about 99 16/25 %) (R.H.).⁷⁸ Redemption; I.M.M.; L.C.P..⁷⁹ I.M.M.; L.C.P..⁸⁰ I.M.M.; the figure includes the issue amount in Germany (H.A., Ms.19,131).⁸¹ I.M.M.; L.C.P..⁸² I.M.M.; the issue amount was £1,000,000 including Paris (H.A., Ms.19,167).⁸³ I.M.M..⁸⁴ Conversion; the issue amount was £1,200,000 (S.E.Y. [90]); £724,000 (Fn [89]).⁸⁵ Part of conversion; £1,156,000 (I.M.M.); the issue amount was £881,000 (H.A., Ms.19,132/1).⁸⁶ Conversion; £2,610,000 (I.M.M.).⁸⁷ Consolidation; L.J.S.B.A., Q70.⁸⁸ I.M.M..⁸⁹ See 1881 and 1883.⁹⁰ Redemption; H.A., Ms.19,168/3.⁹¹ I.M.M..⁹² £3,800,000 (I.M.M.); the issue amount was £1,250,000 (Fn [98] and L.A.).⁹³ Conversion; R.H.; the issue amount was £68,400,000 (1881-1888) (S.E.O.I.); £16,000,000 (L.A.).⁹⁴ I.M.M..⁹⁵ I.M.M.; H.A., Ms.19,168/3.⁹⁶ Conversion; the issue amount was £2,750,000 (Fn [98]).⁹⁷ I.M.M..⁹⁸ I.M.M.; H.A., Ms.19,119.

Table 1.3 Foreign Government Loan Issues in London, 1870-1913 (cont.)

Year	Country	Interest rate (nominal) (%)	Issue price (%)	Issue amount (nominal) (£000)	Market relations	Issue patterns	Loan issuers
1882							
(1880)	Portugal	5	92 1/4	2460		Gn	Portuguese Government Financial Commission
1882	Russia	3	55	8904 ⁹⁹	PGC	M	Baring Bros
1882	Spain	4	-	12000 ¹⁰⁰		Gn	Spanish Government Financial Commission
1882	Turkey	5	83	3000 ¹⁰¹	P	F	Imperial Ottoman Bank
1883	Brazil	4 1/2	89	4599 ¹⁰²	P	M	London Rothschilds
1883	Hungary	4	-	5096 ¹⁰³	PGC	M	London Rothschilds
1883							
(1880)	Sweden	4	98 1/2	1100 ¹⁰⁴	P	M	Hambros
1883	Uruguay	5	72	11127 ¹⁰⁵		M	I. Thomson, T. Bonar
1884	Argentina	5	84 1/2	1673 ¹⁰⁶	P	M	Baring Bros
1884	Argentina	4	84	5952 ¹⁰⁷		M	J.S. Morgan
1884	Greece	5	68 1/2	4400 ¹⁰⁸	P	M	Hambros
1884							
(1881)	Hungary	4	77 3/8	16000 ¹⁰⁹		M	London Rothschilds
1884	Hungary	4	-	10000 ¹¹⁰	PGC	M	London Rothschilds
1884	Orange Free State	6	par	100 ¹¹¹		O	Standard Bank
1884							
(1880)	Portugal	3	50 1/2	2095 ¹¹²	PC	Gn	Portuguese Government Financial Commission
1884							
(1881)	Turkey	5	-	7427 ¹¹³	PC	F	Imperial Ottoman Bank
1885	Chile	4 1/2	89	808 ¹¹⁴		Cl	City Bank
1885	China	7	98	1505 ¹¹⁵		O	Hongkong Bank
1885	China	6	98	750 ¹¹⁶		O	Hongkong Bank
1885	China	6	98	1500 ¹¹⁷		M	Baring Bros; Matheson
1885							
(1880)	Egypt	3	95 1/2	9424 ¹¹⁸	PG	M	London Rothschilds ¹¹⁹

⁹⁹ I.M.M.; the issue amount included the Paris issue (H.A., Ms.19,160).¹⁰⁰ Conversion (L.C.P.).¹⁰¹ I.M.M..¹⁰² £4,500,000 (I.M.M.).¹⁰³ Conversion; L.C.P..¹⁰⁴ H.A., Ms.19,168/2.¹⁰⁵ Unification; the issue amount was £11,113,000 (Fn [89]).¹⁰⁶ I.M.M.; the issue amount was £1,714,200 (Fn [98] and F.B.H. [81]); £1,683,100 (L.A.).¹⁰⁷ I.M.M..¹⁰⁸ £3,014,000 (I.M.M. - net); the issue amount was £6,800,000 (L.A.); £4,238,600 (S.E.O.I.).¹⁰⁹ Conversion.¹¹⁰ Conversion; the issue amount was £12,473,960 at 77 3/8 (in cash) (L.C.P.).¹¹¹ I.M.M..¹¹² I.M.M.; the issue amount was £2,095,000 (L.A.).¹¹³ Conversion; L.C.P.; no S.E.O.I..¹¹⁴ £719,921 (I.M.M. - net).¹¹⁵ I.M.M..¹¹⁶ I.M.M..¹¹⁷ I.M.M..¹¹⁸ £9,000,000 (I.M.M. - net).¹¹⁹ Guaranteed by Britain, France, Germany, Russia, Italy and Austria-Hungary.

Table 1.3 Foreign Government Loan Issues in London, 1870-1913 (cont.)

Year	Country	Interest rate (nominal) (%)	Issue price (%)	Issue amount (nominal) (£000)	Market relations	Issue patterns	Loan issuers
1886 ¹²⁰	Argentina	5	80	4000 ¹²¹	P	M	Baring Bros; J.S. Morgan
1886	Brazil	5	95	6431 ¹²²		M	London Rothschilds
1886	Chile	4 1/2	98 1/2	6010 ¹²³		M	London Rothschilds
1886	Costa Rica	4 (5)	92 1/2				
			96 1/2	655 ¹²⁴		T	River Plate Trust
1886	Cuba	6	87	24800 ¹²⁵		M	Baring Bros
1886	Hawaii	6	98	200		M	Matheson
1886	Mexico	3	60	4650 ¹²⁶		Cl	Glyn Mills, Currie
1886	Nicaragua	6	92 1/2	285 ¹²⁷		Cl	City Bank
1886	Norway	3 1/2	98	1700 ¹²⁸	P	M	Hambros
1886	Paraguay	2,3 and 4	-	839 ¹²⁹		M	Robarts, Lubbock
1887							
(1886)	Argentina	5	85 1/2	4290 ¹³⁰	P	M	Baring Bros; J.S. Morgan
1887 ¹³¹	Argentina	5	91 1/2	1300 ¹³²		M	C. de Murrieta
1887	Chile	4 1/2	97 1/2	1160 ¹³³		M	London Rothschilds
1887	Greece	4	78 1/2	1780 ¹³⁴	PC	M	Hambros
1888	Argentina	4 1/2	87	3933 ¹³⁵	G	M	Baring Bros
1888	Argentina	5	94	1500 ¹³⁶		M	C. de Murrieta
(1887)							
1888	Brazil	4 1/2	97	6297 ¹³⁷	PGC	M	London Rothschilds
1888							
(1887)	Egypt	4 1/2	95 1/2	2330 ¹³⁸	G	M	London Rothschilds
1888 ¹³⁹	Greece	6	81 1/2	673	C	M	Antony Gibbs
1888	Guatemala	4	-	922 ¹⁴⁰		M	Hambros; I. Thomson, T. Bonar
1888	Mexico	6	78 1/2	3700 ¹⁴¹	GC	M	Antony Gibbs

¹²⁰. See 1887.¹²¹. £3,200,000 (I.M.M. - net).¹²². £5,700,000 (I.M.M.).¹²³. Conversion; £315,000 (in cash) (I.M.M.); the issue amount was £6,050,000 (L.A.).¹²⁴. Consolidation; the issue amount was £525,000; £1,475,000 (S.E.O.I. and L.A.).¹²⁵. Conversion; the issue amount was £35,000,000 (S.E.O.I.).¹²⁶. Consolidation.¹²⁷. £263,625 (I.M.M. - net).¹²⁸. Conversion; £1,666,000 (I.M.M. - net).¹²⁹. Conversion; the issue amount was £843,500 and £160,100 (S.E.I.O.).¹³⁰. £3,668,035 (I.M.M. - net); the issue amount was £4,333,000 (S.E.Y. [12]); £4,290,000 (L.A.); £8,333,000 in total in 1886 and 1887 (F.B.H. [91]).¹³¹. See 1888 and 1889.¹³². £1,188,500 (I.M.M.).¹³³. £1,085,937 (I.M.M.).¹³⁴. £4,239,000 (I.M.M.); the issue amount was £5,400,000 (S.E.Y. [12]); £1,900,000 (S.E.O.I., Fn [98] and L.A.).¹³⁵. £3,422,217 (I.M.M.); the issue amount was £1,900,000 (Fn [98]); £3,973,700 (F.B.H. [91]); £3,933,580 (L.A.).¹³⁶. £1,410,000 (I.M.M. - net).¹³⁷. £5,820,000 (I.M.M.).¹³⁸. £2,225,100 (I.M.M. - net).¹³⁹. See 1889; no I.M.M..¹⁴⁰. Conversion; the issue amount was £815,000 (Fn [89]); £922,700 (L.A.).¹⁴¹. Part of conversion; £2,904,500 (I.M.M. - net); the issue amount was £3,700,000 (L.A.); £10,500,000 in total (S.E.Y. [90]).

Table 1.3 Foreign Government Loan Issues in London, 1870-1913 (cont.)

Year	Country	Interest rate (nominal) (%)	Issue price (%)	Issue amount (nominal) (£000)	Market relations	Issue patterns	Loan issuers
1888	Norway	3	88 1/2	3560 ¹⁴²	P	M	Hambros
1888	Portugal	3	-	7761 ¹⁴³		M	Baring Bros
1888	Russia	4	86 2/5	19775 ¹⁴⁴	PGC	M	Baring Bros; Hambros
1888	Santo Domingo	6	-	76 ¹⁴⁵		M	Peter, Lawson
1888	Santo Domingo	6	83 1/2	475 ¹⁴⁶		Cl	Capital & Counties Bank
1888	Sweden	3	-	1470 ¹⁴⁷	P	M	London Rothschilds
1888	Turkey	5	77	7827 ¹⁴⁸	PG	F	Deutsche Bank
1888	Uruguay	6	82 1/2	4255 ¹⁴⁹	PC	M	Baring Bros
1889							
(1887)	Argentina	5	97	1168 ¹⁵⁰		M	C. de Murrieta
1889	Argentina	4 1/2	90	5263 ¹⁵¹	PG	M	Baring Bros; C. de Murrieta
1889	Argentina	3 1/2	par	2659 ¹⁵²		M	Stern Bros
1889	Brazil	4	90	20000 ¹⁵³	P	M	London Rothschilds
1889	Bulgaria	6	-	1746 ¹⁵⁴		M	Robart, Lubbock
1889	Chile	4 1/2	101 3/4	1546 ¹⁵⁵	G	F	Deutsche Bank
1889							
(1888)	Greece	6	96 1/4	277		M	Antony Gibbs
1889	Greece	4	72	1200 ¹⁵⁶		M	Hambros
1889	Greece	4	77 1/2	5000 ¹⁵⁷	G	M	Antony Gibbs
1889	Hungary	4 1/2	-	5200 ¹⁵⁸	P	M	London Rothschilds
1889	Mexico	5	77 1/2	1300 ¹⁵⁹	G	M	Seligmans
1889	Portugal	4 1/2	-	6812 ¹⁶⁰	P	M	Baring Bros
1889	Russia	4	-	27685 ¹⁶¹	PGC	M	London Rothschilds
1889	Russia	4	-	49120 ¹⁶²	P	M	London Rothschilds
1889	Salvador	6	95 1/2	300		Cl	London & South Western Bank

¹⁴². Conversion.¹⁴³. Conversion; the issue amount was £85,532,634 (S.E.O.I.).¹⁴⁴. Conversion.¹⁴⁵. Conversion.¹⁴⁶. Conversion.¹⁴⁷. Conversion; no R.H..¹⁴⁸. The issue amount was £1,500,000 (S.E.O.I.).¹⁴⁹. £3,610,423 (I.M.M.).¹⁵⁰. £1,133,154 (I.M.M.).¹⁵¹. Conversion; the issue amount was £5,290,000 (S.E.Y. [12] and F.B.H. [91]); £5,263,560 (L.A.).¹⁵². Conversion.¹⁵³. Conversion; the issue amount was £19,837,000 (S.E.O.I. and R.H.); £20,000,000 (L.A.).¹⁵⁴. Conversion; the issue amount was £1,871,100 (L.A.); £1,847,580 (S.E.O.I.); £1,816,326 (S.E.Y. [90]).¹⁵⁵. £1,573,452 (I.M.M. - net).¹⁵⁶. Conversion.¹⁵⁷. Conversion.¹⁵⁸. Conversion.¹⁵⁹. I.M.M..¹⁶⁰. Conversion; the issue amount was £7,761,000 (S.E.O.I.); £8,358,199 (S.E.Y. [90]).¹⁶¹. Conversion; I.M.M..¹⁶². Conversion.

Table 1.3 Foreign Government Loan Issues in London, 1870-1913 (cont.)

Year	Country	Interest rate (nominal) (%)	Issue price (%)	Issue amount (nominal) (£000)	Market relations	Issue patterns	Loan issuers
1889							
(1888)	Santo Domingo	6	70	42 ¹⁶³		CI	Capital & Counties Bank
1890							
(1889)	Bulgaria	6	92 1/2	1200		F	Imperial Ottoman Bank
1890	Egypt	3 1/2	91	29400 ¹⁶⁴	PGC	M	London Rothschilds
1890	Egypt	4	99 1/4	7299 ¹⁶⁵	P	M	Stern Bros
1890	Greece	5	93	2400 ¹⁶⁶	GC	M	Hambros
1890	Mexico	6	65	325 ¹⁶⁷		I	Home & Colonial Assets & Debenture Corp
1890	Mexico	6	93 1/2	6000 ¹⁶⁸		M	Antony Gibbs
1890	Russia	4	93	14238 ¹⁶⁹	PGC	M	Baring Bros; Hambros
1890	Russia	4	79 1/4	11865 ¹⁷⁰	P	M	London Rothschilds
1890							
(1868)	Russia	4	98 7/8	1651 ¹⁷¹	P	M	Schröder; London Rothschilds
1890	Santo Domingo	6	77	575 ¹⁷²	C	I	Westendorp
1890	Sweden	3 1/2	-	1960 ¹⁷³	P	M	London Rothschilds
1890	Turkey	4	78 1/2	1372 ¹⁷⁴	PGC	F	Imperial Ottoman Bank
1890	Turkey	4	81 3/4	7827 ¹⁷⁵	P	F	Imperial Ottoman Bank
1891	Argentina	6	-	2000 ¹⁷⁶	P	M	J.S. Morgan
1891	Russia	3	79 7/10	19775 ¹⁷⁷	PC	M	Hambros
1891	Russia	4	-	12656 ¹⁷⁸		M	London Rothschilds
1891	Turkey	4	93 1/2	6316 ¹⁷⁹	P	M	London Rothschilds
1892	Argentina	5	-	1361 ¹⁸⁰		O	London & River Plate Bank
1892	Argentina	5	-	6324		M	Baring Bros
1892	Chile	5	95	1800 ¹⁸¹		M	London Rothschilds
1892	Holland	3 1/2	100 1/2	4492 ¹⁸²	C	I	Agency of Financial Ministry
1892	Persia	6	95	500 ¹⁸³		O	Imperial Bank of Persia

¹⁶³. Conversion.¹⁶⁴. Part of conversion and redemption; £26,754,000 (I.M.M. - net).¹⁶⁵. Conversion; I.M.M..¹⁶⁶. £3,343,350 (I.M.M. and S.E.Y. [12]).¹⁶⁷. I.M.M.; the issue amount was \$2,500,000 (£515,625) (L.A.).¹⁶⁸. £5,610,000 (I.M.M. - net).¹⁶⁹. Conversion; £13,244,000 (I.M.M.).¹⁷⁰. Conversion; I.M.M. did not include this amount in the creation amount.¹⁷¹. Conversion; I.M.M. did not include this amount in the creation amount.¹⁷². The loan was issued in Amsterdam.¹⁷³. Redemption; no R.H..¹⁷⁴. Part of conversion; £1,077,412 (I.M.M. - net); the issue amount was £4,545,000 (S.E.O.I.).¹⁷⁵. Conversion; I.M.M..¹⁷⁶. Funding; the issue amount was £7,630,680 (S.E.Y. [01]); £2,000,000 (L.A.); £14,880,000 in total (S.E.O.I.).¹⁷⁷. I.M.M..¹⁷⁸. Conversion; I.M.M..¹⁷⁹. Conversion and redemption.¹⁸⁰. The issue amount was £2,000,000 (S.E.O.I., S.E.Y. [01] and L.A.).¹⁸¹. £1,710,000 (I.M.M. - net); the issue amount was £149,000 and the balance was withdrawn (S.E.O.I.); £1,800,000 (L.A.).¹⁸². I.M.M..¹⁸³. £475,000 (I.M.M. - net).

Table 1.3 Foreign Government Loan Issues in London, 1870-1913 (cont.)

Year	Country	Interest rate (nominal) (%)	Issue price (%)	Issue amount (nominal) (£000)	Market relations	Issue patterns	Loan issuers
1892	South Africa	5	90	2500		M	London Rothschilds
1892	Uruguay	3 1/2	-	19300 ¹⁸⁴	P	Cl	Glyn Mills, Currie
1893	Brazil	5	80	2650		M	London Rothschilds
1893	Chile	4 1/2	-	630		Cl	City Bank
1893	Egypt	4 1/4	-	8500 ¹⁸⁵	P	M	London Rothschilds
1893	Greece	5	-	389 ¹⁸⁶		M	Hambros
1893	Santo Domingo	4	-	2035 ¹⁸⁷		Gn	Dominion Financial Agency
1894 (1893)	Brazil	5	79	1060		M	London Rothschilds
1894	China	7	98	1635 ¹⁸⁸	GC	O	Hongkong Bank
1894	Denmark	3	96 3/8	1388 ¹⁸⁹	P	M	Hambros
1894	Mexico	6	68	2594 ¹⁹⁰	C	Cl	Glyn Mills, Currie
1894	Norway	3 1/2	99	2188 ¹⁹¹	P	M	Hambros
1894	Russia	3 1/2	94 4/6 ¹⁹²	15820 ¹⁹³	P	M	London Rothschilds
1894	Sweden	3	-	990 ¹⁹⁴	P	FM	Crédit Lyonnais; Hambros; London Rothschilds
1894	Turkey	3 1/2	94 1/4	8212 ¹⁹⁵	P	M	London Rothschilds
1895	Brazil	5	85	7442 ¹⁹⁶	P	M	London Rothschilds
1895	Chile	4 1/2	93 1/2	2000 ¹⁹⁷		M	London Rothschilds
1895	China	6	96 1/2	3000 ¹⁹⁸		O	Hongkong Bank
1895	China	6	106	1000 ¹⁹⁹		O	Chartered Bank
1895	China	4	98 4/5	15820	PC	F	Crédit Lyonnais; Comptoir National d'Escompte; Russian Bank for Foreign Trade
1895	Guatemala	4	-	1545 ²⁰⁰	G	F	Deutsche Bank
1895	Hungary	3	87 1/8	1875 ²⁰¹	P	Cl	Lloyds Bank
1895	USA	4	110	12463 ²⁰²		M	London Rothschilds; J.S. Morgan
1896	Chile	5	95 1/2	4000 ²⁰³	GC	M	London Rothschilds

¹⁸⁴. Consolidation; the issue amount was £19,300,000 (L.A.).¹⁸⁵. Conversion.¹⁸⁶. Funding; the issue amount was £4,000,000 (S.E.O.I.); £365,507 (L.A.).¹⁸⁷. Conversion.¹⁸⁸. I.M.M..¹⁸⁹. £760,290 (I.M.M.); the figure includes the issue amount in Paris (H.A., Ms.19,082).¹⁹⁰. £1,764,410 (I.M.M. - net); the issue amount was £2,594,720 (F.B.H. [95]); £2,335,200 (L.A.).¹⁹¹. Part of conversion; £2,166,120 (I.M.M. - net).¹⁹². The issue price was 94 4/6 percent per £98 17s. 6d. (95 3/4 %) (R.H.).¹⁹³. £15,100,000 (I.M.M.).¹⁹⁴. Conversion; £1,265,890 (I.M.M.); the issue amount was £990,000 (L.A.).¹⁹⁵. Redemption; I.M.M..¹⁹⁶. £5,100,000 (I.M.M.).¹⁹⁷. £1,870,000 (I.M.M. - net).¹⁹⁸. £2,895,000 (I.M.M. - net).¹⁹⁹. £1,060,000 (I.M.M. - net).²⁰⁰. Part of conversion; the issue amount was £1,534,090 (S.E.O.I.); £1,494,700 (L.A.).²⁰¹. £1,633,594 (I.M.M. - net).²⁰². The issue amount was \$62,317,500 (£12,852,984) at £227 per \$1,000 (about 109 19/20 %) (R.H.); \$31,157,700 (£6,426,275) was offered in London (Fu [98]).²⁰³. £3,982,000 (I.M.M.).

Table 1.3 Foreign Government Loan Issues in London, 1870-1913 (cont.)

Year	Country	Interest rate (nominal) (%)	Issue price (%)	Issue amount (nominal) (£000)	Market relations	Issue patterns	Loan issuers
1896	China	5	98 3/4	16000 ²⁰⁴	G	O	Hongkong Bank
1896	Haiti	6	90	2000 ²⁰⁵	P	F	Société Générale
1896	Tonking	2 1/2	87	3200 ²⁰⁶	P	F	Banque de l'Indo-Chine
1896	Uruguay	5	71 1/2	1667		CI	Glyn Mills, Currie
1896 ²⁰⁷	USA	4	110	20000		M	London Rothschilds; J.S. Morgan
1897	Argentina	4	-	6385 ²⁰⁸	PG	M	Baring Bros
1897	Colombia	1 1/2					
		3	-	2700		CI	London & County Bank
1897	Denmark	3	99 1/16	3992 ²⁰⁹	P	FM	Crédit Lyonnais; Hambros
1897	Japan	5	101 1/2	4385 ²¹⁰		CIFO	Capital & Counties Bank; Yokohama Specie Bank; Hongkong Bank; Chartered Bank
1897	Santo Domingo	4	66	1150 ²¹¹		M	Brown Jansen
1897							
(1895)	Serbia	4	68	1000 ²¹²	P	CI	Parr's Bank
1898	Argentina	4	-	1527 ²¹³		M	Baring Bros
1898	Argentina	4	-	6746 ²¹⁴		M	Baring Bros
1898	Argentina	4	-	4057 ²¹⁵		M	Baring Bros
1898	Brazil	5	-	8613 ²¹⁶		M	London Rothschilds
1898	China	4 1/2	90	16000 ²¹⁷	G	O	Hongkong Bank
1898	Greece	2 1/2	101 1/2	6023 ²¹⁸	PC	I	Bank of England
1898	Holland	3	92	4817 ²¹⁹	C	CIM	Union Bank of London; Speyer Bros
1899	China	5	97	2300 ²²⁰	P	IO	British Chinese Corp; Hongkong Bank
1899	Denmark	4	-	35 ²²¹		I	-
1899	Germany	3	92	3787		CIFM	London Joint Stock Bank; Deutsche Bank; Stern Bros
1899	Japan	4	90	10000 ²²²		CIFO	Parr's Bank; Yokohama Specie Bank; Hongkong Bank
1899	Mexico	5	-	3787 ²²³	PGCN	M	J.S. Morgan
1900	Argentina	6	-	2000		M	Baring Bros
1900	Argentina	4	-	2828 ²²⁴	P	M	Baring Bros

²⁰⁴. £9,875,000 and £5,940,000 (I.M.M.); the figure includes the issue amount in Berlin issue.

²⁰⁵. Issued in Paris.

²⁰⁶. This loan was issued in Paris.

²⁰⁷. This loan was issued in 1895.

²⁰⁸. The issue amount was £11,607,100 (F.B.H. [00-1]); £11,514,500 (S.E.O.I.); £404,000 (L.A.).

²⁰⁹. Conversion; £3,889,905 (I.M.M.).

²¹⁰. £4,455,426 (I.M.M.).

²¹¹. Unification; the issue amount was £1,500,000 (S.E.O.I.); £1,017,200 (L.A.).

²¹². Unification; £680,000 (I.M.M. - net); the issue amount was £14,211,680 (S.E.O.I.); £1,000,000 (L.A.).

²¹³. Conversion.

²¹⁴. Conversion.

²¹⁵. Conversion.

²¹⁶. R.H.; funded; the issue amount was £8,613,392 (L.A.).

²¹⁷. £14,400,000 (I.M.M. - net); the figure includes the issue amount in Berlin issue.

²¹⁸. £5,029,925 (I.M.M.).

²¹⁹. £4,673,363 (I.M.M.).

²²⁰. £2,231,000 (I.M.M. - net).

²²¹. I.M.M.; no S.E.I.O.

²²². £9,000,000 (I.M.M. - net).

²²³. Consolidation; the issue amount was £22,700,000 (S.E.O.I.); £3,787,960 (L.A.).

²²⁴. Conversion.

Table 1.3 Foreign Government Loan Issues in London, 1870-1913 (cont.)

Year	Country	Interest rate (nominal) (%)	Issue price (%)	Issue amount (nominal) (£000)	Market relations	Issue patterns	Loan issuers
1900	Argentina	4	-	1028 ²²⁵		M	Baring Bros
1900	Chile	4 1/2	-	260 ²²⁶		M	London Rothschilds
1900	Denmark	3 1/2	94 3/4	665	P	F	Crédit Lyonnais
1900	Sweden	4 ²²⁷	98	947 ²²⁸	P	CI	Lloyds Bank
1901	Brazil	4	-	14605 ²²⁹		M	London Rothschilds
1902	Bulgaria	5	89 1/2	4197 ²³⁰	PC	FM	Imperial Ottoman Bank; Stern Bros
1902 ²³¹	Greece	4	83 1/2	880 ²³²	PG	M	Hambros
1902	Japan	5	par	5104 ²³³		FMO	Yokohama Specie Bank; Baring Bros; Hongkong Bank
1902	Turkey	4	86	7818 ²³⁴	P	F	Imperial Ottoman Bank
1903	Argentina	5	89	1430 ²³⁵		MO	Baring Bros; London & River Plate Bank
1903							
(1890)	Argentina	5	87	2770 ²³⁶		O	London & River Plate Bank
1903 ²³⁷	Brazil	5	90	5500 ²³⁸	PGC	M	London Rothschilds
1903	Serbia	5	90	2400	P	CI	Parr's Bank
1903	Turkey	4	-	38432 ²³⁹		F	Imperial Ottoman Bank
1904 ²⁴⁰	China	5	97 1/2	2250 ²⁴¹		O	Hongkong Bank
1904	Cuba	5	97	7201 ²⁴²	PGCN	M	Speyer Bros
1904	Ecuador	4	68	77 ²⁴³		CI	Glyn Mills, Currie
1904							
(1902)	Greece	4	84	870 ²⁴⁴	C	M	Hambros
1904	Greece	4	84	230	PG	M	Hambros
(1902)							
1904	Japan	6	93 1/2	5000 ²⁴⁵	N	CIFO	Parr's Bank; Yokohama Specie Bank; Hongkong Bank
1904	Japan	6	90 1/2	6000 ²⁴⁶	NG	CIFO	Parr's Bank; Yokohama Specie Bank; Hongkong Bank
1904	Mexico	4	94	8230 ²⁴⁷	PCN	M	Speyer Bros

²²⁵ Conversion.²²⁶ No R.H.²²⁷ From 1910 the interest was 3 1/2 percent.²²⁸ £1,960,000 (I.M.M.); the issue amount was £2,000,000 (S.E.O.I.); £947,000 (L.A.).²²⁹ R.H.; the issue amount was £8,800,920 (L.A.). The purpose of this loan was the purchase of railway companies.²³⁰ £3,796,820 (I.M.M.).²³¹ See 1904 and 1906.²³² £734,800 (I.M.M. - net); the total issue amount was £2,250,000; £880,000 (L.A.).²³³ I.M.M.²³⁴ Conversion; £2,046,692 (I.M.M.).²³⁵ £1,273,323 (I.M.M. - net); the issue amount was £2,000,000 (S.E.O.I.); £1,430,700 (L.A.).²³⁶ £2,410,526 (I.M.M. - net); the issue amount was £2,976,000 and the issuer was J.S. Morgan & Co. (S.E.O.I.); £2,770,000 (L.A.).²³⁷ See 1905.²³⁸ £4,950,000 (I.M.M. - net).²³⁹ Unification (S.E.Y. [12]).²⁴⁰ See 1907.²⁴¹ £2,193,750 (I.M.M. - net).²⁴² The amount of the English scrip was \$7,624,000 (£1,576,162) (L.A.).²⁴³ The issue amount was £77,990 (L.A.).²⁴⁴ £730,800 (I.M.M. - net).²⁴⁵ £4,675,000 (I.M.M. - net).²⁴⁶ £5,430,000 (I.M.M. - net).²⁴⁷ Conversion.

Table 1.3 *Foreign Government Loan Issues in London, 1870-1913 (cont.)*

Year	Country	Interest rate (nominal) (%)	Issue price (%)	Issue amount (nominal) (£000)	Market relations	Issue patterns	Loan issuers
1905							
(1903)	Brazil	5	96 1/2	3000 ²⁴⁸		M	London Rothschilds
1905	Chile	5	95 1/2	1350 ²⁴⁹		M	London Rothschilds
1905	China	5	97	1000 ²⁵⁰	PG	O	Hongkong Bank
1905	Japan	4 1/2	90	15000 ²⁵¹	N	CIFO	Parr's Bank; Yokohama Specie Bank; Hongkong Bank
1905	Japan	4 1/2	90	10000 ²⁵²	GN	CIFO	Parr's Bank; Yokohama Specie Bank; Hongkong Bank
1905	Japan	4	90	6500 ²⁵³	PGN	CIFMO	Parr's Bank; Yokohama Specie Bank; London Rothschilds; Hongkong Bank
1905	Siam	4 1/2	95 1/2	500 ²⁵⁴	P	FO	Banque de l'Indo-Chine; Hongkong Bank; Chartered Bank
1905	Venezuela	3	-	5229 ²⁵⁵	P	I	Council of Foreign Bondholders
1906	Brazil	5	96	1100		M	London Rothschilds
1906	Chile	4 1/2	par	3700 ²⁵⁶	PGC	FM	Deutsche Bank; Speyer Bros
1906							
(1902)	Greece	4	83 1/2	270 ²⁵⁷	G	M	Hambros
1906	Russia	5	89	13101 ²⁵⁸	P	M	Baring Bros
1906	Switzer- land	3 1/2	99	2200 ²⁵⁹	P	CIF	Glyn Mills, Currie; Swiss Bankverein
1906	Uruguay	5	96 1/4	170 ²⁶⁰	P	CI	Glyn Mills, Currie
1907	Argentina	5	97 1/2	2580 ²⁶¹	PG	M	Baring Bros; J.S. Morgan
1907	Brazil	5	95	3000		M	London Rothschilds
1907							
(1904)	China	5	94	650		O	Hongkong Bank
1907	China	5	par	1500		O	Hongkong Bank
1907	Japan	5	99 1/2	11500 ²⁶²	P	CIFMO	Parr's Bank; Yokohama Specie Bank; London Rothschilds; Hongkong Bank
1907	Siam	4 1/2	98	1125 ²⁶³	PG	O	Hongkong Bank
1907	Switzer- land	3 1/2	99 1/2	666 ²⁶⁴	PG	CIF	Glyn Mills, Currie; Swiss Bankverein
1908	Argentina	4	-	818 ²⁶⁵		M	Baring Bros

²⁴⁸ £2,910,000 (I.M.M.).²⁴⁹ £1,239,250 (I.M.M.).²⁵⁰ £970,000 (I.M.M. - net).²⁵¹ £13,500,000 (I.M.M. - net).²⁵² £9,000,000 (I.M.M. - net).²⁵³ £5,850,000 (I.M.M. - net).²⁵⁴ £500,000 was issued in Paris (S.E.Y. [12]).²⁵⁵ Conversion.²⁵⁶ £3,496,500 (I.M.M.).²⁵⁷ The issue amount was £270,000 (L.A.).²⁵⁸ £11,659,890 (I.M.M. - net); the issue amount was £13,101,000 (L.A.).²⁵⁹ £2,178,000 (I.M.M. - net); the issue amount was Fr50,000,000 (£1,979,166) (L.A.).²⁶⁰ Conversion; the issue amount was £2,911,169 (S.E.Y. [12]); £170,003 (L.A.).²⁶¹ £2,515,500 (I.M.M. - net); the issue amount was £2,580,000 (S.E.O.I. and L.A.).²⁶² Conversion; £11,442,500 (I.M.M. - net).²⁶³ £2,940,000 (I.M.M.).²⁶⁴ The issue amount was Fr50,000,000 (£1,979,166) (L.A.); total issue amount from 1899 to 1902 was Fr500,000,000 (£19,791,665) (S.E.O.I.).²⁶⁵ The issue amount was £517,760 (S.E.Y. [12]).

Table 1.3 Foreign Government Loan Issues in London, 1870-1913 (cont.)

Year	Country	Interest rate (nominal) (%)	Issue price (%)	Issue amount (nominal) (£000)	Market relations	Issue patterns	Loan issuers
1908	Brazil	5	96	4000	P	M	London Rothschilds
1908 ²⁶⁶	China	5	98 3/4	1110 ²⁶⁷	G	O	Hongkong Bank
1908	China	5	99	1500 ²⁶⁸		O	Hongkong Bank
1908	China	5-4 1/2	98	2500 ²⁶⁹	P	O	Hongkong Bank
1908	Greece	5	97	200 ²⁷⁰	PGC	M	Hambros
1908	Liberia	6	101	100 ²⁷¹		M	Erlanger
1908	Salvador	6	86	1000		MO	Chalmers, Guthrie & Co. London Bank of Mexico & South America
1908	Sweden	4	98	3000 ²⁷²		M	Hambros
1909	Argentina	5	98	2960 ²⁷³	PGN	M	Baring Bros; J.S. Morgan
1909	Chile	5	96 1/2	3000 ²⁷⁴		M	London Rothschilds
1909							
(1908)	China	5	par	740 ²⁷⁵	G	O	Hongkong Bank
1909 ²⁷⁶	Cuba	4 1/2	96	1131	N	M	Speyer Bros
1909	Finland	4 1/2	92 1/2	1800	C	CIM	Union of London & Smiths Bank; Hambros
1909	Monte- negro	5	97	250		M	Boulton Brothers
1909	Nicaragua	6	92	500 ²⁷⁷	C	O	Anglo-South American Bank
1909	Russia	4 1/2	88 3/4	5955 ²⁷⁸	PG	M	Baring Bros
1909							
(1908)	Turkey	4	89 1/2	1094 ²⁷⁹	PG	FM	Imperial Ottoman Bank; Stern Bros
1909	Turkey	4	89	2000 ²⁸⁰	P	FM	Imperial Ottoman Bank; Morgan Grenfell
1910	Argentina	5	101	1209		M	Baring Bros; Morgan Grenfell
1910	Argentina	4	-	411		M	Baring Bros
1910	Brazil	4	90	1000		M	London Rothschilds
1910	Brazil	4	87 1/2	10000 ²⁸¹	P	M	London Rothschilds
1910	Bulgaria	4 1/2	91	3960	GC	M	Schröder
1910	Chile	5	99	2600 ²⁸²		M	London Rothschilds
1910	China	7	108	450		T	London City & Midland Executor Trustee Co.
1910	China	5	100 1/2	1110 ²⁸³	G	O	Hongkong Bank

²⁶⁶. See 1909.²⁶⁷. £1,096,125 (I.M.M. - net); the issue amount was £1,110,000 (L.A.).²⁶⁸. £1,485,000 (I.M.M. - net).²⁶⁹. Redemption.²⁷⁰. £194,000 (I.M.M. - net); the issue amount was £400,000 (L.A.).²⁷¹. Conversion.²⁷². £2,940,000 (I.M.M. - net).²⁷³. £2,900,800 (I.M.M. - net); the issue amount was £10,000,000 (L.A.).²⁷⁴. Conversion; £2,895,500 (I.M.M. - net).²⁷⁵. I.M.M.²⁷⁶. See 1910 and 1911.²⁷⁷. Conversion or redemption.²⁷⁸. £5,285,061 (I.M.M. - net); the London issue amount was £5,955,000 (L.A.).²⁷⁹. £979,398 (I.M.M. - net).²⁸⁰. £1,780,000 (I.M.M. - net).²⁸¹. Conversion.²⁸². £2,574,000 (I.M.M. - net).²⁸³. £1,115,550 (I.M.M. - net); the issue amount was £3,000,000 (S.E.O.I.); £1,100,000 (L.A.).

Table 1.3 Foreign Government Loan Issues in London, 1870-1913 (cont.)

Year	Country	Interest rate (nominal) (%)	Issue price (%)	Issue amount (nominal) (£000)	Market relations	Issue patterns	Loan issuers
1910							
(1909)	Cuba	4 1/2	98	1131	N	M	Speyer Bros
1910	Greece	5	99	1588 ²⁸⁴	PC	M	Hambros; Erlanger
1910	Japan	4	95	11000 ²⁸⁵		CIFO	Parr's Bank; Yokohama Specie Bank; Hongkong Bank
1911	Brazil	4	92	4500	C	M	London Rothschilds
1911	Brazil	4	83 1/2	2400	P	I	South American Railway Construction
1911	Chile	5	98 1/2	2452	PG	M	London Rothschilds
1911	Chile	5	98 1/2	5000 ²⁸⁶	PG	M	London Rothschilds
1911	Chile	4 1/2	-	275		M	London Rothschilds
1911	China	5	100 1/2	1500 ²⁸⁷	PGN	O	Hongkong Bank
1911	Costa Rica	4	-	2000 ²⁸⁸	P	I	M.C. Keith
1911							
(1909-10)	Cuba	4 1/2	98 3/4	1131	N	M	Speyer Bros
1911	Greece	4	86 1/2	573 ²⁸⁹	C	M	Hambros; Erlanger
1911	Norway	4	100 3/4	2200		CIM	Union of London & Smiths Bank; Hambros
1911	Persia	5	96 1/2	1250 ²⁹⁰		O	Imperial Bank of Persia
1911	Peru	5 1/2	98 1/2	1172 ²⁹¹	G	M	Schröder
1912	Brazil	4	83 1/2	2400		I	South American Railway Construction Co. (Lloyds Bank)
1912	Chile	3	95	1099 ²⁹²	GC	M	Schröder
1912	China	5	95	5000 ²⁹³		OT	British Bank for Foreign Trade; British International Investment Trust
1912	Denmark	4	97	2500 ²⁹⁴	P	M	Hambros
1913	Argentina	5	99	1000 ²⁹⁵		M	Baring Bros
1913	Argentina	5	98	341 ²⁹⁶		M	Baring Bros
1913	Brazil	5	97	11000 ²⁹⁷		M	London Rothschilds
1913	Chile	5	96	1118 ²⁹⁸	P	M	Schröder
1913	China	5	90	7416 ²⁹⁹	PGC	O	Hongkong Bank
1913	Romania	4 1/2	91	1980 ³⁰⁰	GC	M	Schröder

²⁸⁴. £1,572,120 (I.M.M. - net).²⁸⁵. Conversion.²⁸⁶. £4,925,000 (I.M.M. - net); the total issue amount of the two loans was £9,905,000 (S.E.Y. [16]); £5,000,000 (L.A.).²⁸⁷. The issue amount was £1,500,000 (L.A.).²⁸⁸. Conversion.²⁸⁹. Conversion; the London issue amount was £573,764 (L.A.).²⁹⁰. £1,206,250 (I.M.M. - net).²⁹¹. £1,154,814 (I.M.M. - net); the issue amount was £1,172,000 (L.A.).²⁹². The issue amount was £1,099,000 (L.A.).²⁹³. £4,750,000 (I.M.M. - net).²⁹⁴. £2,425,000 (I.M.M. - net); the issue amount was £2,500,000 (L.A.).²⁹⁵. £990,000 (I.M.M. - net); the issue amount was £1,425,200 (S.E.O.I.); £1,000,000 (L.A.).²⁹⁶. £341,300 (L.A.).²⁹⁷. Conversion.²⁹⁸. £1,074,144 (I.M.M. - net).²⁹⁹. Reorganisation; £6,674,940 (I.M.M. - net); the issue amount was £7,416,680 (L.A.).³⁰⁰. Conversion; the London issue amount was £1,980,000 (L.A.).

Table 1.3 Foreign Government Loan Issues in London, 1870-1913 (cont.)Abbreviations:

C	Continent
Cl	Clearing banks
Ec	<u>The Economist</u>
F	Foreign banks
<u>F.B.H.</u>	<u>Annual Report of the Council of the Corporation of Foreign Bondholders</u>
<u>Fn</u>	<u>Fenn's Compendium</u>
G	Germany
Gn	Government
H.A.	Hambros Archives
I	Indefinite
<u>I.M.M.</u>	<u>Investor's Monthly Manual</u> (British Capital Created)
L.A.	London Stock Exchange Archives
L.C.P.	Loan and Company Prospectuses (London Stock Exchange [Guildhall Library])
L.J.S.B.A.	London Joint Stock Bank Archives
M	Merchant banks
N	New York
O	Overseas banks
P	Paris
R.A.	London Rothschilds Archives
<u>R.H.</u>	The London House of Rothschild [J. Ayer], <u>A Century of Finance</u>
<u>S.E.O.I.</u>	<u>Stock Exchange Official Intelligence</u>
<u>S.E.Y.</u>	<u>Stock Exchange Year-Book</u>
T	Trust companies

Sources:

Primary sources of the table were as follows:

- 1870-78 5th Annual General Report of the Council of the Corporation of Foreign bondholders;
 1878-84 Stock Exchange Year-Book and Burdett's Official Intelligence (Quotations);
 1885-1913 Burdett's Official Intelligence and Stock Exchange Official Intelligence (re-titled from the 1899 edition)
 (British, Foreign and Colonial Loans issued in London);
 1870-1913 Investor's Monthly Manual (British Capital Created).

These data were modified on the basis of the following journals, books and archival records:

- Fenn's Compendium of the English and Foreign Funds, Debts and Revenues of all Nations, 14th ed. (by R.L. Nash)
 (1889) and 16th ed. (by S.F. Van Oss) (1898);
 The London House of Rothschild [J. Ayer], A Century of Finance 1804 to 1904 (1905), pp.52-81;
The Economist ('Commercial History and Review');
Burdett's Official Intelligence and Stock Exchange Official Intelligence (re-titled from the 1899 edition)
 (main part) (1885-1914)
 Thomas Skinner, Stock Exchange Year-Book (for the years of 1880, 1890, 1901, 1912 and 1916);
Annual Report of the Council of the Corporation of Foreign Bondholders, 1877-1913;
 Hambros Archives, Loan Issue Papers;
 Loan and Company Prospectuses (London Stock Exchange [Guildhall Library]);
 London Joint Stock Bank Archives, Loan Issue Papers;
 London Stock Exchange Archives, Ms.18,001 (Index of Quotation Applications);
 London Rothschilds Archives, Loan Issue Papers.

Table 1.3 Foreign Government Loan Issues in London, 1870-1913 (cont.)

Notes: - implies no information;
 () Original issue year;
 'Issue amount (nominal)' means the London issue amount (nominal);
 'Market relations' shows the linkages of loan markets;
 'Issue patterns' shows the combination of financiers in issue;
 Loan issue prices were not fixed in most of the conversion loan issues because the payments were made by the exchange of old bonds for new ones.

Table 1.3 has the following inevitable defects because its primary sources are based on the financial press: (i) not all the loan issues on the London capital market were found in the table and there were missing ones, especially privately placed loans; (ii) loans (loan issue amounts) issued on the London capital market are listed in this table whenever possible but this distinction was not always possible even from prospectuses, and loans issued outside the London capital market and partials are inevitably included; (iii) loans (loan issue amounts) issued outside the London capital market are listed in the table when the primary sources regarded them as London's tranches; (iv) the tracing of loan issue purposes (conversion, redemption and so on), loan issuers and market relations are incomplete; (v) only central government loans are collected because it is difficult to follow Treasury bill and provincial government loan issues from the financial press; (vi) some government guaranteed loan issues are included in the table as government loan issues; (vii) re-sales of domestic loans (loans which had been issued internally and afterwards re-sold abroad) are included in the table; (viii) differences of information, especially on loan issue amounts, among the financial press are referred to in footnotes unless there are decisive grounds to be selected; (ix) careful treatment is needed with respect to as above such as Argentina, Egypt, Greece, Mexico, Portugal, Russia, Spain and Turkey; their repeated conversion operations often obscured the real extent of their loan issues.

Some remarks should be made about loan issue information collected from the financial press. (i) I.M.M. covers the full period (1870-1913) but includes only loans quoted on the London Stock Exchange. The tables of 'British Capital Created' and of 'British Capital Called up' give accurate loan issue amounts in London mostly, but their coverage is limited and there are large omissions. (ii) Stock Exchange Official Intelligence, Stock Exchange Year-Book and Fenn's Compendium provide most extensive information on loan issues by country, but do not always separate London's issue amounts from total amounts (issued or created) and often include loan issue amounts outside the London capital market (partials). (iii) The London Rothschilds' official history (A Century of Finance 1804 to 1904) provides the most precise information of their loan issues, but loan issue amounts includes other Rothschilds' tranches and coverage ended in 1903. (iv) The Economist no longer gave individual loan issue information after the year of 1881 because I.M.M. played this role. After 1903 it published British capital created and called up - the same figure as I.M.M.. (v) The London Stock Exchange Archives (Ms.18,001 [quotation applications] and Loan and Company Prospectuses) were concerned only with loans quoted on the London Stock Exchange but provided the most accurate loan issue terms. (vi) Annual Report of the Council of the Corporation of Foreign Bondholders gave useful information on countries with heavy borrowing.

1.2 Geographical Distribution

Table 1.4 shows the geographical distribution of foreign government loan issues on the London capital market by country. After 1896 major developed European countries and the United States were no longer large borrowers in London and raised necessary funds on their own domestic markets. Paris, rather than London, became the prime source of loans for Southern Europe, the Scandinavian countries, Romania, Switzerland and Russia.⁷ Russia conducted large-scale financial operations in both London and Paris, but following the Franco-Russian Entente of 1894 patronised the Paris capital market far more. Russia did return to London in 1906 for a simultaneous loan issue.

The London capital market became receptive especially to South American and Far Eastern countries from the late-1890s. Their proportion of the total issue amount increased remarkably, although South American government bonds had already become market leaders in the 1870s and the late-1880s. London was of paramount importance for Chinese government loan issues from the outset, but in 1895 China, as a result of Russia's diplomatic influence, tapped the Paris capital market to raise the Sino-Japanese War indemnity. China floated many simultaneous loans in London and on the Continent. Japan depended upon the London capital market for its first foreign loan issue in 1870. After a long interval, in the 1890s, it began to organise large loan issues in London. Japan briskly expanded a loan issue market from London to New York and Berlin during the Russo-Japanese War, and later reached the Paris capital market. The total Japanese government loan issues on the London capital market in the period from 1870 to 1913 amounted to £82,106,335 (net amount), 3.8 percent of the total foreign government issues, but their proportion increased remarkably to 20.8 percent in the period from 1900 to 1913 when transactions of foreign governments bonds on the market were at a low ebb.

⁷. M. Lévy-Leboyer (ed.), La position internationale de la France (Paris, 1973), p.25.

Table 1.4 Foreign Government Loan Issues in London, 1870-1913 (By Country)
(£000; net proceeds)

Country	1870-74	1875-79	1880-84	1885-89	1890-94	1895-99	1900-04	1905-09	1910-13	Total
Argentina	9370		9399	21418	9685	18715	9539	6297	2956	87379
Austria	203259*	4000								207259
Belgium	1087									1087
Bolivia	1156									1156
Brazil	3079	5115	4093	30218	2957	14939	19555	10641	28468	119065
Bulgaria				1746	1110		3756		3604	10216
Chile	2979	971		9343	2340	5690	260	7884	12307	41774
China		2157		3680	1602	52016	2194	8852	14533	85034
Colombia	2000					2700				4700
Costa Rica	1957			619					2000	4576
Cuba				21576			6985	1086	2225	31872
Denmark			1648		1365	3989	630		2425	10057
Ecuador							52			52
Egypt	32317	37705		11225	42498					123745
Finland								1665		1665
France	240124*	2380								242504
Germany	14438		29500			3484				47422
Greece		999	3939	6951	2621	6113	1659	419	2068	24769
Guatemala				922		1545				2467
Haiti						1800				1800
Hawaii				196						196
Holland	171	3525			4514	4432				12642
Honduras	2000									2000
Hungary	6750	3758	39556	5200		1634				56898
Italy			25978							25978
Japan	3200					13451	15209	39793	10450	82103
Liberia	85							101		186
Mexico				6702	7585	3787	7736			25810
Montenegro								243		243
Nicaragua				264				460		724
Norway		2889	859	4817	2166				2217	12948

Table 1.4 Foreign Government Loan Issues in London, 1870-1913 (By Country) (cont.)
(£000; net proceeds)

Country	1870-74	1875-79	1880-84	1885-89	1890-94	1895-99	1900-04	1905-09	1910-13	Total
Paraguay	1278			839						2117
Persia					475				1206	1681
Peru	21310								1154	22464
Portugal		3506	4438	14573						22517
Romania	805								1802	2607
Russia	46680	13800	22897	93891	54175			16945		248388*
Santo Domingo				502	2478	759				3739
Salvador				287				860		1147
Serbia						680	2160			2840
Siam								1580		1580
South Africa			100		2250					2350
Spain	20116	26515	12000							58631
Sweden		3297	3918	1470	2950		928	2940		15503
Switzerland								2841		2841
Tonking						2784				2784
Turkey	29068	2500	14067	6027	21121		45155	2759		120697*
USA	102375	205950				35709				344034*
Uruguay	2520		8011	3510	19300	1192		164		34697
Venezuela			2702					5229		7931
Total	748124	319067	183105	245976	181192	175419	115818	110759	87415	2166875
(index)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
Feinstein	385000	142000	271000	402000	338000	217000	155000	666000	818000	3394000
(index)	(51)	(45)	(148)	(163)	(187)	(124)	(134)	(601)	(936)	(157)
Simon	352600	158100	307600	451500	294400	379400	359700	653300	785300	3741900
(index)	(47)	(50)	(168)	(184)	(162)	(216)	(311)	(590)	(898)	(173)

Notes: Germany included North Germany and Prussia; South Africa included Orange Free State;

* Only a fraction of these particularly large sums were raised in London;

Net proceeds were calculated as follows:

(net proceeds) = (total loan issue amounts) × (London issue prices, otherwise 100) / 100;

These amounts do not mean actual capital transfers from the London capital market, and the data for the period before 1885, not based on S.E.O.I., are perhaps insignificant because they included large partials.

Feinstein calculated U.K. investment abroad (net) on the indirect method and Simon British portfolio foreign investment (net) on the direct method.

Sources: Table 1.3;

C.H. Feinstein & S. Pollard (eds.), Studies in Capital Formation in the United Kingdom, 1750-1920 (Oxford, 1988), table xvii (pp.462-63);

M. Simon, 'The Pattern of New British Portfolio Foreign Investment, 1865-1914' in A.R. Hall (ed.), The Export of Capital from Britain 1870-1914 (1968), pp.38-39.

1.3 Yields

Anticipated returns and risks are the fundamental determinants of investors' demand. The promised yields of Colonial and foreign government bonds were typically much higher than those of Consols,⁸ but British investors did not always prefer these higher interest bonds because of perceived 'country risks'. In 1865 Viscount Goschen, in saying 'thousands of men, who, under the old system [the principle of unlimited liability], would rather have invested their money at 3 per cent. at home than risk it abroad for 50',⁹ noted that not only high yields but also risks swayed the decision of British investors. Dickson, who gives full treatment to eighteenth century national debt problems, has paid attention to the aspect of safety in investment.¹⁰ Kennedy has discussed British investors' preferences for safety, and explained the reasons for the apparent bias of the Victorian capital market towards foreign securities, as resulting mainly from a limited ability to achieve informed diversification of dangerous domestic ventures and the highly segmented, informationally inefficient structure of the various financial institutions of the London capital market.¹¹ Edelstein, taking risks in investment into consideration, calculated 'risk-adjusted returns' and confirmed a tendency for overseas 'risk-adjusted returns' to exceed those at home.¹² It is worth considering the behaviour of Victorian

⁸. R.L. Nash, A Short History into the Profitable Nature of Our Investments (1881), pp.31-32; R.A. Lehfeldt, 'The Rate of Interest on British and Foreign Investments', J.R.S.S., vol.lxxvi (1913), pp.196-207 and 415-16; vol.lxxvii (1914), pp.432-35; vol.lxxviii (1915), pp.452-53; A.K. Cairncross, Home and Foreign Investment 1870-1913 (Cambridge, 1953), chapter ix; M. Edelstein, Overseas Investment in the Age of High Imperialism (1982), chapter 5.

⁹. Viscount Goschen, Essays and Addresses on Economic Questions, 1865-1893 (1905), p.26.

¹⁰. P.G.M. Dickson, The Financial Revolution in England (1967), p.301.

¹¹. Kennedy, op. cit., chapter 5.

¹². M. Edelstein, 'Realised Rates of Return U.K. Home and Overseas Portfolio Investment in the Age of High Imperialism', Explorations in Economic History, vol.13-no.3 (1976), pp.302-6; Overseas Investment in the Age of High Imperialism (1982), pp.130-40. Edelstein's analysis of 'risk-adjusted returns' was similar to that of J.D. Bailey's analysis of Australian governments' bondholders (M. Edelstein, 'The Rate of
(continued...)

investors, but it is now almost impossible to trace bondholders because the loan issue banks held no subscription lists of their issued securities.¹³ 'It has, in fact, proved to be extremely difficult to generalize about Victorian investors'.¹⁴

Table 1.5 shows the average yields of the foreign government bonds quoted on the London Stock Exchange at 5 year intervals from 1870 to 1910. The figures of these yields were made by dividing the annual nominal dividends by the January quotation prices of the bonds in the Investor's Monthly Manual¹⁵ and averaged by country. The contemporary market rate of interest and investors' assessment of the risk factors involved in the investment could affect the quotation prices. Obviously higher yields coincided with higher dividends and lower prices.

In particular, South American countries' high-yield bonds deserved attention at the time. There were several notorious South American government loan issues which

¹²(...continued)

Return on U.K. Home and Foreign Investment, 1870-1913', Unpublished Ph. D. Thesis, University of Pennsylvania, 1970, pp.73-76). Bailey emphasised that the importance of 'safe' investors or rentiers as Colonial government bond investors by saying that 'they constituted between 40 and 50% of the number of subscribers, and invested between 30 and 40% of the capital [amounts]' ('Australian Company Borrowings 1870-1913: A Study in British Overseas Investment', Unpublished D. Phil. Thesis, Oxford University, 1958, p.63). But note that in order to obtain a good statistical fit for his calculations of risk adjusted yields, Edelstein must introduce for preference and debenture issues a dummy variable that takes on a significant negative coefficient (Edelstein, Overseas Investment, op. cit., pp.131-135). This means that British wealth-holders systematically paid too much for preference and debenture issues relative to their realised patterns of risk and return. Without this adjustment, the risk adjusted returns on foreign investment, shown in Edelstein's Table 5.7, would have been markedly lower, rather than only slightly lower (*ibid.*, pp.138-39), than the returns in domestic investment. However, the differential between risk adjusted returns on overseas and domestic equity remains.

¹³. It is possible to derive the subscribers' names, addresses, occupations and amounts of the colonial government loans from the Bank of England Archives. Bailey analysed the subscribers of the Queensland government loans of 1883, 1884, 1888 and 1891 (Bailey, op. cit., pp.55-63 and appendix ii [pp.iii-xiii]).

¹⁴. S. Pollard, 'Capital Exports, 1870-1914: Harmful or Beneficial?', Economic History Review, second series, vol.xxxviii-no.4 (1985), p.498.

¹⁵. The dividends were nominal (not realised dividends) because the item of 'yield to investors at latest price' in the Investor's Monthly Manual is not available before June 1879.

defaulted immediately after flotation. Without doubt, the fabulous promised yields enticed investors into perilous ventures and many disappointments.

South European countries and Turkey manifested low creditworthiness on the market. Greece and Turkey had crucial debt problems from the late nineteenth century. Italy, after unification in 1870, steadily improved its borrowing position on the European financial markets and by the 1880s achieved first-rate standing.

The yields of the bonds issued by East European and Far Eastern countries were not as high as those of the South American countries. Their creditworthiness was still middling even in 1910.

Throughout the nineteenth century the more developed West European countries received a favourable assessment from investors. Just before the First World War the Scandinavian countries, where central governments relied on much foreign capital for their industrialisation, attained similar levels of credit rating on the London capital market.

The chronological yields of several foreign government loans are indicated in Table 1.6. Silver loans were assessed at a discount under the gold standard mainly because of the depreciation of silver from the 1870s.¹⁶ The establishment of the gold standard improved borrowing countries' creditworthiness on the foreign capital markets. In fact, after the adoption of the gold standard in 1897, the yields of Russian and Japanese governments bonds plummeted as bonds prices rose.¹⁷

Table 1.7 sets out the Japanese government loan issue terms in the period from

¹⁶. Viscount Goschen, *op. cit.*, p.133. The price of silver fell 20 percent in the 1870s. In August 1897, Japanese government 5 percent bonds, based on silver standard, were quoted at 46 1/2 percent (yielding 10.75 percent at market) on the London Stock Exchange, but 5 percent bonds, endorsed to pay the principal and interest in gold, at 101 1/2 (yielding 4.93 percent at market) (*I.M.M.*, August 1897).

¹⁷. The establishment of the gold standard in Russia attracted more foreign capital because of reductions in exchange risks (P.R. Gregory, 'The Russian Balance of Payments, the Gold Standard, and Monetary Policy', *Journal of Economic History*, vol.39-no.2 [1979], p.393).

1870 to 1910. The rates of nominal interest reflected Japan's creditworthiness of the time, and the level of the yields at issue indicates the market's assessment of these loan issues. The risk factors were calculated roughly from the difference between them and the yields on Consols, one of the relatively risk free investments. The two early loans held large perceived risks for public investors since Japan was still an unknown country. However, Japan's borrowing position in London improved remarkably as a result of both the adoption of the gold standard and the conclusion of the Anglo-Japanese Alliance in 1902. Japan built closer relations with the London capital market. This obviously reflected the level of the yields at issue in 1899 and 1902. The two loan issues of 1904 involved the uncertainties and dangers of the Russo-Japanese War. The yields of the Japanese government loans thus closely corresponded with the risks that the contemporary loan issue market perceived and the dividends paid.

Table 1.5 Realised Yields of Foreign Government Loans, 1870-1910 (By Country)
(percent)

Country	1870	1875	1880	1885	1890	1895	1900	1905	1910
Argentina	7.0	7.2	7.4	7.0	5.5	10.7	6.9	5.9	5.2
Austria	10.1	7.6	6.8	6.5	5.9	5.4	5.4	4.0	4.1
Belgium	4.1	4.2	3.9	3.7	3.2	2.9	-	-	-
Bolivia	-	24.0	16.0	-	-	-	-	-	-
Brazil	5.7	5.0	5.0	5.1	5.1	5.6	7.2	5.0	4.8
Bulgaria	-	-	-	-	-	6.0	6.8	6.0	5.1
Chile	5.6	4.7	6.9	5.5	5.2	4.8	5.6	5.0	4.9
China	-	-	7.4	7.7	6.1	6.4	7.8	5.5	5.7
Colombia	7.1	7.9	11.2	23.8	11.3	28.8	9.4	5.0	6.7
Costa Rica	-	31.0	42.6	50.0	5.6	15.8	10.4	13.6	7.7
Cuba	8.7	8.8	-	-	-	-	-	4.7	4.8
Denmark	4.1	4.5	4.3	4.0	-	-	3.5	3.3	3.5
Ecuador	10.5	12.5	11.1	12.5	4.2	18.5	18.8	-	-
Egypt	8.3	8.1	8.2	5.9	4.7	3.7	3.8	3.8	3.8
Finland	-	-	-	-	-	-	-	-	4.7
France	4.1	5.2	3.9	4.0	3.7	3.1	3.2	3.1	3.1
Germany	-	-	-	3.9	3.8	3.4	3.5	3.4	3.6
Greece	47.6	35.7	25.0	6.6	5.4	16.7	11.4	9.1	8.9
Guatemala	7.7	12.0	31.7	14.3	5.8	18.4	20.0	15.2	10.1
Hawaii	-	-	-	-	-	5.8	-	-	-
Holland	4.6	4.0	3.9	3.9	3.2	3.1	3.2	3.1	3.3
Honduras	12.3	142.9	153.8	250.0	60.6	160.0	210.5	111.1	80.0
Hungary	-	6.7	6.4	5.3	4.5	4.0	3.9	3.9	4.1
Italy	7.7	6.6	5.7	5.2	5.3	5.6	5.4	4.9	5.1
Japan	-	7.7	7.3	6.7	6.5	6.6	6.6	6.5	5.3
Liberia	-	35.0	140.0	-	-	-	-	9.5	-
Mexico	31.4	20.5	34.0	24.1	6.3	10.4	6.7	6.9	6.2
Nicaragua	-	-	-	-	6.0	10.1	7.9	5.6	5.5
Norway	-	-	4.3	4.2	3.6	3.3	3.5	3.4	3.5
Orange Free State	-	-	-	-	5.8	5.8	-	-	-
Paraguay	-	45.8	57.1	94.1	4.5	25.0	17.6	7.4	5.6
Peru	5.5	8.9	31.6	52.1	29.1	-	-	-	-
Portugal	9.1	6.3	5.7	6.7	4.7	12.1	13.2	4.5	4.6
Russia	5.7	4.9	5.6	5.4	4.6	3.7	3.8	4.4	4.4
Salvador	-	-	-	-	-	8.6	-	-	6.9
Santo Domingo	-	66.7	-	50.0	-	-	-	-	-
Serbia	-	-	-	-	-	-	6.8	5.2	4.8
Siam	-	-	-	-	-	-	-	-	4.5
Spain	11.1	9.2	9.2	5.3	4.9	5.1	5.4	4.4	4.2
Sweden	5.0	4.8	4.4	4.1	3.7	3.5	3.4	3.5	3.8
Switzerland	-	-	-	-	-	-	-	3.5	3.6
Turkey	8.5	8.8	30.6	24.3	4.6	3.8	5.6	4.1	4.1
United States	6.2	5.6	4.6	3.6	3.8	-	3.3	3.4	3.3
Uruguay	-	10.1	21.0	9.9	6.9	6.7	7.8	5.4	4.9
Venezuela	28.0	37.6	35.2	10.0	5.7	6.5	12.2	6.8	5.4
Colonial governments	4.8	4.4	4.1	4.0	3.7	3.3	3.5	3.8	4.0

Table 1.5 Realised Yields of Foreign Government Loans, 1870-1910 (By Country) (cont.)

- Notes: End of January;
 - implies no transactions;
 These yields were made by dividing the dividends of individual loans by
 the January quotation prices and averaged by country;
 Excluding Treasury bills and provincial governments loan issues;
 Germany included Prussia;
 Colonial governments' yields were calculated from 51 bonds.
- Source: I.M.M., 1870, 1875, 1880, 1885, 1890, 1895, 1900, 1905 and 1910;
 British Colonial governments - Edelstein, 'The Rate of Return, op. cit.',
 pp.295-96.

Table 1.6 Realised Yields of Selected Foreign Government Bonds, 1880-1913
(percent)

	Argentina 5 % (1884)	Brazil 4 1/2 % (1883)	Chile 4 1/2 % (1886)	China 6 % (1895)	Greece 5 % (1881)	Italy 5 % (1862)
Yield (at issue)	5.9	5.0	4.5	6.2	6.7	6.8
1880						5.1
1881						4.9
1882					7.8	5.1
1883					7.7	5.0
1884		5.2			8.0	4.7
1885	-	5.5			8.0	4.3
1886	6.1	5.3			10.0	4.5
1887	5.8	4.9			9.4	4.5
1888	5.4	4.6	4.6		7.9	4.7
1889	5.2	4.6	4.3		6.0	4.6
1890	5.4	5.6	4.4		5.6	4.8
1891	8.0	6.1	4.7		5.6	4.7
1892	-	6.9	4.9		7.4	4.9
1893	-	6.3	5.1		7.9	4.8
1894	7.2	7.4	5.5		-	5.8
1895	7.0	5.7	4.7		5.1	4.7
1896	6.8	6.1	4.8	5.6	5.1	4.7
1897	5.0	6.3	5.0	5.6	5.1	4.4
1898	6.8	7.3	5.4	5.6	4.0	4.2
1899	6.8	-	6.0	5.6	3.4	4.3
1900	7.9	-	5.4	5.6	4.3	4.3
1901	6.4	-	5.4	5.9	4.7	4.2
1902	6.7	-	6.0	5.6	4.3	4.0
1903	5.5	5.4	5.2	5.7	4.3	3.9
1904	5.3	5.5	5.4	5.8	4.0	3.9
1905	5.0	5.2	4.8	5.7	3.8	3.9
1906	4.9	4.8	4.6	5.7	3.6	4.0
1907	5.0	5.1	4.8	5.8	3.9	4.0
1908	5.0	5.1	5.2	5.7	-	4.0
1909	4.9	5.3	4.9	5.7	-	4.0
1910	4.7	4.6	4.7	5.7	-	4.0
1911	4.7	4.6	4.7	5.7	-	4.0
1912	4.8	4.6	4.7	5.9	-	4.0
1913	4.8	4.6	4.8	5.8	-	4.2

Table 1.6 Realised Yields of Selected Foreign Government Bonds, 1880-1913(cont.)
(percent)

	Japan 7 % (1873)	Japan 4 % (1899)	Prussia 4 %* (1880)	Russia 5 % (1822)	Sweden 4 %** (1880)	Consol 3 %***
Yield (at issue)	7.5	4.4	-	6.1	4.1	-
1880	6.6			5.8		3.0
1881	6.5		4.0	5.6	4.1	3.0
1882	5.5		4.1	5.9	4.0	3.0
1883	6.0		4.0	6.1	4.0	2.9
1884	6.5		3.9	5.9	4.0	2.9
1885	6.1		3.9	5.3	4.0	3.0
1886	6.0		3.8	-	3.8	3.0
1887	4.9		3.8	5.2	3.8	2.9
1888	4.7		3.8	5.6	3.8	2.9
1889	6.0		3.7	5.1	3.7	3.0
1890	5.8		3.8	4.5	3.8	2.7
1891	5.8		3.8	4.2	3.8	2.7
1892	5.3		3.8	4.5	3.9	2.7
1893	5.8		3.8	4.3	3.9	2.6
1894	5.8		3.9	4.1	3.8	2.5
1895	4.6		3.8	3.8	3.9	2.4
1896	4.3		3.8	3.8	3.4	2.4
1897	6.1		3.9	3.4	3.4	2.2
1898			3.9	3.3	3.4	2.2
1899			3.5	3.4	3.4	2.0
1900		4.8	3.6	3.8	3.6	2.5
1901		5.0	3.6	3.8	3.6	2.7
1902		5.0	3.5	3.9	3.5	2.6
1903		4.6	3.0	3.7	3.5	2.6
1904		5.3	3.5	4.0	3.5	2.8
1905		5.0	3.5	4.6	3.5	2.8
1906		4.4	3.5	5.0	3.5	2.7
1907		4.5	3.6	5.3	3.5	2.9
1908		4.8	3.8	5.1	3.6	2.8
1909		4.7	3.7	4.8	3.7	3.0
1910		4.3	3.7	4.4	3.6	3.0
1911		4.3	3.8	4.1	3.7	3.1
1912		4.6	3.8	4.1	3.7	3.1
1913		5.1	4.1	4.1	3.8	3.2

Notes:

End of January;

- implies no transaction;

These yields were derived from 'yield to investors at latest price; redemption included' in I.M.M.;

* from 1899 3 1/2 percent;

** from 1896 3 1/2 percent;

*** from 1890 2 3/4 percent and from 1903 2 1/2 percent.

Source:I.M.M., annually.

Table 1.7 Japanese Government Loan Issue Terms (London), 1870-1910

Year	(1) Nominal interest rate (%)	(2) Issue price (%)	(3) Nominal issue amount (£000)	(4) Borrowing period (year)	(5) Yield at issue (%)	(6) Yield on Consols (%)	(7) Yield difference (%)
1870	9	98	1,000	13	9.2	3.2	6.0
1873	7	92 1/2	2,400	25	7.6	3.2	4.4
1897	5	101 1/2	4,385	53	4.9	2.5	2.4
1899	4	90	10,000	55	4.4	2.6	1.8
1902	5	100	5,104	55	5.0	2.9	2.1
1904	6	93 1/2	5,000	7	6.4	2.8	3.6
1904	6	90 1/2	6,000	7	6.6	2.8	3.8
1905	4 1/2	90	15,000	25	5.0	2.8	2.2
1905	4 1/2	90	10,000	25	5.0	2.8	2.2
1905	4	90	6,500	25	4.4	2.8	1.6
1907	5	99 1/2	11,500	60	5.0	3.0	2.0
1910	4	95	11,000	60	4.2	3.1	1.1

Notes: (5) = (1)/(2) × 100;
(7) = (5) - (6).

Sources: (1)-(5) Part II;
(6) B.R. Mitchell, British Historical Statistics (Cambridge, 1988), p.678.

1.4 Commissions

The level of loan issue commissions¹⁸ depended upon the risks which loan issuers undertook. The commissions on Colonial government loan issues¹⁹ were much lower than

¹⁸. Normally loan issue charges comprise the following commissions: loan issue bank commissions, underwriting commissions, brokerage commissions (placing underwriting), brokerage commissions (application), intermediary commissions and miscellaneous commissions.

¹⁹. Usually Colonial governments paid a 1-1/4 percent loan issue bank commission and a 1/4 percent broking commission (Schilling, *op. cit.*, p.52). The Bank of England charged a very low issue bank commission, 1/8 percent (at a fixed price) and 1/16 percent (at tender) (Committee of Enquiry into the Organization of the Crown Agents' Office, Minutes of Evidence & Appendices, B.P.P. 1909, xvi, [Cd.4474], Q.4179 [E. Blake -Senior Crown Agent]). Hall's figures of the costs in New South Wales (continued...)

those of foreign governments, because the former were raised by the tender method.²⁰ In this case, the loan issue banks did not undertake loan issues at their own risk. On the other hand, foreign governments faced high loan issue commissions. Since most of their loan issues were implemented on the condition that the loan issuers should guarantee to take some or all of the issue amounts,²¹ the loan issuers demanded sufficient commissions to compensate for their risks in the loan issues.

Some of the South American government loan issues in the 1860s and the 1870s, fully investigated by a Parliamentary Committee, revealed high loan issue commissions: the Honduras government 10 percent loan issue of 1867 paid about an 8.4 percent commission²² and the Costa Rica government 7 percent loan of 1872 a 7.6 percent commission.²³ The Japanese government too paid a 7 percent commission in the 9 percent loan issue of 1870.²⁴ These loan issue commissions were very high in comparison with contemporary standards.

It was of importance to borrowing countries to free themselves from foreign financiers' high commissions. In fact, after the assiduous efforts by local financial institutions to use the most advantageous foreign capital markets, some of the borrowing countries successfully improved their subordinate position and became independent borrowers. For instance, Sweden carefully avoided over-dependence upon particular financiers and markets, and pursued the most favourable loan issue terms on the

¹⁹(...continued)

government loan issues were higher (A.R. Hall, The London Capital Market and Australia, 1870-1914 [Canberra, 1963], p.107). It seems likely that his calculation would include all the costs for the loan issues, such as the British stamp duty, printing and others.

²⁰. For the tender method, see chapter 2.

²¹. See chapter 2.

²². Report of the Select Committee on Loans to Foreign States, B.P.P. 1875, xi, appendix, no.6.

²³. Ibid., no.28. Burk pointed out J.S. Morgan & Co.'s large commission in the Chilean government loan issues of 1867 (K. Burk, Morgan Grenfell 1838-1988 [Oxford, 1989], p.33).

²⁴. See chapter 3.

international capital markets. Throughout these operations, pre-eminent local banks always took the lead in loan issue negotiations with foreign financiers. The competitive background considerably lowered the level of commissions in Swedish government loan issues.²⁵

However, financiers issued the loans of favoured foreign governments at remarkably low commissions especially when the loans were placed by the tender method. The London Joint Stock Bank tendered for the North German Confederation Treasury bonds issue in 1870 at a 1/2 percent commission;²⁶ in 1880 the Bank also negotiated the re-sale of the Prussian government 4 percent domestic loan issue at a 1/3 percent commission.²⁷ In the Italian government 5 percent loan issues from 1880 to 1882, Hambros and Baring Brothers obtained only about a 2 3/10 percent profit with all charges included.²⁸ Hambros carried out the Swedish government 4 percent loan issue in 1880 at about a 2 3/5 percent profit.²⁹

There was a tendency for loan issue commissions to diminish. Because of both the diffusion of underwriting³⁰ and keen competition on the loan issue market, financiers were forced to lower their loan issue commissions. In 1911 the London Rothschilds came to charge a 1 or a 1 1/4 percent underwriting commission and a 1 percent loan issue bank commission for foreign government loan issues. This level was less expensive than contemporary standards, namely 2 or 1 1/2 percent of an underwriting commission and 1 1/2 percent of a loan issue bank commission. The London Rothschilds, therefore, felt proud that 'the underwriting commission we charged is less than all other governments

²⁵. O. Gasslander, History of the Stockholms Enskilda Bank to 1914 (Stockholm, 1962), passim.

²⁶. L.J.S.B.A., Q 70, Special German Correspondence and others, no date.

²⁷. Ibid., London Joint Stock Bank to the General Direction of the Seehandlung Society, 10 November 1879.

²⁸. H.A., Ms.19,119, Italian Government Loan Syndicate Account (1880-1882).

²⁹. Ibid., Ms.19,168, Swedish Government 4 percent Loan of 1880.

³⁰. For underwriting, see chapter 2.

had paid for their issues'.³¹

The Japanese government loan issue terms in the period from 1873 to 1913 are shown in Table 1.8. Except for the re-sales of domestic bonds in 1902 and the four loan issues during the Russo-Japanese War (1904-1905), the commissions charged by financiers were about 4 percent. The four war loan issues needed much higher commissions charged to compensate for the risks of hazardous war loans.

Table 1.8 Commissions of Japanese Government Loan Issues (London),
1873-1910
(percent)

Year	1873	1897	1899	1902	1904 (6%)	1904 (6%)
Underwriting	2	1 1/2	2		2	2
Brokerage (placing underwriting)	1/2		1/2	1/2	1/2	1/2
Brokerage (application)	1/4		1/4		1/4	1/4
Advertisement	1/4		1/4		1/4	1/4
Loan issue bank	1		1		3 1/2	3 3/4
Total	4	4	4**	4 3/4	6 1/2*	6 3/4*

³¹. R.A.L., XI/111/50, Chilean Government 5 percent Loan (1911).

Table 1.8 Commissions of Japanese Government Loan Issues (London), 1873-1910 (cont.)
(percent)

Year	1905 (4 1/2%)	1905 (4 1/2%)	1905 (4%)	1907	1910
Underwriting	2	2	1 1/2	1 1/2	1 1/2
Brokerage (placing underwriting)	1/2	1/2	1/2	1/2	1/2
Brokerage (application)	1/4	1/4	1/4	1/4	1/4
Advertisement	1/4	1/4	1/4	1/4	1/4
Loan issue bank	2 1/2	2 1/2	1 1/2	1 1/2	1 1/2
Total	5 1/2*	5 1/2*	4	4	4

Notes: Excluding the British stamp duty and intermediary commissions in Japan;
 * Russo-Japanese war loan issues;
 ** the commission to the actual issue amount on the market was 5 percent.

Source: These sources will be mentioned in Part II.

1.5 Market Linkages

In order to obtain more favourable loan issue terms, borrowers often sought to avoid over-dependence upon one market and turned more of their attention to other capital markets. From the 1890s the markets for foreign government loan issues included not only London but also Paris and other main Continental cities. After the turn of the century the New York capital market also came to deal with foreign loan issues. Simultaneous loan issues were a possibility and international market linkages were more important to borrowing countries. This section will view relationships between international capital markets, especially London and Paris, the largest markets of the

time, in simultaneous loan issues. In order to look into their linkages, let us contrast several economic factors, which produced the difference in quotation prices, such as interest rate differentials, governments' control and costs of loan issues between the two markets.

There were an increased number of security issues in France in the 1900s and the proportion of the foreign security issues ('valeurs étrangère') to the total rose to 66 percent in 1904.³² The Paris capital market was regarded as having 'completely regained its position as an international financial market, second only to London in its ability to absorb foreign loans'.³³

In the 1900s, however, there was a partial isolation of the Paris capital market from London. Comparing the prices of bonds quoted on the Paris Stock Exchange with those on the London Stock Exchange, L'économiste français commented in 1910: 'France is not the sole lender to the world but the one with the most favourable conditions. There is a difference of 2 or 3 points (that is to say, 2 percent or 3 percent), often of 5 or 6 and of from 7 to 8 in the capitalisation of the same government loans between France and London'.³⁴ The Russian government 5 percent bonds (1906) and the Japanese government 4 percent bonds (1905), issued simultaneously in Paris and London, showed such a tendency. As indicated in Table 1.9, there was a conspicuous and continuing difference in their quotation prices between Paris and London in the period from 1906 to 1909.³⁵

³². Ministère de l'Economie et des Finances, Annuaire statistique de la France 1966 (Paris, 1967), p.532. The figures included French colonial security issues.

³³. M. de Cecco, Money and Empire (Oxford, 1974), p.106; also see D.C.M. Platt, Britain's Investment Overseas on the Eve of the First World War (1986), p.134. However, the Berlin capital market did not transact a large number of foreign securities, but was concerned mainly with domestic industrial finance (R.G. Lévy, 'Les grands marchés financiers', Revue économique internationale, 1905, pp.479 and 493).

³⁴. P. Leroy-Beaulieu, 'Les emprunts des Etats étrangers et le gouvernement français', L'économiste français, 1 October 1910, p.487.

³⁵. As will be seen in chapter 7, this gap often frustrated simultaneous loan issues on the international capital markets when loan issue banks fixed loan issue prices.

The discount rates at the Bank of France ('le taux d'escompte à la Banque de France') were lower than the Bank Rates in London during most of the period from 1890 to 1913.³⁶ Table 1.10 confirms their difference in 1907. Low interest rates in Paris might have caused a high capitalisation of securities on the Paris capital market.

There was another, more important, reason for the higher quotation prices in Paris. It was the strict control by both the French government and great financiers of the Paris Stock Exchange that brought about the differences. The French government did not readily admit the quotation of bonds issued outside France on the Paris Stock Exchange, a practice referred to as the 'Frenchman's watertight system'.³⁷ The restricted supply of securities for the market necessarily led to the higher capitalisation on the Paris Stock Exchange. In fact, the differences between the quotation prices of the Japanese government 4 percent bonds of 1905 in London and Paris rapidly decreased after 1910, when the French government admitted the quotation of London's tranche on the Paris Stock Exchange (Table 1.9). Labordère, therefore, regarded high quotation prices in Paris as 'very inflated values' which whenever possible attracted foreign borrowers and companies to the Paris capital market.³⁸

It is true that there was only slight official intervention in loan issue negotiations in Britain but, by contrast, in France foreign governments were not able to effect any loan issue without the authorisation of the Ministry of Finance.³⁹ The French government invariably regarded foreign loans as a diplomatic implement directly reflecting its

³⁶. Ministère de l'Economie et des Finances, *op. cit.*, p.520; D.K. Sheppard, *The Growth and Role of U. K. Financial Institutions, 1880-1962* (1971), pp.190-91. Yet S. Homer drew the opposite conclusion (*A History of Interest Rates* [New Brunswick, 1963], pp.504 and 515).

³⁷. M.A., Bank 13-6, T. Toyama, 'Mitsui Ginkō Ōbei Shucchōin Hōkokusho (Report of an officer dispatched by the Mitsui Bank to Europe and America)' (Tokyo, 1909), p.29; *M.T.Z.*, vol.12, pp.240-41.

³⁸. M. Labordère, 'Mechanism of Foreign Investment in France', *Economic Journal*, vol.xxiv (1914), p.532.

³⁹. H. Gans, 'L'intervention gouvernementale et l'accès du marché financier', *Revue politique et parlementaire*, vol.lix (1909), p.249.

interests.⁴⁰ The French government put the power of authorising a security quotation into the hands of the *Chambre Syndicale* at the Paris Stock Exchange on the condition that the government made the final decision, taking into consideration diplomatic relations with a borrowing country.⁴¹ On the other hand, it was the British government's established policy neither to control quotations on the London Stock Exchange nor to intervene in financiers' private transactions except for diplomatically important cases.⁴² The General Purpose Committee of the London Stock Exchange assessed new quotation applications according to its own criteria.⁴³

One factor in the selection of a loan issue market for borrowers lay in the difference of loan issue costs or commissions.⁴⁴ It was pointed out in 1905 that loan issues in Paris required additional charges for the manipulation of the press and a higher rate of stamp duty.⁴⁵ Lysis, without giving a precise definition of the profit, pointed out the high profits earned by French financiers in foreign government loan issues.⁴⁶ Yet the level

⁴⁰. H. Feis, *Europe the World's Banker, 1870-1914* (New Haven, 1930 [reprinted 1964]), p.133; R. Wakatsuki, *Kofūan Kaikoroku (My Recollection)* (Tokyo, 1950), pp.111-13.

⁴¹. E. Becqué, *L'internationalisation des capitaux* (Montpellier, 1912), pp.113-14.

⁴². For instance, the British government guaranteed the Turkish government 4 percent loan issue in 1855 during the Crimean War (The London House of Rothschild [J. Ayer], *op. cit.*, p.46). However, Feis noticed the accord between the British government's diplomatic policy and Russian government's financial operations in London (*op. cit.*, p.89).

⁴³. For instance, in the 1890s the British Foreign Office was much concerned with Persia but the London Stock Exchange Committee did not readily admit the quotation of the 1892 loan (L.S.E.A., Ms.14,600, vol.64, Stock Exchange General Purpose Committee Minutes, 22 June 1896, Application of the Persian Government 6 Percent Loan of 1892 - Refused).

⁴⁴. There was much argument about the costs of loan issues on the international capital markets. The lower brokerage rates in London, in comparison with New York, were pointed out in the 1920s (Burk, *op. cit.*, pp.88 and 300 [note 78]).

⁴⁵. J.N.D.L., Inoue Papers, 686-8, K. Takahashi to T. Katsura and K. Sone, 21 September 1905. In 1909 the officer dispatched by the Mitsui Bank noted the significant difference between the British stamp duty (1/2 percent) and the French one (2 percent) (M.A., Bank 13-6, Toyama, *op. cit.*, pp.25-26).

⁴⁶. Lysis (pseudonym- E. Le Tailleur), *Contre l'oligarchie financière en France* (Paris, 1908), pp.26-28.

of the 'bénéfice syndic et commission (syndicate profit and commission)' in the Turkish government loan issues in Paris for the years from 1894 to 1914, calculated by Thobie, was less than 5 percent after 1902⁴⁷ and the Japanese government 4 percent loan issues in 1905 and in 1910 were implemented at almost the same commission in London and Paris (4 percent).⁴⁸ Kaufmann correctly estimated a net profit to a member of a syndicate, deducting various issue charges, at about 2 percent.⁴⁹ It is difficult to generalise about the loan issue commissions in the Paris capital market on the basis of an insufficient number of the loan issues, but one wonders if Lysis' figures might not be overestimated. As far as loan issue commissions were concerned, there was very little difference for borrowers between the London and Paris capital markets.

It is right to say, therefore, that it was mainly because of the French government's policy that the isolation of the Paris capital market from the London capital market occurred in some of the simultaneous loan issues.

The linkages of the world's main capital markets of the time was imperfect and differences in the quotation prices of securities occurred. These differences often hindered simultaneous loan issues on the international capital markets. However, as the result of the development of market linkages in later periods, the patterns of loan issues became diversified for borrowers. This made it possible for borrowers to select the most favourable loan issue on the international capital markets, either on one market or on multiple markets.⁵⁰

⁴⁷. J. Thobie, 'Placements et investissements français dans l'empire ottoman, 1881-1914' in Lévy-Leboyer (ed.), op. cit., p.293. He did not give the source for his calculations.

⁴⁸. See chapter 6 and chapter 7.

⁴⁹. E. Kaufmann (translated by A.S. Sacker), La banque en France (Paris, 1914), p.122.

⁵⁰. See chapter 7.

Table 1.9 Quotation Prices of Russian and Japanese Governments Bonds in London and Paris, 1906-1913
(percent)

Year	Japanese Government 4 percent Bond (1905)			Russian Government 5 percent Bond (1906)		
	(1)	(2)	(3)	(4)	(5)	(6)
Year	Paris	London	Difference	Paris	London	Difference
1906	92.0	88.25	3.75	-	-	-
1907	88.0	82.0	6.0	94.75	90.25	4.50
1908	92.75	85.75	7.0	100.0	97.25	2.75
1909	99.50	93.25	6.25	103.50	101.50	2.00
1910	97.30	96.0	1.30	104.80	104.75	0.05
1911	94.85	92.0	2.85	104.65	104.0	0.65
1912	90.60	87.50	3.10	103.25	103.75	-0.50
1913	-	-	-	103.10	102.50	0.60

Notes: Percent of the quotation prices;
End of December;
- implies no data;
(3)=(1)-(2); (6)=(4)-(5).

Sources: (1) & (4) from Marché financier, vol.1906-7, p.204, vol.1907-8, p.351, vol.1908-9, p.333, vol.1909-10, p.254, vol.1910-11, p.247; vol.1911-12, p.261, vol.1912-13, p.283, vol.1913-14,

p.416;

(2) & (5) from I.M.M., monthly.

Table 1.10 Bank Rates and Taux de l'Escompte (Discount Rates) (1907)

Date	Month	Bank Rates (London)	Taux de l'Escompte (Paris)
1	January	6	3
17	January	5	3
21	March	5	3 1/2
11	April	4 1/2	3 1/2
25	April	4	3 1/2
15	August	4 1/2	3 1/2
31	October	5 1/2	3 1/2
4	November	6	3 1/2
7	November	7	4

Source: Marché financier, vol.1907-8, p.345.

1.4 Conclusion

This chapter has given a general overview of the London capital market before 1914. It is no more than an overview, but several useful points have emerged.

The volume of foreign government loan issues on the London capital market had cyclical fluctuations and one of their peaks occurred in the 1870s. There was another boom at the end of the 1880s. The foreign government loan issues showed a definite pattern in geographical distribution. After the late-1890s, the London capital market was open wide mainly to South American and Far Eastern countries including Japan, because the major developed European countries and the United States were no longer large borrowers on foreign capital markets.

The promised yields of the foreign government bonds were much higher than those of Consols. Yet British investors who preferred safety in investment took into consideration not only high yields but also low risks. Loan issue commissions were determined ultimately by the concomitant risks which loan issuers incurred. Therefore, less creditworthy foreign governments had to pay higher commissions because their loan issues involved greater risks. The establishment of the gold standard improved borrowing countries' creditworthiness on the foreign capital markets.

Market linkages were of considerable importance to simultaneous loan issues but these linkages were often imperfect. Even in the 1900s there was a partial isolation of Paris from London, and some of the simultaneous loans were transacted at much higher quotation prices on the Paris capital market than on the London capital market. The French government's policy of restricting the quotation of securities issued outside France was mainly responsible for the difference. The French government always regarded foreign loan issues as one of its diplomatic weapons. However, the development of market linkages enabled borrowers to select the most favourable loan issue on the international capital markets.

CHAPTER 2

LOAN ISSUE MECHANISM OF THE LONDON CAPITAL MARKET

It is important to understand the general character of loan issues on the London capital market before a particular country's loan matters are discussed. This chapter presents the development of the loan issue mechanism of the London capital market. The role, and the extent of the involvement, of a variety of financial institutions of the City in loan issue business for Colonial and foreign governments will be examined.

It is useful to give an outline of the various stages by which an ultimate borrower (government), ultimate lenders (investors) and financial intermediaries were connected through the loan issue market, because the intervention of the financial intermediaries, which helped the borrower to find the lenders efficiently, often veiled the relationship between the ultimate borrower and the ultimate lenders. The capital market played a role 'to select the sources of highest yield, to capitalize these in the form of stocks and shares and to sell these securities to the public'.¹

A government which intended to raise a loan, first nominated a commissioner or an agent. He became the negotiator of the loan issue with the banks in the country where the government proposed to issue the loan. The commissioner or agent, at the next stage, looked for banks which would undertake the issue. The loan issue banks, in collaboration with stockbrokers, began to organise the loan issue for the market. They issued the prospectuses and informed the financial press of the loan issue; the stockbrokers also advertised to potential customers. Then the subscriptions took place. The relationship between the ultimate borrower (government) and the ultimate lenders (investors) was formed in this way. However, in most cases, before the offering of subscriptions, other financial intermediaries, namely the loan issue bank syndicate and

¹. F. Lavington, The English Capital Market, 3rd. ed. (1934), p.190.

the underwriters, temporarily intervened in the relationship between the ultimate borrower, the ultimate lenders and the loan issue banks.

The loan issue bank syndicate, the loan issue banks acting in union, undertook the loan issue for the ultimate borrower. The underwriters guaranteed to take the unsubscribed portion. Obviously these organisations helped to float the loan more efficiently on the loan issue market. It was through these intermediaries that the issued bonds were finally delivered to the ultimate lenders. All these interrelated operations between the ultimate borrower and the ultimate lenders together comprised the market loan issue mechanism.

2.1 Development of the Loan Issue Mechanism

Market methods were developed to free loan issuers from the limitation of individuals' resources. The creation of loan issue organisations, such as issue syndicates and underwriters, forms a part of this development. This section will examine the development of these loan issue organisations in the nineteenth century.

2.1.1 Loan issues in the early nineteenth century

The first peak of foreign government loan issues on the London capital market occurred in the early-1820s.² The independence of South American countries from Spain caused a large export boom in the British economy, and this excitement enticed many British investors to purchase South American governments bonds.³ These became market leaders but most of them quickly fell into default after 1825.

². The latest explanation of this speculation is given by F.G. Dawson, The First American Debt Crisis (1990).

³. J.W. Gilbart, The History, Principles and Practice of Banking, vol.1 (1922), pp.65-66.

Jenks illustrated the foreign loan issue methods in the 1820s, and pointed out the co-operation among issue houses.⁴ There is a reference to this in The Times in 1826 when J. & S. Ricardo, a London merchant bank, was defending its high commission in the Greek government 5 percent loan issue of 1825.⁵ Ricardo's letter, addressed to the editor of The Times, revealed the co-operation among financiers in this loan contract.⁶ In the Colombian government loan issue of 1824, there was also the co-operation of the financiers involved; B.A. Goldschmidt & Co., the issuer of this loan, prepared the list filled with merchants and men of great capital who were ready to take the bonds to share the risks and profits.⁷

The need for co-operation among financiers obviously stemmed from the increased size of the loan issues which were now too great for individual resources to bear the risks involved. Compared with the practice of the late nineteenth century, the loan issue organisation of the 1820s simply meant participants' co-operation in taking a certain issue amount and sharing risks and profits. The terminology of a syndicate had not yet been used.

The sale organisation for subscriptions in the 1820s was primitive. The success of loan issues depended almost entirely upon the loan issuers' narrow circle of friends and families. The most crucial matter was how loan issuers could ensure the solid support of purchasers. It must be emphasised that family and personal connections played a principal role. The Rothschilds frequently raised huge loan issues in London, Paris, Frankfurt-on-Main and Vienna simultaneously through their kin who acted as satellites.⁸

⁴. L.H. Jenks, The Migration of British Capital to 1875 (1927 [reprinted 1971]), p.47.

⁵. The Times, 24 October 1826.

⁶. Ibid., 28 October 1826.

⁷. A Statement of Some Circumstances connected with the Mode of Contracting the Colombian Loan (probably 1825), pp.8-15.

⁸. The following phrase typically illustrates their way of business : 'a family that works together is invincible' (Count Corti [translated from the German by Brian & Beatrix Lunn], The Reign of the House of Rothschild, [1928], p.465). The London Rothschilds' official history (The London House of Rothschild [J. Ayer], A Century of (continued...)

Baring Brothers, one of the long-standing merchant banks in the City, also secured many correspondents for their transactions covering most of the main cities on the Continent and in the United States.

Loan issuers were often forced to take the remnant of the issue amount unless they could find sufficient purchasers. It was because of this uncertainty that loan issuers in the early nineteenth century received a large commission. In 1825 J. & S. Ricardo & Co. obtained a £60,000 commission (6 percent) at least from the Greek government 5 percent loan issue.⁹

2.1.2 A new business practice - syndication

At the end of the 1860s a loan flotation technique, syndication, was used for many of the new foreign government loan issues. A borrower made a contract for the loan issue with an agent who usually formed a syndicate. The syndicate purchased all or some of the unsubscribed bonds according to the contract, although there were possible variations in contracts of syndication. The forming of a syndicate to purchase unsubscribed bonds was in most cases applicable to foreign government loan issues because of their less creditworthy and more speculative nature.

So far little has been known about how foreign government loan issues were arranged on the London capital market. Lavington¹⁰ and Hall¹¹ explained the mechanism of Colonial government loan issues, depending upon Schilling.¹² It is true that Schilling

⁸(...continued)

Finance, 1804 to 1904 [1905]) often details their co-operation in security issues (pp.13-81).

⁹ The Times, 24 October 1826. Jacob and Samson were younger brothers of the famous David Ricardo (D. Weatherall, David Ricardo [Hague, 1976], p.132).

¹⁰ Lavington, op. cit., pp.196-99.

¹¹ A.R. Hall, The London Capital Market and Australia, 1870-1914 (Canberra, 1963), pp.73-81 and 99-107.

¹² Ibid., p.196 (note 59).

has analysed the mechanism of Colonial government loan issues, yet he neither disclosed his sources nor analysed them in the course of the development of the loan issue methods on the London capital market.¹³ Furthermore, the techniques of syndication and capital underwriting¹⁴ were developed largely in the field of foreign government loan issues,¹⁵ since, as will be discussed later, Colonial governments usually drew financial assistance from the British government, the Bank of England and other specific financial institutions in London.

It is possible to look at how particular foreign government loans of the 1860s and the 1870s were floated on the market, from published sources such as British Parliamentary Papers and contemporary financial journals. Yet there have been no serious studies which fully made use of them, although Jenks regarded the evidence taken before the Parliamentary Committee of 1875¹⁶ as 'a storehouse of material upon the loan business'.¹⁷

With the marked increase of foreign government loan issues in the late nineteenth century, many financial journals referred to the loan issue mechanism. In 1873 the Bondholder's Register emphasised 'a considerable change during the last eight or ten years' in foreign government loan issues,¹⁸ but the practice of syndication prevailing in the 1860s was not, in the sense of undertaking a loan issue in union at their own risk, very different from that of the 1820s. Syndication was not a new invention of the 1860s but had 'only recently come to the knowledge of the public'.¹⁹ Large systematic operations among financiers on the stock exchange made people misunderstand it.

¹³. T. Schilling, London als Anleihemarkt der englischen Kolonien (Stuttgart, 1911), p.52.

¹⁴. Hereafter used as underwriting.

¹⁵. D. Finnie, Capital Underwriting (1934), pp.6-7.

¹⁶. Report from the Select Committee on Loans to Foreign States; together with the Proceedings of the Committee, Minutes of Evidence, and Index, B.P.P. 1875, xi (hereafter cited as Committee on Loans).

¹⁷. Jenks, op. cit., p.400.

¹⁸. Bondholder's Register, 8 July 1873.

¹⁹. Bankers' Magazine, vol.33 (1873), p.1000.

The primary role of a syndicate was to ensure a firm placement of the loan on the market. In other words, members of a syndicate jointly incurred risks in the loan issue by taking all or some of the issue amount on their own responsibility:

the nature and object of a syndicate as I understand it is this: that any operation that is too large, either from the amount involved, or the risk involved for any one firm, rather than not be taken at all, should be subdivided by other firms in certain proportions, according to their means and importance. That is the primary object, to divide the risks of the operation, or to furnish guarantees to a Government for a certain portion of the loan being taken firm, as it is called, where any one individual firm would not be satisfactory to the Government, or not willing to take so large a risk themselves; therefore, they call in their friends and associates to join them in that operation.²⁰

The contract of the Chilean government 5 percent loan issue syndicate in 1870 guaranteed to purchase unsubscribed bonds;²¹ the syndicate of the Iquique & La Noria Pizaqua and Sal De Obispo and Junction Railways (Peru), formed in 1872, guaranteed to place half an issue amount of the 7 percent debentures.²² The following quotation from the Bankers' Magazine of 1876 well describes how a syndicate secured a loan issue:

when the preliminary arrangements had been completed between the borrowing government, or its authorised representatives in this country, and the firm who were to undertake the introduction of the loan to the public, the latter communicated to numerous capitalists, bankers, merchants, stockbrokers, private individuals and others, the terms on which they could enter the syndicate. An agreement was drawn up between the original agents, or contractors, and the members of the syndicate. The syndicate guaranteed the placing or disposal of a certain portion of the whole loan, perhaps one-third or even one-half; and the part so guaranteed was the first portion that might be placed among the public.²³

2.1.3 A new business practice - underwriting

The role of underwriting in ensuring firm purchasers of loan issues was of extreme

²⁰. Evidence taken before Committee on Loans, Q.5014 (A. Grant, Grant Brothers & Co.).

²¹. M.G.A., Ms.21,760, HC 4.3.4, Memorandum of Agreement, 28 January 1870.

²². Huth, Frederick & Co. Archives, Ms. 10.700, box 1, no.1983.

²³. Bankers' Magazine, vol.36 (1876), p.518.

importance, but so far historians have not explained its origin and development to a satisfactory degree.²⁴ The contracts of syndication in foreign government loan issues during the 1860s and the 1870s often included the de facto role of 'underwriting'. Since the syndicate guaranteed to purchase some of the loan issue amount at a certain price from the borrowers, members of the syndicate had to take unsalable bonds at their own risk.²⁵

The terminology of underwriting had not yet been used in the 1860s and the 1870s, but underwriting was thus recognised as one of the roles of a syndicate. The development of underwriting was rather mysterious. Finnie believed that the practice of underwriting was introduced to capital issues from marine insurance.²⁶ When was underwriting institutionally split from the roles of a syndicate? In other words, when did a syndicate divide into an issue syndicate and an underwriting syndicate?²⁷ Unfortunately the origin of the underwriting in foreign government loan issues could not be found in contemporary journals. Chart 2.1 shows the course of the development of syndicates and underwriting in the nineteenth century. At first, the separation of loan issue bank commissions from syndicate profits took place and the main role of syndicates became the guarantee of loan issues ('underwriting'). Subsequently, loan issue banks (loan issue bank syndicate) came to arrange the subscriptions alone and did not undertake loan issues

²⁴. For academic research on the role of underwriting in loan issues, see D.C.M. Platt, Britain's Investment Overseas on the Eve of the First World War (1986), pp.141-45; S. Chapman, The Rise of Merchant Banking (1984), pp. 88-89 and 100-01. Neither referred to the development of underwriting.

²⁵. Bankers' Magazine, vol.36 (1876), p.518; Evidence taken before Committee on Loans, Q. 3543 (R. Foster, Knowles & Foster Co.).

²⁶. Finnie, op. cit., pp.2-4. It was true that O'Hagan considered why insurance could not be extended to capital issues (H.O. O'Hagan, Leaves from My Life, vol.1 [1929], p.150).

²⁷. For this division of the functions, the American practice of 'Syndicate No.1' and 'Syndicate No.2' is of interest here. 'Syndicate No.1 [a loan issue bank syndicate] simply buys the securities and then proceeds to form another syndicate ['Syndicate No.2 - an underwriting syndicate] for the purpose of selling them, and when formed they sell the securities to the second syndicate at an advance in price' (L.B. Franklin, 'Syndicates', [American] Bankers Magazine, vol.87 [1913], p.665).

at their own risk, although they organised underwriting syndicates; underwriters (underwriting syndicates), who were not involved directly in the subscriptions, guaranteed to purchase unsubscribed bonds in exchange for their commissions.

According to O'Hagan, he was the first person who followed the practice of underwriting in share and debenture issues. He wrote that:

I began by approaching some of the larger trust and investment companies, and when I found them inclined to take shares or debentures in an undertaking I offered them, I persuaded them to risk having to take three or four times the amount they were contemplating if the capital was not fully subscribed, I paying them a commission for so doing.....I determined to put the business of underwriting or guaranteeing the subscription of the capital of limited liability companies on a legal and proper footing, and endeavoured to popularize the system to the extent that I should get the whole of my issues of capital underwritten or guaranteed.²⁸

O'Hagan, an individual stockbroker, introduced underwriting into share and debenture issues and attempted to disseminate this practice to financial institutions. The practice of underwriting gradually came to be recognised as distinct from that of a syndicate. It seems certain that this separation necessarily drew smaller capitals, compared with shares of a loan issue syndicate, into underwriting business. The risks involved in issue could thus be dispersed to many underwriters.

At the outset, large financiers were not in favour of underwriting but soon found it lucrative in well-organised projects.²⁹ Many financial institutions now regarded underwriting as a safe investment business, because they no longer needed to run great risks.

O'Hagan does not clearly mention when he carried out the first underwriting, but perhaps it was in the 1880s. In 1897 The Statist stated that 'underwriting has, with the more speculative concerns, almost taken the place of original subscriptions'.³⁰ It was after

²⁸. O'Hagan, op. cit., p.150.

²⁹. Ibid., pp.151-52.

³⁰. The Statist, 2 January 1897, p.17.

the guarantee of Baring Brothers' debts in 1890 that the Clydesdale Bank came to participate in Baring Brothers' underwriting.³¹

However, the introduction of underwriting into Colonial government loan issues in the 1890s was extensively discussed by the financial press. The Bank of England and a stockbroker, usually Mullens Marshall & Co., could always provide definite assistance by making advances to or selling unallotted balances at a reduced price³² for Colonial governments when the loan issues failed to secure the necessary issues by the tender method.³³ Yet the Bank of England replaced the tender method with the underwriting method because the Bank came to consider that it could not support Colonial government loan issues to an unlimited extent.³⁴ In 1893 the Queensland government became the first Colonial government to adopt underwriting in loan issues.³⁵ It is obvious that the underwriting method had the advantage of securing issue amounts on the market. By the turn of the century, a terminology of underwriting took firm root in textbooks on investment,³⁶ and Lord Nathaniel Meyer Rothschild complained that 'the trouble was largely due to the excessive growth of the practice of underwriting, which made it fatally easy to bring out almost any loan'.³⁷

The banks which made a contract for the loan issue nominated stockbrokers who

³¹. C.W. Munn, Clydesdale Bank (1988), pp.145-46.

³². B.E.A., G23/69, W. Lidderdale to J.F. Garrick, 6 October 1891.

³³. On the announcement of loan issue terms, a borrower and loan issue bank received tenders for the loan. The loan issue bank simply lent its reputation and influence on the market, but did not undertake the loan issue at its own risk when the applications of the tenders did not reach the full issue amount. The applicants were required to offer at a certain price a certain number of the bonds which they would take. Borrowers came to set a minimum issue price on the basis of the current quotation prices of similar securities. The whole issue was usually allotted among the applicants at an average price above the minimum issue price (Bondholders' Register, 26 January 1875; A.K. Cairncross, Home and Foreign Investment 1870-1913 [Cambridge, 1953], pp.91-92).

³⁴. B.E.A., G23/69, Lidderdale to Garrick, 25 January 1892.

³⁵. R.S. Gilbert, 'London Financial Intermediaries and Australian Overseas Borrowing, 1900-29', Australian Economic History Review, vol.11 (1971), p.42; The Statist, 28 January 1893, p.98.

³⁶. H. Lowenfeld, All About Investment, 2nd ed. (1909), p.172.

³⁷. His Obituary (The Times, 1 April 1915).

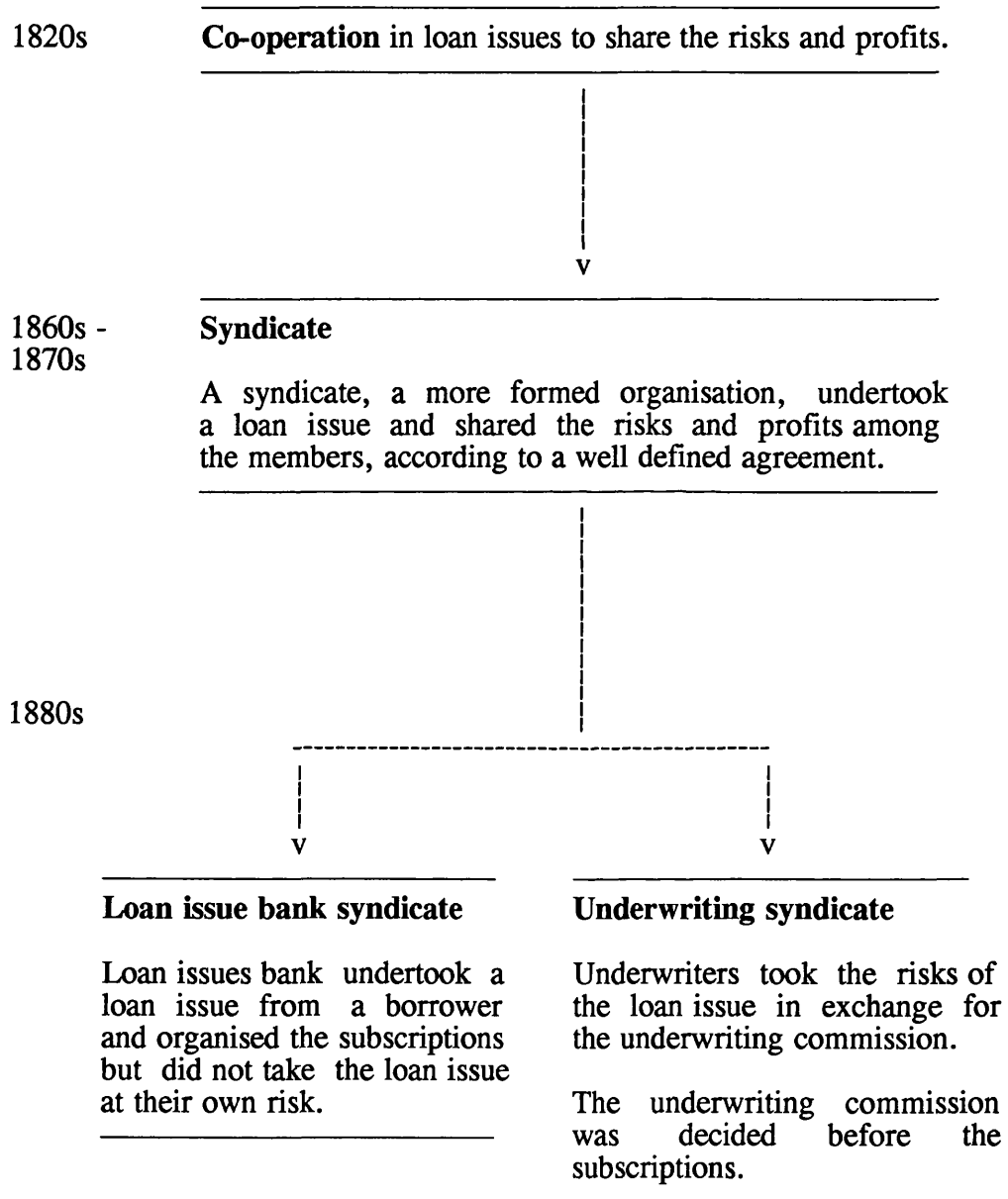
organised underwriters and allotted the bonds. The stockbrokers informally called on various financial institutions in the City and invited them to underwrite at a certain commission. After this preliminary interview, the loan issue banks officially sent the underwriting letter stating the terms of the underwriting: i.e. the names of issuers, the issue amount, the underwriting commission and the responsibilities of the underwriters. The underwriters, in return, informed the loan issue banks of their underwriting amounts with deposits. Sometimes they had their secured amounts sub-underwritten.³⁸ Usually clearing banks, merchant banks, overseas banks, stockbrokers, discount companies, insurance companies, investment trust companies, merchants and interested individuals (correspondents, partners, staff and large clients) were nominated as underwriters.³⁹ The scale of underwriting depended upon the strength and range of stockbrokers' market connections.

As shown in chapter 1, less creditworthy governments' loan issues, such as those of South American countries, usually demanded much higher underwriting commissions because of the greater concomitant risks in investment. A normal underwriting commission was between 1 1/2 and 2 1/2 percent but declined to a 1 percent level after the First World War. Even so, underwriters still seem to have secured ample profits with comparatively small risks.⁴⁰

³⁸. Finnie, *op. cit.*, pp.106-15.

³⁹. Chapter 4 includes Baring Brothers' underwriters' list in the Japanese government 5 percent bond re-sale of 1902.

⁴⁰. *The Economist*, 6 December 1913, p.1236.

Chart 2.1 Development of Syndicates and Underwriting

2.2 Financial Institutions and Loan Issues

This section will examine how a variety of financial institutions: clearing banks, overseas banks, foreign banks, merchant banks, the Bank of England and stockbrokers, became involved in Colonial and foreign government loan issue operations.

2.2.1 Clearing banks

Before the Overend Gurney Crisis (1866), English clearing banks had developed and expanded on the basis of domestic transactions: discounting inland bills and short-term advances. By contrast, the business connected with Colonies and foreign countries was mainly dealt with by merchant banks whose extensive correspondent networks played a prime part in their ability to conduct world-wide business. Yet merchant banks did not retain this exclusive position for long. In the latter part of the nineteenth century the London clearing banks, as well as overseas banks and foreign banks, began to encroach on this field.

It was the growth of acceptance business⁴¹ which caused the first major change in the attitude of the London clearing banks towards overseas business.⁴² As well as acceptance business, the London clearing banks regarded Colonial and foreign loan issue business as another suitable area of activity, but loan issue business tended to lock up their deposits in illiquid investments, unsalable bonds (mainly foreign ones). C. Gow, the General Manager of the London Joint Stock Bank, emphasised that his Bank's choice of

⁴¹. Acceptance business was that banks 'would add their names to bills of exchange either for their own customers or for those of their correspondents. The effect was to guarantee payment of the bills and to ensure that they could be discounted at the best rates' (Munn, *op. cit.*, pp.143-44).

⁴². A steady decline in domestic transactions in the 1880s induced the London & Westminster Bank to exploit such business as a new earning source (T.E. Gregory, *The Westminster Bank through a Century*, vol.i [1936], pp.269-71).

portfolio investments depended entirely upon 'the essence of negotiability'.⁴³ It is true that in the 1870s the London Joint Stock Bank had been prohibited, by its byelaws, from investing funds in foreign bonds.⁴⁴ W. McKewan, of the London & County Bank, apologised to the Committee on Foreign Loans of 1875 that his bank's role in the Honduras government loan of 1867 had by no means been that of a loan contractor but that of a subscription agent.⁴⁵ When the Capital & Counties Bank was involved in the re-sale of the Japanese government 5 percent domestic bonds in 1897, The Statist raised the question of whether clearing banks, which received deposits from the public and paid them back on demand, should undertake foreign loan issue business.⁴⁶

Traditional English banking practice hindered clearing banks from entering into loan issue business even as underwriters. Yet Goodhart revised this negative picture of the London clearing banks and in part threw new light upon their security issue business before the First World War, quoting that:

they [clearing banks] were not only active as dealers in the market, but they had also come to play a major role in the new issue market, as underwriters, and in many cases taking on the main responsibility for the flotation of a new issue. Some of the banks' activity in the market came as a concomitant to their role as underwriters, selling off securities from their portfolios with which they had been stuck at the time of issue. The process of arranging and underwriting new issues was a lucrative one; banks were continually trying to keep up influential connections.⁴⁷

So far very little has been mentioned about how the London clearing banks became involved in Colonial and foreign government loan issue business.

⁴³. U.S. National Monetary Commission, Interviews on the Banking and Currency Systems of England, Scotland, France, Germany, Switzerland, and Italy (Senate, 61st Congress, 2nd Session, no.405) (Washington, 1910), p.69.

⁴⁴. L.J.S.B.A., Q70, London Joint Stock Bank to the General Direction of the Seehandlung Society, 10 November 1879.

⁴⁵. Evidence taken before the Committee on Loans, Q.801 (W. McKewan, the Joint General Manager of the London & County Bank).

⁴⁶. The Statist, 15 May 1897, p.789.

⁴⁷. C.A.E. Goodhart, The Business of Banking 1891-1914 (1972), p.136.

The decline of the Crown Agents in Colonial government loan business gave a great impetus to other financial institutions in the City. The Crown Agents were heavily involved in financial transactions with Colonies, particularly in raising Colonial government loans in the 1860s and the 1870s. The efficiency of their office attracted loan issue business even from Colonies which possessed responsible governments and agents of their own.⁴⁸ But in 1880 the Treasury considered that 'the transaction by the Crown Agents of the business of responsible Government Colonies is an arrangement which cannot be permitted to continue'.⁴⁹ Thereafter, opportunities for loan issue business for Colonies with responsible governments were open wide to clearing banks and the Bank of England, because they had already established transactions in loan issues with these Colonies.⁵⁰

From the early nineteenth century, Glyn, Mills & Co.⁵¹ aggressively raised loans to such an extent that Feis misleadingly grouped it among merchant banks.⁵² It issued many Canadian government loans as one of the London agents of the Bank of Upper Canada from the 1830s.⁵³ After the 1880s the London & Westminster Bank undertook many Colonial government loan issues for Australia (except for South Australia), Natal and the Cape of Good Hope. In 1876 the London Joint Stock Bank issued the Quebec

⁴⁸. A.W. Abbott, A Short History of the Crown Agents and their Office (1959), pp.23-24; No.5, (Extract) Memorandum on the Origin and Functions of the Department of the Crown Agents for the Colonies, by Sir Penrose G. Julyan, September 1878 (Crown Agents for the Colonies, Papers Explanatory of the Functions of the Crown Agents for the Colonies [August 1881], B.P.P. 1881, lxiv, [C.-3075]).

⁴⁹. No.6, Colonial Office to Treasury, 26 November 1880 (ibid.).

⁵⁰. In the 1860s and the 1870s, the Bank of England co-operated with the Crown Agents in some of the New Zealand government loan issues; the Consolidated Bank issued several Tasmanian government loans; the London & Westminster Bank became one of the loan issuers in many Victorian government loans (London Stock Exchange [Guildhall Library], Loan and Company Prospectuses).

⁵¹. From 1864 Glyn, Mills, Currie & Co..

⁵². H. Feis, Europe the World's Banker 1870-1914 (New Haven, 1930 [reprinted 1964]), p.8.

⁵³. R. Fulford, Glyn's, 1753-1953 (1953), chapter 8.

government 5 percent loan⁵⁴ and, together with the London & Westminster Bank, became involved in Victorian government loan issues in the 1860s and the 1870s.⁵⁵ Following the turn of the century the London Joint Stock Bank began to arrange the underwriting of Colonial government loan issues on a large scale.⁵⁶ The Consolidated Bank, a London clearing bank, took up many Tasmanian government loan issues during the 1870s and the 1880s, but from 1889 the London & Westminster Bank supplanted it.⁵⁷ In 1893 the Union Bank of London tendered for the Mauritius government 3 percent loan and underwrote the New Zealand government 3 1/2 percent loan.⁵⁸ By degrees the Bank broadened its portfolio investments from domestic and Colonial securities to foreign ones.⁵⁹

The London clearing banks were also concerned with foreign government loan issues. They did not need to run great risks in foreign government loan issues if loan issues were underwritten fully. Yet foreign government loan issue business seemed to them in general a dangerous area, and the London clearing banks agreed to become loan issuers only when there were particular links, personal or commercial, with the borrowers.⁶⁰ As will be seen in Chapter 4, there were particularly close personal

⁵⁴. L.J.S.B.A., Q8, Board Minutes, 3 August 1876. The Bank was an agent for the Merchant Bank of Canada.

⁵⁵. London Stock Exchange (Guildhall Library), Loan and Company Prospectuses. The Bank was an agent for the Colonial Bank of Australia.

⁵⁶. L.J.S.B.A., Q11, 9 May, 19 September, 17 October and 5 December 1901.

⁵⁷. The reason is not clear, but the Consolidated Bank experienced difficulties after the 1866 crisis and towards the end of the 1880s, the Bank adopted a policy of branch expansion in the Manchester area rather than in London (Gregory, *op. cit.*, vol.ii, pp.51-68).

⁵⁸. U.B.L.A., B11488, Board Minutes, 25 January 1893.

⁵⁹. C.A.E. Goodhart, *The Business of Banking 1891-1914* (1972) pp.491-517 (appendix iv-i).

⁶⁰. There was a marked difference between the London clearing banks and French banques de dépôts (public deposit banks) vis-à-vis loan issue business in general, as J. Bouvier has pointed out (J. Bouvier, *Le Crédit Lyonnais de 1863 à 1882*, vol.ii [Paris, 1961], pp.779-80). G. Manchez also noted this difference (*Sociétés de dépôts[;] banques d'affaires* [Paris, 1918], pp.113-14). Banques de dépôts welcomed such business, making it their main line. If the issue amount was underwritten fully, the risks were limited, as mentioned. Besides, banques de dépôts could, to a certain extent, internalise the loan issue market to their own customers: the direct placement method made a good channel (continued...)

connections between the Japanese government and Parr's Bank.

It is known that Glyn, Mills & Co. issued Portuguese government loans in the 1820s and the 1830s.⁶¹ In 1871 the London Joint Stock Bank undertook the North German Confederation 5 percent Treasury bonds issue for £6,000,000, in conjunction with the Royal Seehandlung Society of Berlin (Preußische Seehandlung), as a standard transaction.⁶² In the 1880s the City Bank launched a number of Chilean government loan issues as the London agent of the Banco Nacional de Chile.⁶³ In 1885 the Bank agreed to purchase the Chilean government 4 1/2 percent loan, which had already been underwritten by a syndicate,⁶⁴ and underwrote the Nicaraguan government 6 percent loan issue in 1886.⁶⁵ From 1909 the London City & Midland Bank made large-scale Russian railway investments.⁶⁶ In 1889 the London & South Western Bank dealt with the Salvador government 6 percent loan, underwritten by Panmure Gordon, Hill & Co.'s syndicate.⁶⁷

⁶⁰(...continued)

for selling the bonds to their customers. This method became popular among banques de dépôts (A. Théry, Les grands établissements de crédit français avant, pendant et après la guerre [Paris, 1921], pp.45-46) and ensured firm demand for the loans they issued, not through public subscriptions (J. Dagneau, Les agences régionales du Crédit Lyonnais, années 1870-1914 [originally presented as Thèse de Doctorat en histoire [3^e Cycle] to the Université de Paris VIII [1975] [New York, 1977], p.248). Customers, on the other hand, generally put full trust in their banks as investment advisers (H.D. White, The French International Accounts 1880-1913 [Cambridge[Mass.], 1933], p.279). Direct placement, which was not an institution built into the British financial counterparts (R. Michie, 'Different in Name Only?: The London Stock Exchange and Foreign Bourses, c.1850-1914', Business History, vol.xxx-no.1 [1988], p.63), made a major channel between financiers and investors in France, and could effectively disperse loan issue banks' risks to customers (E. Kaufmann [translated by A.S. Sacker], La banque en France [Paris, 1914], p.306). The reason for banques de dépôts entering into loan issue business on a large scale lay in this structure of the French loan issue market.

⁶¹. Fulford, op. cit., chapter 8.

⁶². L.J.S.B.A., Board Minutes, Q8, 2 March 1871; W.F. Crick & J.E. Wadsworth, A Hundred Years of Joint Stock Banking (1958), p.308.

⁶³. C.I.B.A., ACC293/1, Arrangement Book, vol.1, f.465.

⁶⁴. Ibid., E8, Board Minutes, 8 September 1885.

⁶⁵. Ibid., 14 December 1886.

⁶⁶. A.R. Holmes and E. Green, Midland (1986), pp.135-36.

⁶⁷. L.S.W.B.A., Board Minutes, 25 July 1889.

In 1895 the Bank underwrote the Chinese government 4 percent war indemnity loan.⁶⁸

Parr's Bank was particularly inclined towards foreign government loan issues. The Bank was set up as a country bank at Warrington, and became a London clearing bank in 1891. Absorbing the Alliance Bank in 1892 and the Consolidated Bank in 1896, Parr's Bank paid much attention to foreign government loan issue business as well as acceptance business in Liverpool. In 1897 and 1903 the Bank played a major role in effecting the Serbian government's 4 percent and 5 percent loan issues.⁶⁹ After 1899 Parr's Bank was intimately connected with many of the Japanese government loan issues, as will be discussed in Part II.

It is difficult to trace fully the exact amount of loan issue commissions in clearing banks' accounts.⁷⁰ Table 2.1 sets out Parr's Bank's commissions of 1904, 1905 and 1907 earned from the Japanese government loan issues and their proportion to the total annual gross profits, a fairly high ones during 1904 and 1905.

The main reason for the London clearing banks increasing Colonial and foreign government loan issue business in the 1890s was probably a desire to seek new businesses to compensate for a decline in their formerly lucrative activities of discounting inland bills and making advances to domestic industries.⁷¹ Despite the fact that this new strategy jeopardised the liquidity of their resources, the extent of the risks which the London clearing banks ran in foreign loan issue business was not great because they always, in conjunction with stockbrokers, organised underwriting syndicates for the loan issues which they undertook.

⁶⁸. Ibid., 27 June 1895.

⁶⁹. P.B.A., B11416, Board Minutes, 24 June 1897.

⁷⁰. F. Capie & A. Weber, 'Truth and Fiction' in Institute of Commonwealth Studies (University of London), Collected Seminar Papers, no.36 (The City and the Empire) (1987), p.28.

⁷¹. Nishimura confirmed the decline of advances plus discounts/ deposits ratios of banks in England and Wales in the late nineteenth century (S. Nishimura, The Decline of Inland Bills of Exchange in the London Money Market 1855-1913 [Cambridge, 1971], table 26 [pp.107-9]).

Table 2.1 Annual Profits of Parr's Bank and Japanese Government
Loan Issues, 1904, 1905 and 1907

Year	(1) Parr's Bank's commissions earned from Japanese government loan issues (£000)	(2) Total annual gross profits (£000)	(3) (1)/(2) (%)
1904	92	741	12.4
1905	210	770	27.3
1907	49	819	6.0

Note: (3) = (1)/(2) × 100.

Sources: (1) W.B.A., D2469;
(2) Gregory, op. cit., vol.ii, pp.322-23.

2.2.2 Overseas banks

Before the Second World War there was an overall category of overseas banks which meant banks based in the British Empire, and contemporary writers did not make any distinction between those which raised equity and had their boards in a particular part of the British Empire (outside Britain), and those in Britain.⁷² In this study the term 'overseas banks' means the overall category.

The names of overseas banks indicated their geographical relations, such as the Hongkong Bank with the Far East, the Bank of Montreal with Canada and the National Bank of Australasia with Australia. Their roles covered ordinary banking business (issuing bank notes, advancing and discounting bills), providing credit to international trade (acceptance and foreign exchange) and issuing securities.⁷³ Their loan issue business deserves more serious attention. Loan issue business was of significant importance in the

⁷² R.J. Truptil, British Banks and the London Money Market (1936), p.166.

⁷³ D. Joslin, A Century of Banking in Latin America (1963), p.20; J.A. Henry (ed. by H.A. Siepmann), The First Hundred Years of the Standard Bank (1963), p.44.

areas with which some of the overseas banks were concerned. There was a regional distribution in the foreign government loan issues which the overseas banks undertook. They arranged loan issues mainly for the Far East, Persia and South America.

The Oriental Bank played a leading role in Chinese and Japanese governments loan issue business in the 1860s and the 1870s, but went bankrupt in 1884.⁷⁴ The Hongkong Bank and the Chartered Bank were also active in making many loan issues for China, Japan and Siam as regular business. Because of some reluctance towards foreign loan issues on the part of the Chartered Bank,⁷⁵ after the turn of the century the Hongkong Bank carried out most of the Chinese government loan issues, facing no formidable competitor. It was more from a political viewpoint that the Hongkong Bank handled many Chinese government loan issues, its aim being to ensure the success of Britain's commercial interests in China.⁷⁶ As a consequence of the diplomatic conflict with other European powers in China, strong ties formed between the Hongkong Bank and the British Foreign Office. In 1898 the British Treasury, despite the Hongkong Bank's application,⁷⁷ refused to guarantee the Chinese government war indemnity loan,⁷⁸ but directed the Bank of England to accept an inscription of the bonds.⁷⁹ The Hongkong Bank's brilliant success in many foreign government loan issues for Far Eastern countries

⁷⁴. The direct causes of the Oriental Bank's suspension in 1884 were as follows: a failure of the Ceylon coffee crop; a loss in Mauritius through frauds and cyclones; failure of Chilean government loan flotations; a cumulative fall in the rupee. Most of the Bank's assets were locked up in illiquid investments such as railway shares and advances to planters in Ceylon when the Bank was in difficulties (A.S.J. Baster, The Imperial Banks [1929], pp.258-59; Banker's Magazine, vol.44 [1884], pp.664-70).

⁷⁵. C. Mackenzie, Realms of Silver (1954), p.206.

⁷⁶. The Hongkong Bank's diplomatic role appeared especially in the Sino-Japanese War indemnity loan issue negotiations in the period from 1895 to 1898 (S.F. Wright, Hart and the Chinese Customs, [Belfast, 1950], chapter xx; D. McLean, 'The Foreign Office and the Chinese Indemnity Loan, 1895', Historical Journal, vol.xvi-no.2 [1973], pp.303-21).

⁷⁷. F.O.17/1330, E. Cameron to F. Bertie, 23 December 1897.

⁷⁸. F.O.17/1356, E.W. Hamilton to Bertie, 7 February 1898.

⁷⁹. B.E.A., G23/70, G.F. Glennie to Hamilton, 21 March 1898. The same arrangement had been made in 1896 (ibid., G23/69, Glennie to Cameron, 26 March 1896).

was ascribed partly to its close liaison with both the British Foreign Office and the foreign governments of those countries where the Bank operated, and partly to the co-operation with the powerful stockbroker Panmure Gordon & Co. in loan issues.⁸⁰ Their co-operation in many Japanese government loan issues will be seen in Part II.

In Persia the Imperial Bank of Persia was invariably regarded as a guardian of Britain's commercial interests. In 1892 and 1911, it arranged the two Persian government loans in London.⁸¹ The Bank clung to these operations and drew unusual assistance from the British government. After the Russian loan of 1901 to Persia, the British government came to give direct support to the Imperial Bank. The Bank acted as 'the medium through which loans were passed' to the Persian government in 1903: an agreement that the Indian government was to lend up to £500,000 to the Bank and that the Bank was to lend this money to the Persian government, was concluded between the British government and the Imperial Bank of Persia.⁸² From the loan issue negotiations in 1911 there is the more telling evidence of an officer at the British Foreign Office, showing favour to the Bank: 'H.M. Government are bound to support [the] Imperial Bank [of Persia] in preference to other houses'.⁸³

For South American countries, especially Argentina, Chile and Brazil, the eminent London merchant banks initially raised most of the loans, although the Oriental Bank was concerned with several Chilean government loan issues in the early-1870s. The London & River Plate Bank handled two Argentinian government loan issues in 1892 and 1903. In 1908 the London Bank of Mexico & South America issued the Salvador government 6 percent loan. In 1909 the Anglo-South American Bank undertook the Nicaraguan

⁸⁰. F.H.H. King, The Hongkong Bank in Late Imperial China, 1864-1902, vol.1 (Cambridge, 1987), p.545; B.H.D. MacDermot, Panmure Gordon & Co., 1876-1976 (1976), pp.13-14, 42 and 53. The name of the company was Panmure Gordon, Hill & Co. from 1885 to 1902.

⁸¹. For these loan issues, see G. Jones, Banking and Empire in Iran (Cambridge, 1986), pp.51-54 and 120-24.

⁸². Ibid., pp.87-89.

⁸³. F.O.371/965. G.H. Barclay to Lord Grey, 27 October 1910.

government 6 percent loan issue. But the activities of the overseas banks in this field were quite small in proportion to those of the merchant banks.

Keen competition with influential merchant banks, however, often forced overseas banks to switch their main business objectives to smaller operations, that is to say, Treasury bill and provincial government loan issues. The Bank of Tarapacá & London floated the Chilean government Treasury bills in 1898⁸⁴ and 1902.⁸⁵ The London & Brazilian Bank issued a Pará government loan in 1901⁸⁶ and in 1904 raised a loan for the São Paulo government. The Bank also arranged the Bahia government loan issues in 1905 and 1910.⁸⁷

In the 1860s and the 1870s, the Bank of New South Wales, the National Bank of Australia and the Union Bank of Australia were involved in Australian governments loan issues in London,⁸⁸ although most of them (except for South Australia) came to be dealt with by the Bank of England and the London & Westminster Bank after the 1880s. The Bank of Adelaide undertook many South Australian government loan issues. The Bank of Montreal acted as a loan issuer for the Canadian government.

Besides the income derived from foreign exchange business, loan issue commissions were one of the main earning sources for overseas banks. In an extreme case, the Hongkong Bank's profit from the Chinese government war indemnity loan issues of 1896 and 1898 reached around £130,000⁸⁹ and £220,971⁹⁰ respectively, which accounted for 22.0 percent and 15.3 percent respectively of its annual net earnings (deducting various expenses).⁹¹ However, loan issue commissions were not always so

⁸⁴. B.T.L.A., C2/1, London to Santiago, no. 75, 1 July 1898.

⁸⁵. Ibid., C2/3, no.178 and no.180, London to Santiago, 5 and 19 September 1902. The name of the Bank was now the Bank of Tarapacá & Argentina.

⁸⁶. L.B.B.A., G3/5, Supplement 39/53, 19 December 1901.

⁸⁷. Ibid., G3/10, Head Office to Rio de Janeiro, 24 February 1910.

⁸⁸. London Stock Exchange (Guildhall Library), Loan & Company Prospectuses.

⁸⁹. H.S.B.A., Board Minutes, 1 October 1896.

⁹⁰. Ibid., Board Minutes, 12 November 1898.

⁹¹. *Bankers' Magazine*, vol.62 (1896), p.536; vol.63 (1897), p.617; vol.66 (1898), p.507; vol.67 (1899), p.774.

remunerative to overseas banks as the Hongkong Bank's war indemnity loan issues. The Bank of New South Wales complained of 'the miserable commission' (1/4 percent) when it was involved in the Victorian government 4 percent loan issue in 1876;⁹² in 1902 the Bank of Tarapacá & Argentina placed the Chilean government Treasury bills only with the £2,500 net profit (1/2 percent of the issue amount).⁹³

Overseas banks had wide branch networks spread over the world, but their loan issue activities for Colonies (except for South Australia and Canada) and South America were limited. In these areas, well defined financial channels had been formed between governments and particular financiers before the overseas banks embarked upon loan issue business. Merchant banks and banks with specific connections, such as the Bank of England and the London & Westminster Bank, had taken a firm grip on the business. On the other hand, in the Far East and Persia there was no formidable competitor to overseas banks.

2.2.3 Foreign banks

Contemporaries defined foreign banks as the banks based outside the British Empire. In order to distinguish these banks from those based in the British Empire, this classification is adopted in this study. There were an increased number of foreign banks' branches in London between 1890 and 1895; accordingly they accepted large deposits and exerted more influence on the market.⁹⁴ In the 1890s the internationalisation of the money market proceeded rapidly and London became the largest financial centre for the settlement of

⁹². R.F. Holder, Bank of New South Wales, vol.1 (Sydney, 1970), p.341. The role of the Bank in this loan issue was one of the agents for receiving the tenders (London Stock Exchange [Guildhall Library], Loan and Company Prospectuses).

⁹³. B.T.A.A., C2/3, London to Santiago, no.174 (11 July 1902) and no.178 (5 September 1902).

⁹⁴. W.F. Spalding, 'The Establishment and Growth of Foreign Branch Banks in London, and the Effect, Immediate and Ultimate, upon the Banking and Commercial Development of this Country', J.I.B., vol.xxxii (1911), p.438.

trade bills and foreign borrowings.⁹⁵

Foreign banks provided material assistance to their home countries' financial operations in London. There was 'so large a share of this [foreign securities] investment business done by the foreign branch banks'.⁹⁶ Keen competition between foreign banks and British banks (including clearing banks, overseas banks and merchant banks) occurred in loan issue business. In the Danish government 3 percent loan issue of 1894, Hambros, a London merchant bank and the loan issuer in London, did not authorise the Crédit Lyonnais's London Branch as a loan issuer, even though the loan issue was arranged by the Crédit Lyonnais's Head Office.⁹⁷ On another occasion, however, foreign banks harmoniously collaborated with British banks as did the Yokohama Specie Bank and the Industrial Bank in Japanese loan issues in London.

Reputable French banks repeatedly made simultaneous loan issues in London and Paris. They were the earliest arrivals among foreign banks on the London money market. First, large banques de dépôts opened London branches: in 1865 Comptoir National d'Escompte; in 1872 Société Générale; in 1873 Crédit Lyonnais,⁹⁸ and began to run their business in London. Subsequently, banques d'affaires⁹⁹ and banques coloniales came to issue foreign government loans on the London capital market.

German credit banks also exercised great financial power in the London capital market. This obviously coincided with Germany's aggressive expansionist policy. The Deutsche Bank was founded in March 1870 and defined its business object as '....in

⁹⁵. F. Schuster, 'Foreign Trade and the Money Market', *J.I.B.*, vol.xxv (1904), pp.58-62. Low transaction costs and a low discount rate for sterling bills on the London money market were attractive to foreign banks (P. Hertner, 'German Banks abroad before 1914' in G. Jones [ed.], *Banks as Multinationals* [1990], p.101).

⁹⁶. Spalding, *op. cit.*, p.451.

⁹⁷. H.A., Ms.19,082, Hambros to C.F. Tietgen, 15 November 1894.

⁹⁸. Trupitil, *op. cit.*, p.179.

⁹⁹. Banques d'affaires - public banks for investment business. The French 'banque d'affaires' meant 'investment bank' in English (D. Landes, 'The Old Banks and the New' in F. Crouzet, W.H. Chaloner & W.M. Stern [eds.], *Essays in European Economic History, 1789-1914* [Alva, 1969], p.113 [note 2]).

particular to promote and facilitate trade relations between Germany, other European countries and overseas markets'.¹⁰⁰ The Bank opened its London Branch in 1873.¹⁰¹ This branch, often simultaneously in Germany, arranged many loan issues to Germany and its dependencies. Other German banks also opened London branches: the Dresdner Bank in 1895 and the Disconto-Gesellschaft in 1899.¹⁰²

A combination of British and French capital produced the Imperial Ottoman Bank in 1863.¹⁰³ Although the head office was registered in Constantinople, the Bank's character was obviously an Anglo-French bank as its administration was governed by the two committees in London and Paris. The Imperial Ottoman Bank was authorised by the Turkish government (the Ottoman Empire) as the state bank, whose affairs were supervised by the government's commission.¹⁰⁴ Because of these relations, the Imperial Ottoman Bank was deeply involved in the Turkish government's finance, especially the reorganisation of the national debt. Paris, since the loan issue in 1863, became a prime lender to Turkey but the Imperial Ottoman Bank introduced many Turkish government loan issues to London simultaneously.

The Russian Bank for Foreign Trade, the Swiss Bankverein and the Yokohama Specie Bank always played a very significant part in loan issues in London for their home countries. The Russian Bank for Foreign Trade opened a London branch in 1885.¹⁰⁵ The Yokohama Specie Bank was established in 1879 and opened the London branch as early as 1881.¹⁰⁶ In most of the Japanese government foreign loan issues after 1899, the Yokohama Specie Bank, without exception, co-operated with two major British banks,

¹⁰⁰. M. Pohl, 'Deutsche Bank London Agency Founded 100 Years Ago' in Deutsche Bank (ed.), Studies on Economic and Monetary Problems and on Banking History (Mainz, 1988), p.233.

¹⁰¹. Ibid., p.236.

¹⁰². Ibid., p.237.

¹⁰³. A. Biliotti, La Banque Impériale Ottomane (Paris, 1909), pp.18-21; A. Autheman, History of the Ottoman Bank (Istanbul, 1988), pp.1-4.

¹⁰⁴. Ibid., p.4.

¹⁰⁵. Banker's Magazine, vol.lxxix (1905), p.362.

¹⁰⁶. Y.S.G.Z.S., vol.2, p.38.

Parr's Bank and the Hongkong Bank. This combination of the loan issue banks including Panmure Gordon & Co., a stockbroker, became the backbone of Japanese government financial operations in London. Table 2.2 calculates the earning sources of the Yokohama Specie Bank. The proportion of the loan issue commission compared to total earnings was not significant but was higher in the years when the Bank undertook the Japanese government loan issues (1899, 1902, 1904 and 1905), although with a time lag.

Table 2.2 Main Earning Sources of the Yokohama Specie Bank, 1899 and 1901-1906

Earning	1899	1901	1902	1903	1904	1905	1906
From exchange (%)	6,852 (50)	4,960 (44)	5,349 (43)	6,270 (49)	6,260 (47)	7,352 (41)	9,772 (44)
From commission (%)	433 (3)	148 (1)	237 (2)	231 (2)	1,041 (8)	1,923 (11)	1,323 (6)
Total earning (%)	13,660 (100)	11,248 (100)	12,518 (100)	12,779 (100)	13,450 (100)	17,732 (100)	22,125 (100)

Notes: ¥000 (¥1=2s. 1/2d.);
No data for 1900.

Source: Yokohama Specie Bank, Yokohama Shōkin Ginkōshi (History of the Yokohama Specie Bank), vol.4 (Yokohama, 1920 [reprinted 1976]).

2.2.4 Merchant banks

Merchant banks acted principally as acceptance and issue houses. Their power and influence eventually raised London to being the world's largest financial centre in the nineteenth century. The relationship between merchant banks' loan issue business and their earning sources has never received a satisfactory explanation and will be considered here.

It is difficult to divide the amount of any loan issue among different types of co-issuers. Several scholars¹⁰⁷ have relied upon W.A. Brown's statistics on Britain's overseas new issues,¹⁰⁸ although he mentioned nothing about how to aggregate the amounts of the different types of co-issuers. Neither did Simon provide alternative statistics on foreign loan issues classified by financial institution.¹⁰⁹ Brown emphasised the drop in the merchant banks' proportion of the new overseas issues, from 43.7 percent in the period 1885-1889 to 32.7 percent in 1905-1909; by contrast with this, both the 'joint-stock banks' (clearing banks) and overseas banks', especially after the late-1890s, gained the share lost by the merchant banks. De Cecco consistently heralded 'the swan song of the power of the Bank of England and of the merchant banks'¹¹⁰ after the Baring Crisis, by pointing to the rapid growth of clearing banks backed by large amounts of public deposits.¹¹¹

Table 2.3 classifies foreign government loan issues by financial institution, showing the combination of co-issuers. According to this table, the share of merchant banks in the total foreign government loan issues dropped sharply after 1895: from 94 percent in 1885-1889 to 39 percent in 1905-1909. However, including the other types of loan issues in which merchant banks were concerned as one of the co-issuers, the share of merchant banks slightly recovered. It is true that after 1890 overseas banks, foreign banks and the London clearing banks began to issue many foreign government loans, and as a result merchant banks lost their shares on the loan issue market. Yet the merchant banks' key position on the loan issue market, especially in underwriting and linking one market with others in simultaneous loan issues, was firmly retained. Their roles in loan issue operations became more specialised. Merchant banks' experience and good sources

¹⁰⁷. T. Balogh, Studies in Financial Organization (Cambridge, 1947), p.233; Hall, op. cit., p.72.

¹⁰⁸. 'British Capital Abroad', The Economist, 20 November 1937, p.362.

¹⁰⁹. M. Simon, 'The Pattern of New British Portfolio Foreign Investment, 1865-1914' in A.R. Hall (ed.), The Export of Capital from Britain (1968), pp.15-44.

¹¹⁰. M. de Cecco, Money and Empire (Oxford, 1974), p.95.

¹¹¹. Ibid., pp.96-97.

of business information still made them significantly attractive to many foreign borrowers.¹¹²

Unlike clearing banks and overseas banks (public deposit banks), capital sources for merchant banks organised in a partnership were circumscribed by partners' capital and borrowing. This limitation often undermined their financial position. Partners' capital was the most reliable source of funding for merchant banks. It goes without saying that substantial capital would help to ensure the merchant banks' financial stability in business. In the 1880s Antony Gibbs, for example, suffered greatly from a lack of partners' capital resulting from both an excess of Australian investments and several eminent partners' withdrawal from the business.¹¹³ Brown Shipley's business was also frequently upset by the retired partners' withdrawal of capital.¹¹⁴ Merchant banks, in consequence, were subject to capital fluctuations effected by partners' withdrawal. This capital uncertainty often caused serious management problems. In an extreme case, the precariousness of the capital structure actually threatened a firm's existence, and retiring partners were often asked to stagger their capital withdrawal over several years.¹¹⁵

Table 2.4 compares the capital size of the various financial institutions: merchant banks; clearing banks; overseas banks; French banques de dépôts; French banques d'affaires; German Kreditbanken. With the exception of the merchant banks, the others were all joint stock deposit banks. Many of the London clearing banks started from small country banks, whose capital size was much smaller than that of the eminent contemporary merchant banks, but, in the course of amalgamation, rapidly increased. On the other hand, most of the merchant banks carried out business with small capital,

¹¹². P. Einzig, The Fight for Financial Supremacy (1931), p.29.

¹¹³. Chapman, op. cit., pp.166-67.

¹¹⁴. S.J. Diaper, 'The History of Kleinwort, Sons & Co. in Merchant Banking, 1855-1961', Unpublished Ph. D., University of Nottingham, 1983, pp.62-63.

¹¹⁵. S.J. Diaper, 'Merchant Banking Growth in the Second Half of the Nineteenth Century: The experience of Kleinwort, Son & Co.' in the Institute of Commonwealth Studies (University of London), Collected Seminar Papers, no.35 (The City & the Empire) (1985), p.95.

especially compared with the banks on the Continent which would take up security issue business, because merchant banks were organised as partnerships. So far as capital size was concerned, merchant banks were in a vulnerable financial position, their most important assets being their reputations and connections.¹¹⁶ These well complemented lack of their capital size. However, merchant banks like Kleinworts and Brown Shipley specialised in acceptance business and enlarged their capital size. After 1910 they reached a capital figure almost equivalent to that of the London clearing banks and the banques d'affaires.

Merchant banks specialised in the businesses which stemmed mainly from their own historical backgrounds. For instance, from the late nineteenth century Kleinworts were seldom involved in security issues and concentrated on acceptance business.¹¹⁷ R. Benson III, after his father's bankruptcy in 1875, rebuilt the firm (R. Benson & Co.) with small capital for carrying out retailing bonds and shares.¹¹⁸ M. Samuel & Co. was engaged largely in merchant activities for Far Eastern countries.

Not all the merchant banks, therefore, were able to undertake foreign loan issues and the risks involved. Before the advent of underwriting in the City, only those merchant banks with sufficient resources could run security issue business by purchasing all or some of the issue at their own risk. It is a well-known fact that the larger and long-standing merchant banks such as, Baring Brothers, the London Rothschilds and Hambros, frequently arranged many foreign government loan issues.

However, it is difficult to argue generally to what extent loan issues contributed to merchant banks' earnings, for they covered a wide range of business and every merchant bank had its own character. In addition, their accounting figures cannot be formulated and standardised. It is merely apparent that loan issue commissions were one of the important earning sources for some of them. Fortunately the earning sources of

¹¹⁶. Chapman, *op. cit.*, p.62.

¹¹⁷. Diaper, 'The History of Kleinwort, *op. cit.*', pp.264-65.

¹¹⁸. Chapman, *op. cit.*, p.129.

several merchant banks can be deduced. In the case of J.S. Morgan Co. (Table 2.5), the gross earnings from security issues were rather irregular. The security transactions occupied a much larger proportion in the annual gross earnings but frequently caused heavy losses. It seems that their security issues and stock dealings were not stable earning sources. Table 2.6 indicates Hambros' earning sources. It is obvious that the rate of increase in the 'Discount Account' became much greater than in the 'Commission Account'.

Table 2.3 Foreign Government Loan Issues in London, 1870-1913 (By Financial Institution)
(£000; net proceeds)
(percent)

Combination of financial institutions	1870-74	1875-79	1880-84	1885-89	1890-94	1895-99	1900-04	1905-09	1910-13
Merchant bank	672173 (90)	244264 (77)	106112 (58)	231060 (94)	139282 (77)	79599 (45)	42051 (36)	42856 (39)	53001 (61)
Merchant bank Clearing bank						4432 (3)		1665 (2)	2217 (2)
Merchant bank Foreign bank	26960 (4)				990 (0)	3954 (2)	3756 (3)	6459 (6)	
Merchant bank Overseas bank							1273 (1)	860 (1)	
Merchant bank Clearing bank Foreign bank						3484 (2)			
Merchant bank Foreign bank Overseas bank							5104 (4)		
Merchant bank Clearing bank Foreign bank Overseas bank								17293 (15)	
Sub-total	(94)	(77)	(58)	(94)	(77)	(52)	(44)	(63)	(63)
Clearing bank	16438 (2)	2500 (1)	29500 (16)	4485 (2)	21694 (12)	6205 (4)	3140 (3)	164 (0)	0 (0)
Clearing bank Foreign bank								2841 (3)	
Clearing bank Foreign bank Overseas bank						13451 (8)	10105 (9)	22500 (20)	10450 (12)
Foreign bank	12029 (1)	31756 (10)	32067 (18)	7600 (3)	8586 (5)	21759 (12)	45786 (40)		
Foreign bank Overseas bank								478 (0)	
Overseas bank	4359 (1)	4126 (1)	100 (0)	2210 (1)	3438 (2)	34155 (19)	4604 (4)	10415 (9)	10504 (12)
Overseas bank Trust company									4750 (5)
Overseas bank Indefinite						2231 (1)			
Trust company				619 (0)					486 (1)
Government	16164 (2)	26515 (8)	15327 (8)		2035 (1)				
Indefinite		9905 (3)			5168 (3)	6148 (4)		5229 (5)	6008 (7)
Total	748123 (100)	319066 (100)	183106 (100)	245974 (100)	181193 (100)	175418 (100)	115819 (100)	110760 (100)	87416 (100)

Notes: Net proceeds were calculated as follows:
 $(\text{net proceeds}) = (\text{total loan issue amounts}) \times (\text{London issue prices, otherwise } 100) / 100$;
 These amounts do not mean actual capital transfers from the London capital market.

Source: Table 1.3.

Table 2.4 Comparison of Capital Size of Various Financial Institutions, 1865-1910
(£000)

	1865	1870	1875	1880	1885	1890	1895	1900	1905	1910
<u>Merchant Bank</u>										
						*1891				
Baring Bros	-	-	-	-	-	1,000	1,025	1,025	1,025	1,025
Benson	-	-	-	-	-	265	60	117	192	198
Brown										
Shipley	-	-	1,270	1,196	1,106	1,399	1,276	-	-	-
Gibbs	-	-	-	-	419	1,060	543	420	716	919
Hambros	542	647	634	720	959	1,036	962	1,154	1,292	-
Kleinworts	654	914	845	759	822	892	1,174	1,718	2,330	3,419
	*1868									
J.S. Morgan	471	655	1,461	2,331	2,903	1,773	2,188	2,261	1,722	1,020
								*1901		
Schröder	-	-	-	-	-	-	-	1,500	-	2,500
<u>Clearing Bank</u>										
Parr's Bank	100	150	392	492	560	600	1,000	1,464	1,709	2,205
Westminster Bank	1,000	2,000	2,000	2,399	2,800	2,800	2,800	2,800	2,800	3,500
<u>Overseas Bank</u>										
Hongkong Bank	560	900	1,130	1,130	1,390	1,590	1,600	1,600	1,600	1,360
<u>Banque de Dépôts</u>										
			*1874							
Crédit Lyonnais	792	-	1,979	3,958	7,917	7,917	7,917	9,896	9,896	9,896
Société Générale	4,750	4,750	4,750	4,750	4,750	4,750	4,750	6,333	9,896	15,883
<u>Banque d'Affaires</u>										
Banques de Paris	2,454	2,454	2,454	2,454	2,454	2,454	2,454	2,454	2,454	2,969
Union Parisienne	-	-	-	-	-	-	-	-	2,375	2,375
<u>Kreditbank</u>										
		*1871								
Deutsche Bank	-	738	2,213	2,213	2,950	3,688	4,425	7,375	8,850	9,833
Disconto-Gesellschaft	1,672	1,672	2,950	2,950	2,950	3,688	5,654	6,392	8,358	8,358

Notes: - implies no information; * the nearest year;
Rates of exchange (Fr1=9 1/2d.; DM1=11 4/5d.).

Sources: The Economist, annually; E. Baldy, Les banques d'affaires en France depuis 1900 (Paris, 1922), annexes 1; Kaufmann, op. cit., tableaux; A. Bosenick, Neudeutsche gemischte Bankwirtschaft (Munich & Berlin, 1912), Anlage XVI-Tabelle 1; Burk, op. cit., appendix ii and iii; B.C.A., Balance Sheets; A.G.A., Ms.11,042/1 and Ms.11,064/1; H.A., Ms.19.033/17-29.

Table 2.5 J.S. Morgan & Co.'s Earning Sources, 1890-1906

Year	Commission	Profit & loss (stock dealing)	Interest earning	Other	Gross earnings
	(£) (%)	(£) (%)	(£) (%)	(£) (%)	(£) (%)
1890	26,842 (62)	*5,559	6,724 (15)	-	43,641 (100)
1891	52,262 (42)	22,580 (18)	10,275 (8)	-	125,268 (100)
1892	67,712 (32)	99,102 (47)	8,316 (4)	-	211,047 (100)
1893	57,607 (59)	*57,444	4,927 (5)	-	97,763 (100)
1894	42,441 (39)	39,194 (36)	8,854 (8)	-	108,264 (100)
1895	90,081 (25)	220,766 (61)	15,969 (4)	16,263 (4)	363,683 (100)
1896	78,758 (30)	146,229 (55)	19,997 (8)	-	264,762 (100)
1897	96,754 (27)	225,913 (62)	17,656 (5)	-	362,581 (100)
1898	60,699 (23)	170,723 (65)	13,790 (5)	-	261,216 (100)
1899	87,729 (36)	115,785 (48)	21,003 (9)	-	243,336 (100)
1900	48,606 (23)	130,021 (62)	11,570 (6)	-	208,745 (100)
1901	135,902 (28)	307,737 (63)	33,794 (7)	-	488,831 (100)
1902	54,996 (14)	275,253 (71)	43,670 (11)	-	388,849 (100)
1903	70,419 (-)	*240,779 (-)	23,147 (-)	-	- (-)
1904	51,320 (25)	119,977 (59)	22,104 (11)	50,000 (25)	203,839 (100)
1905	56,594 (40)	*220,859	30,923 (22)	50,000 (35)	143,107 (100)
1906	97,407 (54)	40,349 (22)	39,174 (22)	-	181,631 (100)

Notes:

* indicates loss;
 - implies nil;
 'Other' was mainly concerned with issues;
 Not all the earning sources were disclosed.

Source:

Burk, op. cit., appendix ii and iii.

Table 2.6 Hambros' Earning Sources, 1890-1906

Year	(1)		(2)		(3)	
	Discount account (£)	(%)	Commission account (£)	(%)	Gross earnings (£)	(%)
1890	64,676	55	53,171	45	117,847	100
1891	31,651	50	31,029	50	62,680	100
1892	29,585	55	24,220	45	53,805	100
1893	29,422	58	21,209	42	50,631	100
1894	26,268	50	25,873	50	52,141	100
1895	41,555	56	32,686	44	74,241	100
1896	35,974	61	22,748	39	58,722	100
1897	35,777	57	26,833	43	62,610	100
1898	-	-	-	-	-	-
1899	-	-	-	-	-	-
1900	58,455	59	41,290	41	99,745	100
1901	-	-	-	-	-	-
1902	73,797	69	33,185	31	106,982	100
1903	74,487	76	23,792	24	98,279	100
1904	-	-	-	-	-	-
1905	75,979	70	32,368	30	108,347	100
1906	83,997	70	36,037	30	120,034	100

Notes: - implies no information;
(3)=(1)+(2).

Source: H.A., Ms.19.033/13-29.

2.2.5 The Bank of England

It was clear that Colonial governments could, from time to time, draw direct financial assistance from the British government. Parliament, given the recommendation of the Treasury, agreed to provide financial aid to Colonies. The total of government funds disbursed in direct support of dependent Colonies amounted to £99,411 in 1879, but by 1900 became ten times as much as that sum.¹¹⁹

In comparison with foreign governments, Colonial governments could float loans on the London capital market more easily. Certain financial institutions in the City,

¹¹⁹. L.E. Davis & R.A. Huttenback cover the general activities of the Crown Agents but give little discussion of loan issues (Mammon and Pursuit of Empire [Cambridge, 1986], pp.180-82).

notably the Crown Agents, the Bank of England, and specific banks and stockbrokers with Colonial connections, invariably looked after loan issues for Colonial governments,¹²⁰ as previously stated.

In the late-1860s, the Bank of England regarded Colonial government loan business as safe and well-qualified. It was in 1866 that the Bank of England agreed to take the New Zealand government 6 percent bonds.¹²¹ In 1876 the Bank made arrangements for the management of the public debts for the Queensland government¹²² and in 1878 for the first time undertook the New Zealand government 5 percent loan issue for £3,500,000.¹²³ Thereafter, at the Bank of England 'the era of colonial management has fairly opened'.¹²⁴ The Bank of England undertook Colonial loan issues for the Indian, the New Zealand, the Queensland, the New South Wales (before 1902) and the Transvaal governments. Colonial governments, for their parts, could obviously derive an advantage from counting upon the Bank of England for their loan issue operations.¹²⁵

The Bank of England, in collaboration with Mullens Marshall & Co., a stockbroker, nicknamed 'Bank's Brother', implemented most of the Colonial government loan issues by the tender method.¹²⁶ It was an established practice for the Bank that a

¹²⁰. Schilling, *op. cit.*, p.40; Evidence taken before the Committee of Enquiry into the Organization of the Crown Agents' Office (hereafter cited as Committee of Crown Agents' Office), B.P.P. 1909, xvi, [Cd.4474], Q.3730 (J.A. Mullens, a partner of Mullens, Marshall & Co.); London Stock Exchange (Guildhall Library), Loans and Company Prospectuses.

¹²¹. J. Clapham, *The Bank of England*, vol.ii (Cambridge, 1944), pp.301-2.

¹²². B.E.A., G4/97, Courts Minutes, 24 February 1876.

¹²³. Ibid., G8/43, Treasury Committee Minutes, 29 May 1878; London Stock Exchange (Guildhall Library), Loan and Company Prospectuses.

¹²⁴. Clapham, *op. cit.*, p.302.

¹²⁵. Evidence taken before the Committee of Crown Agents' Office, Q.3732 (Mullens).

¹²⁶. J. & A. Scrimgeour & Co., a stockbroker, co-operated with Mullens, Marshall & Co. when the Bank took up New Zealand government loan issues; R. Nivison & Co., a stockbroker, also worked with Mullens, Marshall & Co. for Indian government loan issues (London Stock Exchange [Guildhall Library], Loans and Company Prospectuses).

stockbroker actually made the necessary arrangements for loan issues on the market.

There were direct loan issue negotiations between the Bank of England and Colonial governments. At first, an Agent General for a Colonial government sounded out market conditions at the Bank when it wished to issue a new loan; the Bank of England, in conjunction with stockbrokers, reported to the Agent General the assessment of the proposed loan issue and suggested a possible way. In the negotiations of the New South Wales government loan of 1891, W. Lidderdale, the Governor of the Bank of England, informed S. Samuel, the Agent General, that the intended loan could be placed privately among financial houses, but only at a much lower issue price than the current quotation prices of existing New South Wales government bonds because of the unfavourable market conditions for new loan issues.¹²⁷

In 1892 the Bank was deeply concerned with the Queensland government 3 1/2 percent loan issue. Originally this loan for £2,500,000 (the first issue) had been offered by a tender on the market at the minimum price of 94 percent in 1891, but subsequently the unsubscribed balance was taken up again at 92 1/4 percent.¹²⁸ Although Lidderdale was of the firm opinion that the Bank of England should not support Colonial government loan issues to an unlimited extent nor even give any assistance unless the public accepted the loan,¹²⁹ Mullens Marshall & Co., on the terms of the agreement, urged the Bank through the Agent General to take some of the unsubscribed portion when the loan had been tendered on the market and only a small portion had been subscribed by the public.¹³⁰ By the end of the nineteenth century, however, the Bank of England had established the rules according to which it handled these government loan issues.¹³¹

¹²⁷. B.E.A., G23/69, W. Lidderdale to S. Samuel, 13 August 1891.

¹²⁸. S.E.O.I. for 1895, pp.160-61.

¹²⁹. B.E.A., G23/69, Lidderdale to Garrick, 25 January 1892.

¹³⁰. Ibid., H. Cubb to J.F. Garrick, 16 January 1892.

¹³¹. Ibid., G8/51, Treasury Committee Minutes, 12 August 1908.

2.2.6 Stockbrokers

The important role of stockbrokers in loan issue operations has not been sufficiently discussed and is often underrated. Charles Duguid's famous textbook on the stock exchange mentioned the two important activities of stockbrokers related to loan issues: underwriting and broking.¹³² Firstly, their activities were concerned with the broking of issued bonds. In order to encourage investors' demand for the bonds, stockbrokers supplied investment information to customers by circulars and information sheets.¹³³ More directly, stockbrokers sent the prospectuses with the stamped application forms and induced customers to purchase the issued bonds; they said we 'have pleasure in endeavouring to secure an allotment'.¹³⁴ Secondly, stockbrokers underwrote loan issues. The extent of their involvement in underwriting was varied, according to their position in loan issue operations. When stockbrokers, in collaboration with loan issue banks, arranged the loan issue, they played a positive role in organising the underwriting and invited financial institutions to it.¹³⁵ Otherwise, they participated as commission-takers.

Large and pre-eminent stockbrokers often acted as de facto loan issuers, especially when the Bank of England, the Crown Agents and banks with little experience of loan issue business undertook loan issues. Although the fragmented structure of the London capital market often symbolised its 'deficiencies', compared with the German universal banking system,¹³⁶ stockbrokers inside the London capital market played a co-

¹³². Charles Duguid, The Stock Exchange, fifth ed. (1926), pp.31-32. Lavington simply described 'the brokers who lend their names to the prospectuses, assign the underwriting on payment of an "overriding" commission, carry through many of the technical formalities and open up a market among their clients' (*op. cit.*, p.184).

¹³³. N. Grieser, 'The British Investor and his Sources of Information', Unpublished M.Sc.(Econ.) Thesis, University of London, 1940, pp.76-77.

¹³⁴. W.J. Reader, A House in the City (1979), p.93. This was Foster & Braithwaite's case.

¹³⁵. O'Hagan, *op. cit.*, vol.1, pp.150-51.

¹³⁶. Y. Cassis, 'British Finance: Success and Controversy' in J.J. van Helten & Y. Cassis [eds.], Capitalism in a Mature Economy (1990), pp.8-9.

ordinated and integrated role in some of the loan issues. Schilling was the first to pay necessary attention to this aspect of stockbrokers' activities in Colonial government loan issues.¹³⁷ Specific stockbrokers established direct and close relations with Colonial governments' loan issues in London.¹³⁸ In these cases, the stockbrokers, rather than the loan issue banks, made preparations for loan issues on the market (underwriting and broking), and the loan issue banks acted simply as subscription agents because the loan issue banks were not experts in that business.¹³⁹

Three eminent stockbrokers: R. Nivison & Co., J. & A. Scrimgeour & Co. and Mullens Marshall & Co., undertook Colonial government loan issues almost as the sole operators. There were definite business boundaries among them: for Colonies with responsible governments R. Nivison & Co. arranged loan issues; for the Crown Colonies J. & A. Scrimgeour & Co. and Mullens Marshall & Co. acted as the stockbrokers; Mullens Marshall & Co. usually organised loan issues which the Bank of England undertook.¹⁴⁰ In these loan issues, the loan issue banks including the Crown Agents put all the necessary arrangements of the loan issues into the hands of these stockbrokers.

J.A. Mullens, a partner of Mullens Marshall & Co., explained their roles in loan issues with the Crown Agents. J. & A. Scrimgeour & Co., the main stockbrokers of the

¹³⁷. Schilling, *op. cit.*, p.46.

¹³⁸. Such a practice was also confirmed in Indian government guaranteed railway loan issues. Railway companies had their own stockbrokers (Evidence taken before the Committee of the Crown Agents' Office, Q.715 [H.W. Badock, Accountant General at the Indian Office]).

¹³⁹. Panmure Gordon & Co. floated many Japanese government loans on the London capital market. Whenever the Hongkong Bank, Parr's Bank and the Yokohama Specie Bank took up them, Panmure Gordon & Co. made the necessary arrangements because these loan issue banks (the banks with Far Eastern and Japanese connections) were not experts in loan issue business. Panmure Gordon & Co.'s substantial role in the underwriting of Japanese government loan issues will be seen in Part II. However, it is an interesting fact that Harry Panmure Gordon, the founder of the Company, had joined J. & A. Scrimgeour & Co., which was involved heavily in Colonial government loan issues, as a junior partner in the 1860s (MacDermot, *op. cit.*, p.14).

¹⁴⁰. London Stock Exchange (Guildhall Library), Loans and Company Prospectuses.

Crown Agents,¹⁴¹ 'generally go to the Crown Agents and see them, and then we discuss it more or less informally together; they [the Crown Agents] come down to our office and the thing [the loan issue] is settled'.¹⁴² They, the financial experts to the Crown Agents,¹⁴³ decided the details of new loan issues: i.e. the issues of prospectuses, issue prices, the time of issues and so on.¹⁴⁴

R. Nivison & Co., with 'its detailed knowledge of the sources of demand for Australia's government loans',¹⁴⁵ placed many loans in the London capital market. The Company maintained direct and close relations with the Australian and Canadian governments. The London & Westminster Bank invariably employed R. Nivison & Co. as its stockbroker for Colonial government loan issues.¹⁴⁶ The Company also co-operated with the Bank of Adelaide for South Australian government loan issues and the Bank of Montreal for Canadian government loan issues.

In this way, the important role of stockbrokers as the organisers of underwriting, the core of a loan issue on the London capital market,¹⁴⁷ was gradually enhanced in many Colonial government loan issues. They could find the demand for the underwriting and broking of newly issued bonds on the market. 'London broking firms were the key to arranging finance'¹⁴⁸ for Colonies.

¹⁴¹. Evidence taken before the Committee of the Crown Agents' Office, Q.3714 (Mullens).

¹⁴². Ibid., Q.3712 (Mullens).

¹⁴³. Ibid., Q.3713 (Mullens).

¹⁴⁴. Ibid., QQ.3705 and 3708 (Mullens).

¹⁴⁵. Gilbert, op. cit., p.43. 'All banks and governments, including the Commonwealth, used the same broking firm - Nivison & Co.' (p.41) is misled.

¹⁴⁶. Robert Nivison, the founder of the Company, was employed by the British Linen Bank (1863-1868) and the London & Westminster Bank (1869-1881). At that time the London & Westminster Bank took an active interest in the financial affairs of Colonial governments. Forming a partnership for stockbroking with another members (T.P. Baptie & Co.), he set up R. Nivison & Co. in 1887 (Obituary of Lord Glendyne [Robert Nivison], *The Times*, 16 June 1930).

¹⁴⁷. 'The successful manner in which they (R. Nivison & Co.) were carried through is largely attributed to the skill with which he, Nivison, built up his underwriting connexions' (Ibid.).

¹⁴⁸. D. Wainwright, *Government Broker* (East Molesey, 1990), p.55.

2.3 Conclusion

This chapter has examined the development of the loan issue mechanism, and the involvement of a variety of financial institutions in Colonial and foreign government loan issues. The discussion has not been related directly to Japanese government loan issues, but has provided their background in the London capital market. Indeed, without this important knowledge, it is almost impossible to understand the loan issue process of Japanese government loans.

Although the origin of syndicates went back earlier, syndication was highlighted in foreign government loan issues of the 1860s and the 1870s. The practice of underwriting was also introduced into loan issues in the late nineteenth century. It made loan flotations on the market much easier by dispersing the risks of loan issues to underwriters. Therefore, loan issue banks did not run any risks except for their underwriting amounts. Most of the foreign government loan issues on the London capital market were underwritten and carried out by public subscription. The market evaluated the quality of investments and reflected it directly in subscriptions. This loan issue mechanism freed loan issue banks from large risks involved in loan issues.

The extent of the involvement of financial institutions in Colonial and foreign government loan issues became varied, but some financial institutions formed definite and continuing relations with specific countries' loan issues. The substantial role of stockbrokers, as 'real' loan issue organisers, needs to be emphasised especially in Colonial government loan issues.

PART II

JAPANESE GOVERNMENT LOAN ISSUES ON THE LONDON CAPITAL MARKET

Table 3.1 Total amount of Japanese Government Loan Issues, 1870-1913

Loan issue place	Nominal amount (£000)	(%)	Net amount (£000)	(%)
London	87,893	48.4	82,106	48.6
New York	39,500	21.7	35,755	21.2
Germany	13,000	7.2	11,700	6.9
Paris	41,313	22.7	39,254	23.3
Total	181,706	100.0	168,815	100.0

Notes: The issue places in Germany included Hamburg and Berlin;
The difference of £3,000 in the net amounts between Table 1.4 and Table 3.1 is due to the rate of exchange in the bond re-sale of 1897 (nominal amount £4,385,000 - Table 1.3 and Table 1.4; nominal amount £4,389,000 - Table 3.2).

Source: These sources will be referred to in chapters 3 to 7.

Table 3.2 Japanese Government Loan Issues, 1870-1913

Year	Rate of interest (nominal) [Yield at issue]	Issue amount	Issue price (public)	Borrowing period	Object	Loan issuers
	(%)	(£000)	(%)	(year)		
1870	9 [9.2]	1,000 (London)	98	13	railway construction	Schröder
1873	7 [7.6]	2,400 (London)	92 1/2	25	redemption of pension fund	Oriental Bank
1897	5 [4.9]	4,389 (London)	101 1/2 (re-sale)	53	military	Capital & Counties Bank Hongkong Bank Chartered Bank Yokohama Specie Bank
1899	4 [4.4]	10,000 (London)	90	55	railway steelworks telephone	Parr's Bank Chartered Bank Hongkong Bank Yokohama Specie Bank
1902	5 [5.0]	5,104 (London)	100 (re-sale)	55	military steelworks telephone tobacco	Baring Bros Hongkong Bank Yokohama Specie Bank
1904	6 [6.4]	10,000 London (5,000) New York (5,000)	93 1/2	7	military	Parr's Bank Hongkong Bank Yokohama Specie Bank
1904	6 [6.6]	12,000 London (6,000) New York (6,000)	90 1/2	7	military	Parr's Bank Hongkong Bank Yokohama Specie Bank
1905	4 1/2 [5.0]	30,000 London (15,000) New York (15,000)	90	25	military	Parr's Bank Hongkong Bank Yokohama Specie Bank

Table 3.2 Japanese Government Loan Issues, 1870-1913 (cont.)

Year	Rate of interest (nominal) [Yield at issue]	Issue amount	Issue price (public)	Borrowing period	Object	Loan issuers
	(%)	(£000)	(%)	(year)		
1905	4 1/2 [5.0]	30,000 London (10,000) New York (10,000) Germany (10,000)	90	25	military	Parr' Bank Hongkong Bank Yokohama Specie Bank
1905	4 [4.4]	25,000 London (6,500) New York (3,250) Germany (3,250) Paris (12,000)	90	25	conversion	Parr's Bank Hongkong Bank Yokohama Specie Bank London Rothschilds Paris Rothschilds
1907	5 [5.0]	23,000 London (11,500) Paris (11,500)	99 1/2	40	conversion	Parr's Bank Hongkong Bank Yokohama Specie Bank London Rothschilds Paris Rothschilds
1910	4 [4.2]	17,813 (Paris)	95 1/2	60	conversion	Paris Rothschilds
1910	4 [4.2]	11,000 (London)	95	60	conversion	Parr's Bank Hongkong Bank Yokohama Specie Bank

Notes: The issue places in Germany included Hamburg and Berlin;
Short-term loan issues in 1912 and 1913 were excluded.

Source: These sources will be referred to in chapters 3 to 7.

CHAPTER 3

EARLY LOAN ISSUES

Table 3.1 shows the total loan issue amounts (nominal and net) of Japanese government foreign loan issues in London, New York, Germany (Hamburg and Berlin) and Paris, in the period 1870 to 1913, and Table 3.2 their terms: rates of interest, issue amounts, issue prices (to the public), borrowing periods, objects and loan issuers. Following chapters 3 to 7 will discuss these financial operations mainly on the London capital market. Before mentioning details of the individual loan issues, their brief outline can be followed from these tables.

*

As a result of Japan's rapid industrialisation after the Meiji Restoration (1868), substantial funds were required for the development of social institutions and infrastructures. The Tokugawa Shogunate government (Bakufu) and some feudal clans (Han) had previously borrowed money from foreign banks and merchant houses in Japan.¹ Yet the idea of a public loan was totally unfamiliar in Japan.

This chapter will examine the early Japanese government foreign loan issues in 1870 and 1873, the purposes of which were railway construction and the redemption of pensions for the old feudal knight class (Samurai). In the 1870s, however, Japan was still an unknown country to British public investors, without a sound borrowing record. British financial journalists regarded these Japanese bonds as almost as unreliable as Turkish and Egyptian bonds. Even in the 1890s, one British banker confessed that 'very

¹. The total debts of the feudal clans (Daimyō) taken over by the Meiji government amounted to nearly Mexican \$6,000,000 (approximately £135,000) (M.T.Z., vol.12, p.2). It is difficult to calculate accurately because of a silver currency (A.P. Andrew, 'The End of the Mexican Dollar', Quarterly Journal of Economics, vol.xviii-no.3 (1904), pp.321-56.

shrewd people whom I know have bought Japanese stock [the 7 percent loan of 1873] to return 4 7/8 percent'.²

3.1 9 Percent Loan Issue in 1870

In 1870, just two years after the Meiji Restoration, the Japanese government first foreign loan issue was launched. This year was conspicuous for the number of many foreign loan issues on the London capital market. The Bankers' Magazine described it as 'the epoch of foreign loans'.³ Lowering of Bank Rate to 2 1/2 percent had encouraged foreign government loan issues, and under these rather unusually active circumstances financial journalists warned public investors against the dangers of highly remunerative foreign loans, nearly a 10 or 12 percent annual rate of interest.⁴ Landes pointed out the 'lure of fabulous interest even more than the needs of trade that attracted British promoters and investors'.⁵ Obviously the Japanese government 9 percent loan of 1870 was felt to be in this high-risk, high-return loan category.

In order to foster industrialisation the new Meiji government, using western capital and techniques, made great efforts to develop infrastructures as rapidly as possible. The impetus for railway construction in Japan came from A.L.C. Portman, the United States Minister in Japan (Chargé d'Affaires, 1865-1866). The Tokugawa Shogunate government had given him a railway building license in 1867, but the Meiji government had not recognised it.⁶ At that time there were a number of proposals

². M.B.A., M153/44, Interview between T.R. Hughes and C. Whitburn, 3 June 1896. In comparison with the yield at issue in 1873 (7.6 percent), the return shows that the price of this loan rose remarkably in 1896.

³. Bankers' Magazine, vol.30 (1870), p.584.

⁴. The Economist, 25 June 1870, pp.786-87.

⁵. D.S. Landes, Bankers and Pashas (Cambridge[Mass.], 1958 [reprinted 1979]), p.57.

⁶. T. Tanaka, Meiji Ishin no Seikyoku to Tetsudō Kensetsu (Political Implications of the Meiji Restoration and Railway Construction in Japan) (Tokyo, 1963), pp.69-70.

including British, French and American ones for railway construction.⁷ H.S. Parkes, the British Minister to Japan, therefore, advised the Japanese government to carry out the project with its own resources.⁸ Parkes was doing his best to remove the American influence over the railway construction.

3.1.1 Railway construction and Lay

Horatio Nelson Lay,⁹ a leading figure in the Japanese government loan issue of 1870, was very knowledgeable about China.¹⁰ Initially he had acted as a supernumerary interpreter of the British government in China and from 1859 to 1863 had been the Inspector General of the Chinese Maritime Customs. He was one of the principals in the development of a European-Chinese naval force: the Lay-Osborn Flotilla.¹¹

It was in about 1862 that Lay had the idea of a loan issue for the Chinese government which he brought to the Oriental Bank.¹² On his return to England, Lay collaborated with associates, directors of the Consolidated Bank, a manager of the Telegraph Construction & Maintenance Co. and director of Fairbairn Engineering Co., to conduct mercantile business in China.¹³ He became a speculator concerned with Chinese affairs and aimed to build railway telegraphs in China.¹⁴ Lay soon saw the

⁷. *Ibid.*, pp.89-91.

⁸. *Ibid.*, p.102.

⁹. There are two studies on Lay: J. King, 'Oratio [Horatio is the right name - author] Nelson Lay, C.B. - A Pioneer of British Influence in the Far East', *Journal of the American Asiatic Association*, vol.xiv-no.2 (1914), pp.49-54; J.J. Gerson, 'Horatio Nelson Lay: His Role in British Relations with China, 1849-65', Unpublished Ph.D. Thesis, University of London, 1967. Neither throws light on Lay's activities connected with Japan.

¹⁰. His father G. Tradescant Lay was in China from 1841 to 1845 as the H.B.M. Consul in Amoy (Gerson, op. cit., p.34).

¹¹. S.F. Wright, *Hart and the Chinese Customs* (Belfast, 1950), chapter ix.

¹². C.16/676/5146, 1870. S. No.146, the Answer of Horatio Nelson Lay, f.2.

¹³. *Ibid.*, ff.2-3.

¹⁴. Lay to T. Fairbairn, 18 March 1869 (*ibid.*, f.3).

possibility of raising a Chinese government loan for the building of railway telegraphs and considered that close relations with Morrison Dillon & Co. and the Consolidated Bank could probably help him to raise the required money.¹⁵ In 1869 Lay left for China to complete this project with the Chinese government, but it showed no interest.¹⁶

Lay then switched his attention to Japan as he had heard that the newly established Japanese government (the Meiji government) needed a large amount of money for industrialisation. Lay and his business partners held an optimistic view of Japanese investment business¹⁷ and regarded it as 'a probable field for work'.¹⁸

3.1.2 Lay's negotiations in Japan

In July 1869 Lay arrived in Japan. He was not confident of raising money for the Japanese government from his personal sources, and considered it indispensable to work with the Oriental Bank,¹⁹ which had been concerned with the establishment of the mint in Japan in 1869²⁰ and secured firm business opportunities there in 1860, the year of the opening of the Yokohama Branch. Lay immediately explained to Parkes his plan of offering money to the Japanese government. Even to Parkes, Lay always pretended to be a representative of large British capital interests, asserting he had been sent to offer money to China and Japan.²¹ E. Satow, an officer at the British Legation in Japan, arranged a meeting between Lay and S. Ōkuma, the Vice-Minister of Home Affairs

¹⁵. Ibid., f.4.

¹⁶. Ibid., f.6.

¹⁷. Lay to Fairbairn, 19 July 1869 (ibid., ff.6-7).

¹⁸. C.16/676/5146, 1870. S. No.146, Amended Bill of Complaint, f.10, Fairbairn to Lay, 29 July 1869.

¹⁹. Ibid., f.4.

²⁰. Japanese Mint, Zōheikyoku Hyakunenshi (One Hundredth Anniversary History of the Japanese Mint) (Tokyo, 1976), pp.29-39; K. Tatewaki, Zainichi Gaikoku Ginkōshi (History of Foreign Banks in Japan) (Tokyo, 1987), chapter 6.

²¹. F.O.262/188, H.S. Parkes to Lord Clarendon, 31 July 1870; F.V. Dickins & S. Lane-Poole, The Life of Sir Harry Parkes, vol.ii (1894), p.157.

(Minbu Taiho).²²

In September 1869 Lay officially proposed the provision of £2 or £3 million to the Japanese government.²³ He also drew up many other ambitious business projects in Japan. Writing to T. Fairbairn he observed:

We should not get only one loan but several loans and much business besides which if done thoroughly will quite ensure us the monopoly as the agents of the Japanese Government and we should in time literally 'coin money'. The field is here vast and capable of boundless development.²⁴

Lay would have been one of the British pioneers in Japanese business if these projects had been successful.

In November 1869 Lay entered into negotiations with the Japanese government, dealing in particular with Ōkuma and H. Itō, the Vice-Minister of Finance (Ōkura Shōyu).²⁵ The Japanese government intended to construct railways using money borrowed from Lay. Estimating the cost of the railway construction between Tokyo, Yokohama, Tsuruga and Hyōgo at approximately £3,000,000, Lay offered to raise £1,000,000 of this amount from his friends in England on the security of the government's customs revenues and receipts from these railways. He also proposed that the Japanese government should leave all the necessary management of the railway construction in Lay's charge.²⁶

Finally, in December 1869 the Japanese government agreed to make a loan contract with Lay on the following terms:²⁷

²². W.U.A., Ōkuma Papers, C.719, E. Satow to S. Ōkuma, no date.

²³. C.16/676/5146, the Answer, f.7.

²⁴. Ibid., Complaint, f.4.

²⁵. Tanaka, op. cit., p.127.

²⁶. M.T.Z., vol.12, p.13.

²⁷. S.A., Japanese Customs Loan File, the Contract dated 14 and 28 December 1869; there was also the Japanese edition including some additional contracts in M.Z.Z.K.S.S., vol.10, pp.11-17.

- (i) The Japanese government should raise £1,000,000 'by a loan of that amount from any person or persons who may be willing to advance' at a 12 percent annual rate of interest repayable over 12 years.
- (ii) The Japanese government should appoint Lay as the commissioner for raising and negotiating the loan.
- (iii) The Japanese government should offer Lay all the customs revenues and net receipts of the railways constructed as the security of the loan.
- (iv) The Japanese government should appoint Lay as its agent for buying materials for the railways.

It is obvious that this contract placed Lay 'in the double position of a contractor for the loan and a commissioner to raise the sum for the Japanese government'.²⁸ Subsequently, his intricate position would cause a serious difference between Lay and the Japanese government in understanding the character of the loan issue. It was almost beyond the Japanese government's understanding that Lay conceived a plan of 'putting this loan on the market',²⁹ that is to say, a public loan issued by subscriptions on the market rather than a private borrowing from his friends.

3.1.3 Lay's activities in London

In March 1870 Lay returned to England and began to arrange the borrowing. Yet, as it happened, he was unable to count upon either the Consolidated Bank or Morrison Dillon & Co. as sources for the required money. Lay's project to borrow money on behalf of the Japanese government did not attract them. Lay then pursued the money by a public loan and looked for a financier in the City who was favourably disposed to the idea. He approached the London Rothschilds and Thomson, Bonar & Co., but these prominent merchant banks all declined to handle the matter.³⁰ The reputation of the new Japanese government was doubtful in British financial circles.

²⁸. F.O. 262/188, Parkes to Lord Clarendon, 21 July 1870.

²⁹. F.O.391/15, Parkes to E. Hammond, 4 July 1870.

³⁰. C.16/676/5146, the Answer, ff.10-11.

Lay and his partners became sceptical about the success of the intended loan issue on the market. As a consequence, some of them withdrew from the operation and Lay approached E. Erlanger, a Paris-based merchant banker. On 31 March 1870 Erlanger agreed to undertake the Japanese government loan for £1,000,000 on the condition of being 'entitled to 3/8th of the financial profits and 1/4th of the other profits combination' after deducting £50,000.³¹ It is clear from this contract that Erlanger's share of the profit was enormous.

Yet Lay and Erlanger came to doubt the success of the loan issue and Erlanger wished to be free of his responsibility.³² Lay, therefore, was forced to revise the previous contract and to ensure Erlanger more of the profit as follows:³³

- (i) Erlanger should receive £50,000 and one half of all profits arising from Lay's engagement with the Japanese government.
- (ii) Erlanger and Lay should equally share all profits and losses from all future transactions in Japan.

On 23 April 1870 Erlanger issued a prospectus for the Japanese government 9 percent loan for £1,000,000 at 98 percent for 13 years.³⁴ J. Henry Schröder & Co., a London merchant bank, played a limited role in this loan issue. In response to Erlanger's proposal, the firm acted as the loan issuer at a 1 percent commission.³⁵ There is no clear explanation as to why Erlanger avoided producing this loan issue directly. Erlanger would issue many loans in London through J. Henry Schröder & Co.³⁶ because his head office was still in Paris.

³¹. Ibid., ff.12-13.

³². Ibid., ff.14-15.

³³. Ibid., f.16.

³⁴. There was a prospectus in F.O.46/126, 21 July 1870.

³⁵. S.A., Japanese Customs Loan File, An Agreement between Lay, Erlanger and Baron Henry Schröder dated 23 April 1870; C.16/676/5146, Affidavit of J.H.W. Schröder, 14 May 1872, ff. 3-4.

³⁶. S. Chapman, The Rise of Merchant Banking (1984), p.85.

The result of this loan issue was successful and the total amount of the subscriptions reached £1,700,000. The Oriental Bank received £1,530,000 of the subscriptions from its clients.³⁷ The assessment of this loan issue was not altogether good, however. The Economist regarded it as questionable because of the lack of adequate financial information on Japan;³⁸ the Financier raised doubts about Japan's credibility by saying that 'Japan is more likely to prove another Turkey, another Egypt or an Argentine Republic in the scrupulous fulfillment of her obligations of a similar character.'³⁹ Yet public investors welcomed this loan issue fully because of its conspicuously high yield at issue, 9.2 percent (also see Table 3.3).

3.1.4 Divergence between Lay and the Japanese government

In the meantime, it was found that there had emerged a crucial divergence between Lay's and the Japanese government's understanding of the loan contract. In June 1870 C.E. De Long, the United States Minister in Japan, informed the Japanese government that Lay had carried out the public subscriptions of the Japanese government 9 percent loan in London by offering the customs revenues and railway receipts.⁴⁰

The Japanese government had apparently expected a private borrowing. Parkes reported to Lord Clarendon, the British Secretary for Foreign Affairs, that the Japanese government appeared to have been willing for a loan in a private form and had no intention of relying upon the market, but that the order of the Japanese government duly empowered Lay to raise the necessary fund in a public form.⁴¹

In addition, the exorbitant commission was a further cause of argument. There

³⁷. C.16/676/5146, the Answer, f.28.

³⁸. The Economist, 30 April 1870, p.530.

³⁹. Financier, 6 May 1870.

⁴⁰. C.E. De Long to the Japanese Ministry of Foreign Affairs, 22 June 1870 (N.G.B., vol.3, pp.490-94).

⁴¹. F.O.262/188, Parkes to Lord Clarendon, 21 July 1870.

was a 3 percent difference between Lay's lending rate to the Japanese government (12 percent) and the annual interest rate of the public loan (9 percent). There was also a 2 percent balance between the par (100 percent) and issue price (98 percent). It was Lay's 'double position', acting as both the contractor of the loan and the commissioner of the Japanese government, that brought him this huge margin. In fact, a letter addressed to the editor of the Daily Japan Herald argued that 'if Mr. Lay acts as [the] agent or commissioner, to raise this, the Japanese government are entitled to reap the entire advantage of any transaction he may conduct, and that the ordinary commission of a quarter percent with expenses, would be ample remuneration'.⁴²

Parkes, at first, felt satisfied to hear that British enterprises would be connected with the first Japanese railway construction,⁴³ but also informed the British Foreign Office that Japan would have preferred to make a loan from private sources rather than the stock exchange.⁴⁴ He regretted that the Japanese government could have enjoyed a loan issue of much better terms through an established financial channel such as the Oriental Bank.⁴⁵ Parkes had been concerned with the Oriental Bank in the Japanese government's borrowing of U.S.\$50,000 (£11,250) two years earlier.⁴⁶

The reasons why the Japanese government desired to avoid a public loan on the foreign market were: firstly, it was afraid of revealing its financial difficulties, which might lower Japan's reputation in the ongoing tariff reform negotiations; secondly, the new government, which had been established only two years earlier, did not want to disclose its financial vulnerability to the public; thirdly, the government itself was not confident of carrying out a foreign loan issue because of little knowledge of public

⁴². F.O.46/126, Parkes to Hammond, 25 July 1870.

⁴³. Tanaka, op. cit., pp.122-23.

⁴⁴. F.O.391/15, Parkes to Hammond, 22 April 1870.

⁴⁵. *Ibid.*, 22 July 1870.

⁴⁶. N. Sekiyama, Nihon Kahei Kin-yūshi Kenkyū (Study on Monetary History in Japan) (Tokyo, 1943), pp.70-72. Parkes, Ōkuma and Itō established very close relations with J. Robertson, the Manager of the Oriental Bank's Yokohama Branch (M.A., Iko-W-3-37, Stenographic Note of Discussion [20 March 1912]).

loans.⁴⁷

3.1.5 Performance

On 29 June 1870 the Japanese government informed Lay that it was cancelling the entire loan issue contract⁴⁸ and asked the Oriental Bank, instead of J. Henry Schröder & Co., to manage all the affairs of the loan.⁴⁹ The government also proposed that the Oriental Bank should make a new loan issue for £3,000,000 for refunding the 9 percent one just issued.⁵⁰ The Oriental Bank refused because a further loan issue would damage the price of the bonds on the market.⁵¹

Lay brought an action in the court⁵² but in December 1870 the Japanese government came to terms with him to pay £70,000 in total.⁵³ The Japanese government authorised all bonds issued by J. Henry Schröder & Co. and their management to be taken over by the Oriental Bank. The remaining amount for the railway construction (£2,000,000) was never raised.⁵⁴

Out of the £70,000, Lay obtained only £13,000 and Erlanger £57,000.⁵⁵ This immense penalty alone amounted to 7 percent of the total issue amount.⁵⁶ Foreign loan issue business at this time, especially with underdeveloped countries, could be very lucrative for financiers.

⁴⁷. Tanaka, *op. cit.*, p.196.

⁴⁸. S.A., Japanese Customs Loan File; there was also the Japanese edition in *M.Z.Z.K.S.S.*, vol.10, pp.23-24.

⁴⁹. Japanese government to the Oriental Bank, 22 June 1870 (*ibid.*, p.23).

⁵⁰. Japanese government to the Oriental Bank, 29 June 1870 (*ibid.*, pp.24-25).

⁵¹. P. Campbell to the Oriental Bank's Yokohama Branch, 26 August 1870 (*ibid.*, pp.34-35).

⁵². W.U.A., Ōkuma Papers, C.684, J. Russel to H. Itō, 10 December 1870.

⁵³. *Ibid.*, C.687, Imperial Government of Japan Customs Loan signed by E. Erlanger and H.N. Lay dated 6 December 1870.

⁵⁴. *M.T.Z.*, vol.12, pp.13-14.

⁵⁵. C.16/676/5146, 14 May 1872, Affidavits by J.E. Turner, f.5.

⁵⁶. *The Economist* 1 March 1873, p.250.

Ironically this loan issue revealed the fact that the Japanese government was ignorant of public loans. This gave a bitter lesson to the Japanese government when it launched a loan issue in 1873. Parkes, however, commented: 'I trusted the firm establishment of the Mikado's government [the Meiji government] would shortly enable them to enter the money market of the world whenever they needed funds for the development of the resources of their country'.⁵⁷

Table 3.3 Yields of Foreign Government Loans issued during 1870

(1)	(2)	(3)	(4)
Country	Interest rate (nominal) (%)	Issue price (%)	Yield at issue (%)
Chile	5	83	6.0
Egypt	7	75	9.3
Honduras	10	80	12.5
Japan	9	98	9.2
Romania	7	86	8.1
Russia	5	80	6.3
Spain	5	80	6.3

Note: (4) = (2)/(3) × 100.
Source: Table 1.3.

3.2 7 Percent Loan Issue in 1873

In 1873 the Japanese government made a second foreign loan issue in London. After the Meiji Restoration, the new government granted pensions to the old feudal knight class (Samurai) in exchange for their fiefs. This charge, 27 percent of the government annual ordinary expenditure in the years from 1868 to 1889, overloaded the government's

⁵⁷. F.O.262/188, Parkes to Lord Clarendon, 31 July 1870.

finances.⁵⁸ The main purpose of this loan issue was to secure funds for the redemption of these pensions. After the first foreign loan issue in 1870, Japan's reputation in the City had improved to a certain extent: the Council of the Corporation of Foreign Bondholders, in response to many communications on Japan, noted her 'further elements of stability'.⁵⁹

In the absence of T. Ōkubo, the Minister of Finance (Ōkura Kyō), K. Inoue, the Vice-Minister of Finance (Ōkura Taiho), directed all the negotiations of this loan issue.⁶⁰ Reflecting upon the lessons of the first foreign loan issue in 1870, the Japanese government was now aware of the risks of leaving financial operations entirely to a foreign agent and took the lead in the loan issue negotiations. In March 1872 K. Yoshida was appointed as the Japanese Government Loan Commissioner for this operation and ordered to raise a loan for from U.S.\$15,000,000 (£3,375,000) to U.S.\$30,000,000 (£6,750,000) at 7 percent in either the United States or London.⁶¹

The Japanese government estimated the necessary redemption funds at U.S.\$10,000,000 (£2,250,000) and also planned to invest the rest in mining and railway construction.⁶² The reason why the Japanese government aimed at the United States market first was that it was afraid of Lay's interference in the loan issue negotiations in London. In addition, Yoshida, who did not like the Oriental Bank's further involvement in the Japanese government finance,⁶³ looked for a new financial source for the government.

Yoshida's diary and correspondence are apparently the only sources revealing the process of these loan issue negotiations between the Japanese government and foreign

⁵⁸. M. Takahashi, Meiji Zaiseishi Kenkyū (Study on the Financial History in the Meiji Era) (Tokyo, 1964), p.34.

⁵⁹. Council of the Corporation of Foreign Bondholders, Annual Report, first report, (1874), p.21.

⁶⁰. S.I.D., vol.2, pp. 170-71.

⁶¹. M.T.Z., vol.12, p.24.

⁶². Ibid.

⁶³. M. Senda, 'Meiji Rokunen Nanabu Ritsuki Gaisai no Boshūkatei (Seven Percent Foreign Loan Issue in 1873)', Shakai Keizai Shigaku (Japanese Socio-Economic Journal), vol.49-no.5 (1983), p.18.

financiers. The Oriental Bank, the issuer of this loan, went bankrupt in 1884 and its records were probably destroyed.⁶⁴ A. & J. Scrimgeour, the stockbroker of this loan issue, has no records surviving concerning it.⁶⁵

3.2.1 Yoshida's mission

On 26 March 1872 Yoshida's mission including G.B. Williams, American adviser to the Japanese government (Oyatoi Gaijin), left for San Francisco.⁶⁶ There they had an interview with the Bank of California on the general financial conditions in the United States market. The Japanese government had dealt with this bank in connection with the refining of Japanese gold coins.⁶⁷ Yoshida noted that the rate of interest in the United States was higher than in London.

The Bank of California agreed on a small loan issue, but recommended that Yoshida should propose the intended loan issue to the Oriental Bank. The Bank of California, a correspondent of the Oriental Bank, set great store by the transactions between the Oriental Bank and the Japanese government, as shown previously. The Bank of California showed little interest in Yoshida's proposal because J. Robertson, the Manager of the Oriental Bank's Yokohama Branch, had warned the Bank of California that the Japanese government would not offer sufficient security for a new loan after the loan issue in 1870, and that nobody would lend money to Japan even at a 25 percent

⁶⁴. The Bank's surviving record (P.R.O., J.90/1770-1774) on customers' securities for borrowings has no bearing to the Japanese government loan issue (L.S. Pressnell & J. Orbell, A Guide to the Historical Records of British Banking [1985], p.85).

⁶⁵. Letter from Scrimgeour, Kemp-Gee & Co. dated 21 August 1984.

⁶⁶. F.O.46/154, Parkes to Lord Granville, 17 June 1872.

⁶⁷. T. Sagami, 'Nanban Ginkō Toraiiki (Introduction of Western Banks into Japan) 2', [Japanese] Finance, vol.10-no.4 (1974), pp.49-51. Sagami's article was based on the Bank of California Archives. Antony Gibbs' Private Information Book accorded this bank a high reputation (A.G.A., Ms.11,038B).

annual rate of interest.⁶⁸ Yoshida sent a telegram to the Oriental Bank's Head Office to the effect that the Japanese government would issue a new foreign loan for £4,000,000.⁶⁹

However, C. Delano, the United States Secretary of the Interior and a friend of Williams, made arrangements for a 9 percent loan for \$5,000,000 (£1,125,000) with the guarantee of the United States government.⁷⁰ Yet the Japanese government did not agree to this condition, especially the guarantee.⁷¹ Then Yoshida moved on to New York and C.E. De Long, the United States Minister to Japan, introduced J. Schiff, a German-born Jewish financier, to him.⁷² Schiff soon acceded to a 7 percent loan for £4,000,000 and suggested offering it directly to his 'head office' in Frankfurt-on-Main.⁷³

In his early days Schiff was thus involved in Japanese government loan affairs. As will be seen in Chapter 5, he became a key person in arranging the Japanese government loan issues on the New York capital market during the Russo-Japanese War.

3.2.2 Yoshida's negotiations in London

On 18 June 1872 Yoshida arrived in London. In London many financiers offered a loan issue to Yoshida and his diary tells us the contemporary practice of loan issue negotiations. He went to see C.J.F. Stuart, the Chief Manager of the Oriental Bank. His [Stuart's] assessment of the proposed loan issue was at a more than 8 percent annual rate of interest. This was calculated on the contemporary yield of the Japanese government 9 percent loan of 1870, about 8.1 percent. Bischoffsheim & Goldschmidt, a London

⁶⁸. Sagami, op. cit. 3, vol.10-5 (1974), p.47. Yoshida was displeased with the Oriental Bank because of this telegram.

⁶⁹. Yoshida's Diary 1 (M.Z.Z.K.S.S., vol.10, pp.57-58).

⁷⁰. Ibid., p.58.

⁷¹. Yoshida's Diary 2 (ibid., p.97).

⁷². Schiff regretted Yoshida's death in 1891 (C. Adler, Jacob H. Schiff: His Life and Letters, vol.1 [New York, 1928], p.212).

⁷³. Yoshida's Diary 1 (M.Z.Z.K.S.S., vol.10, pp.70-73).

merchant bank, also made a similar assessment.⁷⁴ Bischoffsheim & Goldschmidt had been notorious in dealing with South American government loans during the 1860s and the 1870s for fabulous commissions. Ernest Cassel, a London merchant banker, participated in Bischoffsheim & Goldschmidt from 1871 to 1884⁷⁵ and Schiff had large transactions with them through Cassel because of their Jewish connections. Perhaps it was Schiff who introduced the Japanese government loan business to Bischoffsheim & Goldschmidt. Bischoffsheim & Goldschmidt offered the following loan issue terms to Yoshida:⁷⁶

Issue amount	£4,000,000 (£2,000,000 for the moment)
Interest rate (nominal)	7 percent
Issue price (to the public)	about 91 percent
Issue charges	from 7 to 8 percent.

Yet these came to nothing. In July and August 1872 Yoshida stayed in Frankfurt and Paris but there were no negotiations with Schiff's 'head office'.⁷⁷ The American Joint National Agency also proposed a loan issue in association with the Union Bank of London, but Yoshida did not put much confidence in such an inexperienced finance house and eventually declined the offer.⁷⁸

An Anglo-American merchant bank, Morton Rose⁷⁹ offered the most definite loan issue terms. At the end of August John Rose, one of the British partners, proposed the following alternatives to Yoshida:⁸⁰

⁷⁴. Yoshida's Diary 2 (*ibid.*, pp.81-83).

⁷⁵. P. Thane, 'Financiers and the British State: The Case of Sir Ernest Cassel', *Business History*, vol.xxviii-no.1 (1986), p.81.

⁷⁶. Yoshida's Diary 2 (*M.Z.Z.K.S.S.*, vol.10, p.85).

⁷⁷. Yoshida's Diary 3 (*ibid.*, pp.127-28).

⁷⁸. Yoshida's Diary 2 (*ibid.*, pp.92-93). This company was a United States Government's foreign agent and located at Strand 446.

⁷⁹. V.P. Carosso, *Investment Banking in America* (Cambridge[Mass.], 1970), p.22.

⁸⁰. Yoshida's Diary 3 (*M.Z.Z.K.S.S.*, vol.10, p.111).

Issue amount	£2,000,000	£2,000,000
Interest rate (nominal)	6 percent	5 percent
Issue price (to the public)	85 percent	70 percent
Loan issue commission	7 percent	6 percent
Borrowing period	15 years.	30 years.

This loan issue syndicate included the following financial institutions in the City: Glyn Mills, Currie & Co.; J.S. Morgan & Co.; the International Financial Society; the Imperial Ottoman Bank; the Anglo-Austrian Bank; the Bank of Montreal; the Bank of Roumania; Morrison, Cryder & Co.; Lewis Cohen & Sons.

In September Morton Rose again offered a 6 percent loan issue for £4,000,000 (only £2,000,000 would be transferred for the moment). Yoshida, who regarded Morton Rose as at most an upper-second class merchant bank, suspended the negotiations.⁸¹

J.G. Walsh, a partner of Walsh Hall and Co. in Yokohama, who was dealing with imported merchandise in Japan, informed Yoshida that his elder brother in London (T. Walsh) was anxious to contact Yoshida about the loan issue. In June 1872, T. Walsh proposed to Yoshida putting the loan issue matter into the hands of the Netherlands Trading Co..⁸² This Company had financed feudal clans in Japan.

In November D.G. van Polsbroek, an agent of the Netherlands Trading Co. and former Dutch Minister in Japan, told Yoshida that he [Polsbroek], together with W. van der Tak, the Dutch Consul in Yokohama, would endeavour to arrange the Japanese government loan in Holland.⁸³ Polsbroek introduced this business to several Dutch financiers, but they could not raise the required money in Holland and brought it to eminent financiers in London and Paris. They acted only as an intermediary in this loan issue. Wercher-Bonverg, one of these Dutch financiers, sounded out Baring Brothers on the possibility of undertaking the Japanese government loan issue in London.⁸⁴ Failing to obtain the necessary assistance from London and Paris, in January 1873 Polsbroek and

⁸¹. Yoshida's Diary 3 (*ibid.*, pp.117-18).

⁸². Yoshida's Diary 2 (*ibid.*, pp.83-85).

⁸³. Yoshida's Diary 4 (*ibid.*, pp.133-134).

⁸⁴. B.B.A., HC.17,296, Wercher-Bonverg to Baring Brothers, 28 December 1872.

Van der Tak abandoned the proposed loan issue.⁸⁵

These loan issue negotiations with a variety of financiers show that the credibility of the Japanese government was low. The financiers who took notice of Japan's financial operation were 'second class' at best and notorious as takers of a large loan issue commission. The Japanese government had not yet been able to establish a sound rating in European financial circles.

3.2.3 Negotiations with the Oriental Bank

Yoshida was reluctant to depend upon the Oriental Bank for the loan issue, but the Japanese government, especially Inoue, placed full confidence in the Oriental Bank. The Bank had played a significant role in taking over the management of the previous Japanese government 9 percent loan from Lay. At that time, in Japan S. Ōkuma, the Minister of Finance (Ōkura Kyō), planned to borrow a small amount of money from the Bank.⁸⁶ The Oriental Bank had thus built up close personal connections with the Japanese government. In addition, it had the bank accounts of the Legations in the Far East run by the British Foreign Office. Parkes also had particular interests with the Bank and helped the loan issue negotiations.⁸⁷

The Oriental Bank showed a liberal attitude towards foreign loan issues. It was said that Stuart regarded a small loan as a principle of 'bad banking' and preferred a large loan when the Bank aimed at a Chinese government loan issue in 1874.⁸⁸ Because

⁸⁵. Yoshida's Diary 4 (M.Z.Z.K.S.S., vol.10, p.149). In January 1873 Malcolm, Hudson & Co., a merchant in London and Yokohama, also proposed a 7 percent loan issue for £2,500,000 but Yoshida disregarded it because the Oriental Bank had already been undertaken the loan issue (ibid., p.148).

⁸⁶. W.U.A., Ōkuma Papers, A.2391, K. Inoue to Shōin, 8 September 1872.

⁸⁷. Dickins & Lane-Poole, op. cit., vol.2, p.243.

⁸⁸. D.J.S. King, 'China's First Public Loan: The Hongkong Bank and the Chinese Imperial Government "Foochow" Loan of 1874' in F.H.H. King (ed.), Eastern Banking (1983), p.239.

of this expanding business policy, the Oriental Bank sustained heavy losses in the Chilean government loan issues in 1873 and 1875.⁸⁹

In July 1872 Panmure Gordon, a junior partner of J. & A. Scrimgeour & Co., a stockbroker, proposed Yoshida that he [Panmure Gordon] should work with the Oriental Bank in forming a loan issue syndicate for the Japanese government loan issue. Then, Yoshida received the Oriental Bank's own proposal: a 7 percent loan for £4,000,000 (£4,000,000 transferred for the moment and the other half within 6 months).⁹⁰ Inoue wrote to Yoshida that he should put more trust in the Oriental Bank when the loan issue took place in London, and Yoshida received it in September.⁹¹ On this occasion, he seems to have seriously considered the possibility of the loan issue through the Oriental Bank. After the authorisation of the government,⁹² Yoshida approached the Bank and decided to put the loan issue in the hands of the Oriental Bank,⁹³ although noting that there were other more favourable offers, as mentioned previously.

Because of the huge amount of the French war indemnity loan issues, the circumstances of the London capital market during 1872 showed themselves to be 'the most critical since the panic of 1866'.⁹⁴ Bank Rate was at an unprecedentedly high 7 percent in November 1872 and the market did not allow any new loan issues. On 4 January 1873, Yoshida re-opened the negotiations with the Oriental Bank. The Bank agreed to act as the loan issuer and to engage J. & A. Scrimgeour & Co. for forming a syndicate for the loan issue.⁹⁵ The role of this syndicate was 'underwriting' because the loan issue bank commission was separated from the syndicate profit (Table 3.4). On 9 January Stuart informed Yoshida that the market had turned favourably to new loan issues

⁸⁹. *The Economist*, 10 May 1884, p.567.

⁹⁰. Yoshida's Diary 2 (*M.Z.Z.K.S.S.*, vol.10, pp.93-94). The Oriental Bank did not mention the borrowing period.

⁹¹. Yoshida's Diary 3 (*ibid.*, p.119).

⁹². Yoshida's Diary 3 (*ibid.*, p.120).

⁹³. *Ibid.*, pp.121-22.

⁹⁴. *Bankers' Magazine*, vol.32 (1872), p.630.

⁹⁵. Yoshida's Diary 4 (*M.Z.Z.K.S.S.*, vol.10, p.145).

when Bank Rate fell from 5 to 4 1/2 percent. It is obvious that the Oriental Bank regarded Bank Rate as one of the indicators of the market conditions for new loan issues. The Oriental Bank and J. & A. Scrimgeour undertook the Japanese government loan issue at a 4 1/8 percent commission (Table 3.4).⁹⁶ On 13 January 1873 Yoshida, together with M. Terajima, the Japanese Minister in London, made a contract with the Oriental Bank and J. & A. Scrimgeour & Co..⁹⁷ The loan issue terms were as follows:⁹⁸

Issue amount	£2,400,000
Interest rate (nominal)	7 percent
Yield at issue	7.6 percent
Issue price	92 1/2 percent (to the public) 90 percent (to the government)
Security	400,000 koku ⁹⁹ of rice per annum
Borrowing period	25 years
Redemption	the loan should be redeemed every year after 1875, 2 percent of the principal by drawings.

3.2.4 Performance

By 16 January the subscriptions had reached £9,664,900, approximately 4 times oversubscribed.¹⁰⁰ The Union Bank of London purchased £150,000 of the bonds in its portfolio investments but immediately re-sold.¹⁰¹ Mainly because of their high remuneration, 7.6 percent (Table 3.5), the Japanese government bonds proved very attractive to public investors.

British financial journals, however, published unfavourable comments on this operation. The Economist again pointed out the concomitant risks of the Japanese

⁹⁶. *Ibid.*, pp.145-146. The actual loan issue charges to the government including the interest on the deposit and communication charges amounted to £101,700, about 4 1/5 percent of the total loan issue amount (*M.Z.*, vol.8, pp.640-641).

⁹⁷. *Ibid.*, p.149.

⁹⁸. *Ibid.*, pp.155-59; *M.T.Z.*, vol.12, pp.24-25.

⁹⁹. The average price of a koku of rice should be equivalent to 16s. 8d.

¹⁰⁰. W.U.A., Ōkuma Papers, C.642, J. Robertson to Ōkuma, 13 February 1873; Yoshida's Diary 5 (*M.Z.Z.K.S.S.*, vol.10, p.169).

¹⁰¹. U.B.L.A., 1513, Investment Ledger.

government loan issue as saying that ‘the result, we fear, is likely to be as unfortunate for the lenders as similar borrowings by new countries which wished to develop their resources’.¹⁰² In fact, in the financial year of 1873, large deficits occurred in the Japanese government’s revenue.¹⁰³

After the Oriental Bank’s sudden suspension in May 1884, as mentioned in Chapter 2, the London Joint Stock Bank took over all the management of this loan and from 1886 the Yokohama Specie Bank undertook it. In July 1897 all the debts were redeemed on schedule.¹⁰⁴

¹⁰². The Economist, 18 January 1873, p.60.

¹⁰³. F.O.46/166, Parkes to Lord Granville, 23 May 1873.

¹⁰⁴. M.T.Z., vol.12, p.34.

Table 3.4 Commission of Loan Issue in 1873
(%)

Loan issue bank	1	
Syndicate	2	1/2
Brokerage (application)		1/4
Stamp duty		1/8
Others		1/4
Total	4	1/8

Source: Yoshida's Diary 4, M.Z.Z.K.S.S., pp.146; M.Z., vol.8, p.640.

Table 3.5 Yields of Foreign Government Loans issued during 1873

(1) Government	(2) Interest rate (nominal) (%)	(3) Issue price (%)	(4) Yield at issue (%)
Chile	5	94	5.3
Egypt	7	84 1/4	8.3
Hungary	5	80	6.3
Hungary	6	89	6.7
Japan	7	92 1/2	7.6
Turkey	6	58 1/2	10.3
United State	5	102 3/8	4.9

Note: (4)=(2)/(3)×100.
Source: Table 1.3.

3.3 Conclusion

The two early Japanese government foreign loan issues in 1870 and 1873 were raised for social institutions and infrastructure investment. The loan issue in 1870 was organised by a British speculator (Lay). He proposed the plan of railway construction in Japan. The Japanese government unwisely provided him with full powers in making the loan issue. He raised the money in London from public rather than private sources. As far as foreign financiers' influence upon loan issue negotiations was concerned, the loan issue in 1873 followed almost the same course as the previous one. The Japanese Government Loan Commissioner (Yoshida), hating the Oriental Bank's further intervention in the Japanese government's finance, made efforts to negotiate directly with foreign financiers and to have access to the New York and Frankfurt capital markets. Yet these efforts were not especially well received, and the Oriental Bank's influence, through the Japanese government, frustrated his ambitious attempts to forge new financial links. The Oriental Bank, a great overseas bank of the time, took the initiative in the loan issue negotiations. Politically the Bank had built up close ties with the Japanese government and Parkes.

The two early Japanese government foreign loan issues successfully ensured the issue amounts mainly due to the high interest rates and yields at issue. In comparison with contemporary standards, these were extremely advantageous to investors, while the Japanese government bore heavy costs. The fact that the Japan of the day was a totally unknown country to many Western investors led to such an unfavourable assessment of the loan issue terms on the foreign capital market. It must be noted, however, that despite the high interest rate and yield at issue, the Oriental Bank charged a standard level of a loan issue commission.

The Japanese government of the 1870s had no specific knowledge of foreign loan issues. It is no exaggeration to say, therefore, that the government at this time put full trust in the Oriental Bank when it embarked upon financial operations abroad. After an interval of twenty four years, in 1897, the Japanese government would return to the

London capital market for foreign loan issues. During that period, in 1879, the bank which would specialise in foreign business, the Yokohama Specie Bank, was established under the patronage of the Japanese government.

CHAPTER 4

SINO-JAPANESE WAR LOAN ISSUES

During the period from 1873 to 1897 Japan did not draw upon foreign capital markets. In this interval of nearly a quarter of a century, Japan financed its rapid industrialisation mainly in textile industries, from domestic savings. The Bank of Japan, the central bank, was founded in 1882 and the National Bank Act of 1872, modelled on the National Currency Act of 1863 in the United States, also provided considerable facilities for setting up banks (Kokuritsu Ginkō).¹ The Yokohama Specie Bank was also set up with authorised capital of ¥3,000,000 (£306,250) in 1879 and its major business object was to finance Japanese importers and exporters.² The Japanese government at this stage saw no reason to invite foreign capital to the industrialisation process.

After the Sino-Japanese War (1895), however, the government rapidly increased military expenditure. As a result, the balance of the Japanese government's revenue and expenditure deteriorated markedly. The surplus ratios fell from 9.7 percent in 1896 to 0.1 percent in 1898, and in 1899 revenue became equivalent to expenditure (Table 4.1). At first, domestic loans were the main source of funding, but the increased military expenditure led to severe trade deficits because most of the military goods were imported. As Japan's trade balance went into the red almost every year after 1896 (Table 4.2), the Japanese government had to secure gold (foreign currency on the gold standard) for settling the trade deficits. The Japanese government inevitably came to rest on foreign loans because domestic loans were utterly incapable of achieving this purpose.

This chapter will view the three Japanese government loan issues after the Sino-Japanese War, the purpose of which was the settlement of the adverse trade balances caused by heavy military expenditure. However, these loan issues enabled the Japanese

¹. N.G.H.S., vol.1, pp.120 and 217-18.

². Y.S.G.Z.S., vol.2, pp.27-37; Banker's Magazine, vol.59 (1896), pp.69-70.

government to establish close financial ties with the City because Japan had been absent from the London capital market for long.

4.1 Re-sale of 5 Percent Domestic Bonds in 1897

4.1.1 Gold standard in Japan

Apart from the early foreign loans in 1870 and 1873 (sterling bonds - gold standard ones), the Japanese government domestic bonds (yen bonds - silver standard ones) had not yet been quoted on the London Stock Exchange. In 1884 S. Yoshihara, the Governor of the Bank of Japan, approached the Committee of the London Stock Exchange, but failed to win quotation mainly because of silver standard bonds.³ In 1895 T. Minami, a Japanese banker, applied directly to H.C. Burdett, the Secretary to the Share and Loan Department at the London Stock Exchange, for the quotation of domestic bonds endorsed to pay the principal and interest in gold.⁴ In 1896 T. Katō, the Japanese Minister in London, agreed with the London Stock Exchange on the quotation of 5 percent domestic bonds for ¥60,838,250 (£6,210,571).⁵ Yet, being silver standard bonds, their daily transactions were very small.⁶

Before 1897, the yen was based on the silver standard. As shown in chapter 1, silver standard bonds were valued unfavourably on the market because of exchange risks. The silver standard in Japan became a distinct impediment to building a close relationship with the City. In fact, one British merchant pointed out in 1884 that Japan could have effect a more favourable foreign loan issue in London with gold standard bonds.⁷ For

³. M.T.Z., vol.12, p.414.

⁴. J.M.F.A., Matsukata Papers, 40-35, T. Minami, May 1895.

⁵. L.S.E.A., Ms.14,600, General Purpose Committee Minutes, vol.65, 12 October 1896; also Ms.18,000, 43B/557, Quotation Application.

⁶. J.M.F.A., Matsuo Papers, 44-13, no.3.

⁷. F.O.46/314, P. Le P. Trench to Foreign Office, 2 August 1884.

economic transactions the Japanese government needed the same standard as Britain. In order to enter the international economic community and to borrow money smoothly in London, the establishment of the gold standard became a prerequisite for Japan. It is hardly surprising, therefore, that the Japanese government was anxious to adopt the gold standard.

During the years from 1895 to 1898 Japan received a considerable amount of war indemnity money (£32,900,980) from China. On the basis of this M. Matsukata, the Japanese Minister of Finance, adopted the gold standard in Japan. The Japanese Gold Standard Act operated from October 1897 at the rate of ¥1 to 24.58 d.. Obviously this was to 'command higher credit, and be able to borrow on more favourable terms in foreign countries' as a gold standard country.⁸ The adoption of the gold standard in Japan, as well as the conclusion of the Anglo-Japanese Alliance in 1902, produced close relationships between Japan and Britain.

4.1.2 Re-sale negotiations

In 1894 war broke out between China and Japan. The Japanese government established a Special War Account for ¥225,230,127 (£22,992,242) in the budget. The war was financed mainly by domestic loans and funds transferred from the Exchequer. Table 4.3 suggests that the role of the domestic loans was significant in the war finances. After

⁸. The Economist, 24 April 1897, p.603. The whole text of the Japanese Gold Standard Act appears in M. Matsukata, Report on the Adoption of the Gold Standard in Japan (Tokyo, 1899), pp.192-95. The war indemnity money was kept temporarily in London, but by 1900 most of it was transferred to Japan or used to pay for government's expenditure abroad (*ibid.*, p.224), although the Bank of England feared a sudden withdrawal of this gold to Japan (F.O.46/471, British Foreign Office to E. Satow, 24 December 1896).

the war, in 1896, the Deposit Money Bureau (Yokinbu)⁹ at the Ministry of Finance had temporarily taken a large amount of 5 percent military bonds¹⁰ because the domestic capital market had insufficient capacity to absorb all the loans issued by the public. The government considered re-selling some of these bonds abroad.

In 1896 the Japanese government ordered the Bank of Japan to re-sell the military bonds, held by the Deposit Money Bureau, for ¥43,000,000 on a foreign market. The Bank of Japan held full power at that time to negotiate directly with foreign financiers. In November 1896 the bond re-sale negotiations started. K. Fukuma, a manager of S. Samuel & Co. in Kobe, informed the Japanese Ministry of Finance that his London house, M. Samuel & Co. (Marcus Samuel¹¹), a London merchant bank, wanted to purchase the 5 percent domestic bonds, held by the Deposit Money Bureau, for ¥30,000,000 (£3,062,500).¹² Samuel Samuel, Marcus Samuel's younger brother, ran a merchant house (S. Samuel & Co.) in Yokohama and Kobe as an agent of M. Samuel & Co. and did a brisk business importing machinery, tools, textiles and petroleum into Japan.¹³ S. Samuel & Co. emphasised probable assistance from the London Rothschilds.¹⁴

In December 1896 Katō (the Japanese Minister in London), having confirmed M. Samuel & Co.'s reputation in the City, entered into preliminary negotiations. Marcus Samuel proposed buying ¥30,000,000 of the bonds, but soon found it difficult to

⁹. M.T.Z., vol.12, p.418. In Japan, the role of this Bureau was of extreme importance in circulating government domestic bonds in the embryonic capital market. The Deposit Money Bureau, established in 1885, invested the government's funds and postal saving money (ibid., vol.13, pp.565-67).

¹⁰. In 1896 the Deposit Money Bureau held Japanese government bonds for ¥56,408,199 (ibid., vol.13, p.809).

¹¹. Marcus Samuel was famous as a joint founder of the Shell Transport & Trading Co. (R. Henriques, Marcus Samuel [1960], pp.59-60).

¹². J.M.F.A.A., 3-4-4-4, Minister of Finance to T. Katō, no date; secret (secretriati) no.99, M. Matsukata to Katō, 26 January 1897.

¹³. Henriques, op. cit., p.61.

¹⁴. J.M.F.A.A., 3-4-4-4, secret no.99 M. Matsukata to Katō. Marcus Samuel's mother was a cousin of Lionel Nathan Rothschild, the former Head of the London Rothschilds (A.G.A., Ms.11,038B, Information Book).

purchase such a large amount of silver standard bonds. He mistakenly believed that these bonds had been gold bonds. They only agreed that W.F. Mitchell, a partner of M. Samuel & Co., would continue the negotiations in Japan.¹⁵

In the middle of April 1897, however, an abrupt bid by the Chartered Bank quickened proceedings. The Chartered Bank proposed to the Bank of Japan the purchase of the military bonds for ¥40,000,000 (£4,083,333) at £100 per ¥1,000 (97.9 percent to par),¹⁶ which was subsequently raised to £101 (98.9 percent to par).¹⁷ While the Chartered Bank hesitated at the final stage, in May S. Samuel & Co., together with the Hongkong Bank, offered to the Bank of Japan the purchase of bonds to the nominal value of ¥35,000,000 (£3,572,917) at £102 per ¥1,000 (99.9 percent to par). The Bank of Japan, of course, accepted this more advantageous offer.¹⁸ The Chartered Bank finally agreed to participate in S. Samuel & Co.'s syndicate.¹⁹ The re-sale amount increased to ¥43,000,000 (£4,389,583) and the principal and interest were guaranteed to pay in gold. The following contract was made between the Bank of Japan, S. Samuel & Co. and the Hongkong Bank on 28 May 1897:²⁰

Re-sale amount	¥43,000,000 (£4,389,583)
Interest rate (nominal)	5 percent ²¹
Re-sale price	£102 per a nominal price of the ¥1,000 (99.9 percent to par)
Borrowing period	53 years
Others	the government should guarantee to pay the principal and interest in gold at the rate of 2 s. 1/2 d. per ¥1; the government, for one year, should not issue any loan in Europe except through S. Samuel & Co. and the Hongkong Bank.

¹⁵ J.M.F.A.A., 3-4-4-4, no.5, Katō to N. Ōkuma, 17 December 1896.

¹⁶ J.M.F.A., Matsukata Papers, 40-36, I. Tajiri and S. Matsuo to Matsukata, 19 April 1897. Tajiri misleadingly wrote that the Chartered Bank was a French bank.

¹⁷ J.M.F.A.A., 3-4-4-4, no.71, Minister of Finance to T. Katō, 14 May 1897.

¹⁸ C.S.S., 13 May 1897.

¹⁹ J.M.F.A.A., 3-4-4-4, no.71, op.cit.; Panmure Gordon & Co. to K. Sonoda (Yokohama Specie Bank), 12 May 1897.

²⁰ J.M.F.A., Matsuo Papers, 44-13, no.4.

²¹ The yield at issue was 4.9 percent at the 101 1/2 percent issue price.

S. Samuel & Co.'s success in the loan issue negotiations resulted from the Chartered Bank's reluctance to launch a foreign loan issue alone. Perhaps the Bank, under the direction of J.H. Gwyther, may have regarded such business as extremely risky.²²

4.1.3 Subscriptions

The syndicate of this bond re-sale included a variety of City banks: the Capital & Counties Bank (a clearing bank); the Hongkong Bank (an overseas bank); the Chartered Bank (an overseas bank); the Yokohama Specie Bank (a foreign bank).²³ Why did the Capital & Counties Bank participated in this loan re-sale as one of the loan issue banks? The Bank was founded in 1877 as the Hampshire & North Wiltshire Banking Co. and expanded its business mainly in the Southwest of England.²⁴ The Bank established close relations with M. Samuel & Co. as an agent.²⁵ To ensure a firm basis for subscriptions on the market, M. Samuel & Co., which was engaged largely in merchant activities, put this re-sale operation into the hands of the Capital & Counties Bank.²⁶ The Statist, however, cast doubts on whether a clearing bank could become involved in foreign loan issue business.²⁷ The Capital & Counties Bank only undertook two foreign government loan issues before 1914: the Santo Domingo government 6 percent loan in 1889 and the

²². C. Mackenzie, Realms of Silver (1954), p.206. Gwyther was the Chairman of the Bank from 1896 to 1904.

²³. Unfortunately the forming of the syndicate could not be traced because of the lack of information.

²⁴. R.S. Sayers, Lloyds Bank in the History of English Banking (Oxford, 1957), p.18.

²⁵. T. Skinner, London Banks, and Kindred Companies & Firms (1905); J.M.F.A.A., 3-4-4-4, Katō to S. Ōkuma, 14 May 1897.

²⁶. In 1902 the Capital & Counties Bank also acted as loan issuers of the City of Yokohama 6 percent loan and the City of Osaka 6 percent one which S. Samuel & Co. undertook. It is regrettable that most of the early records, being equivalent to two lorry-loads, have been destroyed and now there is no surviving records on the Japanese government loans in 1897 and 1899 at the M. Samuel & Co. Archives (an interview with Mr. D.G. Corble, the Archivist of Hill Samuel & Co., on 10 July 1984).

²⁷. The Statist, vol.39, 15 May 1897, p.789.

Japanese government 5 percent bond re-sale in 1897.

From 1 June 1897 the subscriptions started at £103 12s. 4d. per ¥1,000 (101 1/2 percent to par). The syndicate received the 2 1/2 percent coupon of June 1897²⁸ and a 1 1/2 percent underwriting commission. The Hongkong Bank underwrote £87,500 of the bonds.²⁹ M. Samuel & Co.'s underwriters included the Lord Mayor (£10,000), Samuel Montagu & Co. (£25,000) and M. Samuel & Co. (£135,000).³⁰ Panmure Gordon, Hill & Co., a stockbroker, mainly arranged the underwriting.³¹ The applications amounted to £27,750,000, 6.5 times oversubscribed (Table 4.4). It was found that the application list included investors with Jewish and Quaker connections and many clients of M. Samuel & Co. and the Capital & Counties Bank (Table 4.5). Kleinworts bought ¥80,000 (£8,167) of the bonds from the Hongkong Bank.³²

4.1.4 Performance

This re-sale operation was sufficiently lucrative to the syndicate. On a rough estimate its profit, including the 2 1/2 percent half-yearly interest of June 1897, amounted to at least 4.1 percent of the whole re-sale amount. In comparison with the Japanese government loan issues of later periods, however, this level of commission was not as high as the Japanese government had feared.³³ Yet Japanese journalists were critical, saying that the high interest (5 percent) bonds would injure government finances³⁴ and that the re-sale

²⁸. *M.T.Z.*, vol.12, pp.419-23.

²⁹. C.C.B.A., A53b/76, the Hongkong Bank to R.C. Henderson (the Capital & Counties Bank), 9 June 1897.

³⁰. *Ibid.*, M. Samuel & Co. to the Capital & Counties Bank, 19 May 1897.

³¹. C.B.A., Extract from Board Minutes, 10 May 1897. Another stockbroker was Linton, Clarke & Co.. Stephen Freeth, the Keeper of Manuscripts at the Guildhall Library wrote to me that the records of the Chartered Bank deposited at the Guildhall Library are now being catalogued and no part of them will be available before April 1991 (27 April 1990).

³². K.A., Ms.22,105, Stocks Account Ledgers.

³³. J.M.F.A., Matsukata Papers, no.40-37, K. Takahashi to K. Inoue, 31 May 1898.

³⁴. F.O.46/484, Lowther to Marquis of Salisbury, 11 June 1897.

price was much lower than the quotation prices of similar bonds on the domestic market.³⁵

In the City these bonds were welcome. On 15 May 1897 Bank Rate fell to 2 percent and the 5 percent interest bonds were particularly deserving of investors' attention. In fact, after the subscriptions, the Chartered Bank attempted to purchase Japanese government 5 percent domestic bonds for re-sale in London.³⁶ The yield of the bonds at issue was approximately 4.9 percent. The issuers of this bond re-sale were not leaders in the field of foreign government loan issue business,³⁷ but it was on this occasion that the Japanese government first used, after a quarter century of an interval, the City for a financial operation.

³⁵. T.K.Z., no.877, 22 May 1897, pp.901-2.

³⁶. Ibid., no.880, 20 June 1897, p.1116.

³⁷. J.M.F.A.A., 3-4-4-4, received no.502, Katō to Ōkuma, 24 May 1897.

Table 4.1 Revenue and Expenditure of the Japanese Government
(General Account), 1893-1903

Year	(1) Revenues (¥000)	(2) Expenditure (¥000)	(3) Balance (¥000)	(4) Ratio of surplus (%)
1893	113,769	84,582	29,187	25.7
1894	98,170	78,129	20,041	20.4
1895	118,433	85,317	33,116	28.0
1896	187,019	168,857	18,162	9.7
1897	226,390	223,679	2,711	1.2
1898	220,054	219,758	296	0.1
1899	254,255	254,166	89	0.0
1900	295,855	292,750	3,105	1.0
1901	274,359	266,857	7,502	2.7
1902	297,341	289,227	8,114	2.7
1903	260,221	249,596	10,625	4.1

Notes: ¥1=2s. 1/2d.;
(4)=(3)/(1)×100.
Source: M.H.S.K.T., p.128.

Table 4.2 Japan's Balance of Trade, 1893-1903
(¥000; ¥1=2s. 1/2d.)

Year	[Trade]			[Gold & Silver]			(7) Total balance
	(1) Export	(2) Import	(3) Balance	(4) Export	(5) Import	(6) Balance	
1893	89,713	88,257	1,456	2,302	496	1,806	3,262
1894	113,246	117,482	-4,236	3,547	555	2,992	-1,244
1895	136,112	129,261	6,851	2,791	1,029	1,762	8,613
1896	117,843	171,674	-53,831	1,996	10,217	-8,221	-62,052
1897	166,859	221,406	-54,547	8,863	64,313	-55,450	-109,997
1898	170,021	281,645	-111,624	46,281	37,083	9,198	-102,426
1899	222,942	224,052	-1,110	8,768	20,216	-11,448	-12,558
1900	212,869	291,664	-78,795	51,761	9,246	42,515	-36,280
1901	261,132	263,163	-2,031	11,477	11,840	-363	-2,394
1902	267,538	279,138	-11,600	453	31,871	-31,418	-43,018
1903	300,697	326,865	-26,168	16,798	26,715	-9,917	-36,085

Notes: Included import and export from Taiwan and Korea and excluded special items;
(3)=(1)-(2); (6)=(4)-(5); (7)=(3)+(6).
Source: M.H.S.K.T., pp.278-79 and 298-99.

Table 4.3 Revenue of the Sino-Japanese War Account

	(¥)	(%)
Loans	116,804,926	51.9
Transfer from Exchequer	102,396,250	45.4
Contributions	2,949,540	1.3
Others	3,079,411	1.4
Total	225,230,127	100.0

Note: ¥1 = 2s. 1/2d..
Source: M.T.Z., vol.1, pp.136-39.

Table 4.4 Application and Allocation of 5 Percent
Bond Re-sale in 1897

Loan issue bank	Application (£)	Allocation (£)	(¥)
Capital & Counties Bank	9,500,000	1,637,200	(16,400,000)
Hongkong Bank	8,500,000	1,217,900	(12,200,000)
Chartered Bank	7,750,000	1,138,100	(11,400,000)
Yokohama Specie Bank	2,000,000	306,800	(3,000,000)
Total	27,750,000	4,300,000	(43,000,000)

Note: ¥1 = 2s. 1/2d..
Source: C.C.B.A., A53b/76.

Table 4.5 Main Applicants for 5 Percent
Bond Re-sale in 1897

Name	Occupation	Amount (¥000)
M. Samuel & Co.	merchant bank	1250
Union Discount Co.	discount company	1000
Capital & Counties Bank clients	clearing bank	820
Armstrong Co.	merchant	500
Johannesburg Consolidated Investment Co.	investment company	490
Panmure Gordon, Hill & Co.	stockbroker	392
Mercantile Investment & General Trust Co.	investment company	294
Samuel Montagu	merchant bank	250
W. Koch	stockbroker	245
Bankers Investment Trust	investment company	245
Raphaels	merchant bank	196
Barclay & Co.	clearing bank	196
Bevan family	(Quaker)	147
R. Nivison & Co.	stockbroker	98
Samuel Gurney Buxton	(Quaker)	49
W. Greenwell & Co.	stockbroker	49
Sun Life Assurance	insurance Company	49
C.H. Huth	merchant bank	49

Source: C.C.B.A., A53b/76; London Post Office Directory, 1898.

4.2 4 Percent Loan Issue in 1899

The balance between the Japanese government's revenue and expenditure deteriorated markedly following the Sino-Japanese War. The increased military expenditure because of Russia's menace in Manchuria put the Japanese government's finances in an awkward position.³⁸ The domestic capital market became filled with government bonds, the issue amount of which was increased to about ¥391 million (£39 million) in 1898 (Table 4.6), and could bear no more new loan issues. In fact, the Japanese government failed to raise three public works loans for ¥79,282,028 (£8,093,374) in 1898 due to a slump caused by bad crops. The Japanese Ministry of Finance postponed them and temporarily transferred some of the Sino-Japanese War indemnity money to the required funds.³⁹ To offset these difficult financial conditions in the domestic capital market K. Inoue, the Japanese Minister of Finance, was firmly in favour of raising a new foreign loan.⁴⁰

4.2.1 Preliminary negotiations

After the re-sale of the domestic military bonds in 1897, the Japanese government, with a view to building up firm relations with more eminent financiers in the City, collected more financial information from the Japanese Consul in London.⁴¹ In 1898 Inoue ordered K. Takahashi, the Deputy-Governor of the Yokohama Specie Bank, to scrutinise foreign capital markets for a future foreign loan issue.⁴² It was the first time that Takahashi was involved in government foreign loan business. Just 6 years later he would fulfill an

³⁸. *M.T.Z.*, vol.1, p.221.

³⁹. *Ibid.*, vol.12, pp.35-36.

⁴⁰. *S.I.D.*, vol.4, pp.569-70.

⁴¹. Regularly the Japanese Consul in London reported conditions of the London market to the Japanese Ministry of Foreign Affairs. For the Japanese Consular Report, see S. Tsunoyama, 'Japanese Consular Reports', *Business History*, vol. xxiii-no.3 (1981), pp.284-87.

⁴². *T.K.J.*, vol.2, p.102.

important mission to float a considerable amount of government loans abroad during the Russo-Japanese War.

In April 1898 Takahashi met Alexander Allan Shand (a Sub-manager of Parr's Bank), W. Dun (a Director of Parr's Bank) and R.W. Whalley (an Assistant Manager at the Head Office of Parr's Bank) in London.⁴³ Shand, who had been the Manager at the Yokohama Branch of the Chartered Mercantile Bank of London, India and China and had also been engaged as a Japanese Government's Honourable Foreign Adviser (Oyatoi Gaijin) in his early business career in the Far East, became a major influence in the Japanese government loan issues at Parr's Bank. Takahashi had served in a junior capacity under Shand in Yokohama. Shand had returned to London to join the Alliance Bank, which amalgamated with Parr's Bank in 1892.⁴⁴ Obviously Takahashi depended upon his personal relations with Shand in researching the market.⁴⁵ Takahashi looked into not only the City but also Paris and Berlin. The Crédit Lyonnais gave only general explanations on the Paris capital market and showed no profound interest in a Japanese government loan issue.⁴⁶

From these interviews Takahashi made the following outline of a future foreign loan issue and reported it to Inoue:⁴⁷

- (i) A 4 percent or 4 1/2 percent loan for less than £5,000,000 at 90 percent.
- (ii) The loan issue should be divided into a three-year consecutive operation.

⁴³. Ibid., pp.112-13.

⁴⁴. P.B.A., U. Yoneyama, Alexander A. Shand (Tokyo, no date), pp.5-6; there were Shand's obituaries in The Times, 16 April 1930 and Bankers' Magazine, vol.129 (1930), p.7. Also see O. Checkland, Britain's Encounter with Meiji Japan, 1868-1912 (1989), p.250 (note 79).

⁴⁵. T. Tsuchiya, Shand (Tokyo, 1966), p.120.

⁴⁶. J.M.F.A., Matsukata Papers, 40-39, Reply from the Crédit Lyonnais, no date.

⁴⁷. Ibid., 40-37, Takahashi to Inoue, 31 May 1898; T.K.J., vol.2, p.125.

- (iii) The Japanese government should create a standing post of loan commissioner in the Legation in London to keep close communications with the City.⁴⁸

Takahashi also advised putting the loan issue matters, in collaboration with the Yokohama Specie Bank's London Branch, into the hands of Katō (the Japanese Minister in London).⁴⁹

Inoue aimed to raise ¥70,000,000 (£7,145,833) abroad by either a re-sale of 5 percent domestic bonds or a new 4 1/2 percent loan issue.⁵⁰ The Japanese government, which regarded M. Samuel & Co.'s commission from the previous bond re-sale in 1897 as 'exorbitant',⁵¹ attempted to minimise M. Samuel & Co.'s influence in the forthcoming loan issue negotiations and to employ other eminent financiers in the City. Katō approached the Union Bank of London and Parr's Bank, London clearing banks,⁵² and brushed aside Inoue's idea of a simultaneous loan issue in both London and Paris.⁵³ There was at that time no Japanese government representation in the Paris capital market.

Parr's Bank offered 'the cheapest and safest issue terms' and Katō finally brought the negotiations with Parr's Bank to the Yokohama Specie Bank's London Branch.⁵⁴ The new S. Ōkuma Cabinet, however, sought a Treasury bill issue for £2,000,000 at 3 1/2 or 4 percent interest.⁵⁵ Parr's Bank agreed to undertake this at a 1/8 percent commission,⁵⁶ but was not able to conclude the issue mainly because of the Japanese Cabinet's wavering

⁴⁸. From this viewpoint, the Japanese government learnt much from the Russian government's financial activities in London and Paris. But it was only after the Russo-Japanese War (1904-1905) that the Japanese government created a standing post of loan commissioner. (J.N.D.L., Takahashi Papers, 135, Diary, 22 April 1904).

⁴⁹. J.M.F.A., Matsukata Papers, 40-40, Takahashi to Matsukata, 14 February 1899.

⁵⁰. Ibid., Matsuo Papers, 45-10, Inoue to Katō, 16 June 1898.

⁵¹. As mentioned previously, the commission was not exorbitant.

⁵². J.M.F.A.A., 3-4-4-6, secret no.76, Katō to T. Nishi, 24 June 1898.

⁵³. J.M.F.A., Matsuo Papers, 45-10, Inoue to Katō, 18 June 1898; 45-12, secret no.77, Katō to Nishi, 24 June 1898.

⁵⁴. Ibid., Matsuo Papers, 45-10, Katō to Inoue, 24 June 1898.

⁵⁵. Ibid., 45-11, M. Matsuda to Katō, no date.

⁵⁶. Ibid., Katō to Ōkuma, 3 September 1898.

commitment.

Meanwhile, in 1898 J.R. Morse, the President of the American Trading Co. in Yokohama, proposed to J.P. Morgan & Co. in New York that they should take up a Japanese government loan issue for £20,000,000. But, both J.S. Morgan & Co., a London merchant bank and J.P. Morgan & Co.'s sister firm, and Hambros, a London merchant bank, which had intimate business relations with J.S. Morgan & Co., considered it difficult to place such a huge loan on the markets.⁵⁷

4.2.2 Loan issue negotiations

In 1899 Matsukata (the Minister of Finance in the A. Yamagata Cabinet) embarked upon the foreign loan issue. The Japanese government enacted a new law for the convenience of raising a loan abroad (Law no.101 of 1899),⁵⁸ and to meet the government budget deficit Matsukata increased the issue amount to ¥100,000,000 (£10,208,333).⁵⁹

Matsukata, though, being uneasy about dependence upon foreign borrowings for meeting the financial deficits,⁶⁰ issued the following guidelines for the loan issue at a Cabinet Meeting of January 1899:⁶¹

Issue amount	£10,000,000 (according to the market conditions, half the amount should be placed in the first year)
Interest rate (nominal)	less than 4 1/2 percent
Redemption	within 40 years
Purpose	railway construction and improvement; establishment of steel works; expansion of the telephone service

⁵⁷. M.G.A., Ms.21,760, HC 5.2.14, J.R. Morse to F.B. Jennings, 17 May 1898; also see V.P. Carosso, *The Morgans* (Cambridge[Mass.], 1987), p.423.

⁵⁸. B.J.A., Draft of Report to the Prime Minister on the Foreign Loan Issue of 1899 - Draft of Report of the Financial Minister to the Prime Minister, 21 October 1899.

⁵⁹. *M.Z.*, vol.8, pp.171-75.

⁶⁰. *Ibid.*, p.168.

⁶¹. B.J.A., Draft of Report to the Prime Minister on the Foreign Loan Issue of 1899 - Cabinet Decision on the Foreign Loan Issue (M. Matsukata to T. Yamamoto, 23 January 1899).

In March 1899 the Japanese government ordered the Bank of Japan to arrange this loan issue in London.⁶² Its assessment of the loan issue was based on Takahashi's previous research. K. Matsui, the Japanese Minister (Chargé d'Affaires) in London, conducted all the loan issue negotiations. On behalf of the Bank of Japan, S. Hayakawa, the Secretary of the Japanese Ministry of Finance (Ōkura Shokikan and Sanjikan), and Y. Nakai, the Manager of the Yokohama Specie Bank's London Branch, became the principal negotiators of this loan issue with British financiers.⁶³ This was the first time that the Yokohama Specie Bank was concerned with a Japanese government loan issue.

Hayakawa approached many banks in the City. M. Samuel & Co. offered a loan issue at favourable terms, a 4 percent loan at 95 percent,⁶⁴ but the Japanese government found the condition of offering a mortgage on the loan totally unacceptable.⁶⁵ One American merchant in Japan described the character of the Japanese hating borrowing on security as 'the Japanese do not like the idea of being called upon to give security for a loan. It hurts their pride to be classed with the Chinese. They consider the guarantee of their Government equal to any security than can be offered, they will not negotiate with us if we announce that security must be given. They consider the faith of this Government equal to any in the world'.⁶⁶ Hayakawa's original plan was to form a large loan issue syndicate inviting the Union Bank of London, the London Joint Stock Bank and Parr's Bank, but only Parr's Bank accepted the offer. Parr's Bank became the main issuer and Panmure Gordon, Hill & Co. arranged the other issuers.⁶⁷ Of the Far Eastern trade connections the Hongkong Bank and the Chartered Bank also participated

⁶². B.J.A., Order & Announcement of the Loan Issue of 1899 - secretariat no.278 (secret), Matsukata to Bank of Japan, 23 March 1899.

⁶³. Ibid., the Bank of Japan to Y. Nakai, 23 March 1899.

⁶⁴. Ibid., Draft of Report to the Prime Minister on the Foreign Loan Issue of 1899 - no.5, S. Matsuo's Diary on the Loan Issue, 9 May 1899.

⁶⁵. Ibid., no.16, Apology to the Press on the Loan Issue.

⁶⁶. M.G.A., Ms.21,760, HC 5.2.14, J.R. Morse to F.B. Jennings, 29 April 1898.

⁶⁷. B.J.A., Matsuo's Diary, op. cit., 6 May 1899.

in the loan issue syndicate.⁶⁸

In the loan issue negotiations, it is reported that the loan issue banks sought to impose the following conditions: (i) the loan should be secured; (ii) an annual redemption drawing method should be adopted; (iii) the Japanese government should not issue a foreign loan for several years and not raise tax rates for payment of the loan; (iv) the Japanese government should not transmit the loan proceeds to Japan to such an extent as to cause significant fluctuations in the market; (v) the loan proceeds should be deposited at the loan issue banks for the time; (vi) the Japanese government should not impose any tax on the bonds; (vii) the Japanese government should purchase up to £2,000,000 worth of the bonds within 2 months from the loan issue, should the quotation price on the market become lower than the issue price.⁶⁹

Although the Japanese government desired a 95 percent issue price,⁷⁰ Hayakawa agreed on a 4 percent loan at 90 percent (86 percent to the government).⁷¹ The loan issue commission was 4 percent, the standard level for contemporary loan issues.⁷² The Japanese Ministry of Foreign Affairs confirmed that many underwriters secured the whole issue amount, and the Union Bank of London and the London Joint Stock Bank participated in the underwriting syndicate.⁷³ The London & South Western Bank underwrote £50,000 of the bonds through Panmure, Gordon, Hill & Co..⁷⁴

The forming of the syndicates in this loan issue was as follows: Parr's Bank, the Yokohama Specie Bank, the Hongkong Bank and the Chartered Bank (the loan issue banks) formed the loan issue bank syndicate, the role of which was to undertake the loan

⁶⁸. J.M.F.A., Z314-2, Gikai Sankōsho (Reference Book for Diet [4th Session] - Questions & Answer of the Foreign Loan Issue) (1899).

⁶⁹. B.J.A., Draft of Report to the Prime Minister on the Foreign Loan Issue of 1899 - Report of the Financial Minister to the Prime Minister, 21 October 1899.

⁷⁰. Ibid., Matsuo's Diary, op. cit., 30 April 1899.

⁷¹. Ibid., 29 April & 8 May 1899.

⁷². J.M.F.A.A., 3-4-4-6, secret no.76, Katō to Nishi, 24 June 1898.

⁷³. Ibid., secret no.33, K. Matsui to S. Aoki, 29 July 1899.

⁷⁴. L.S.W.B.A., Board Minutes, 25 May 1899.

issue from the Japanese government; subsequently, Panmure Gordon, Hill & Co. (the stockbroker) assisted the loan issue banks in forming their underwriting syndicates and also organised their own; these underwriting syndicates guaranteed the loan issue should the public subscriptions not absorb the issue amount. The role of the stockbroker in organising the underwriting was of extreme importance, and this loan issue mechanism would be followed in Japanese government loan issues of later periods.

By 29 May 1899 the loan issue banks and the Japanese government had reached the following accord on the impending loan issue:⁷⁵

Amount	£10,000,000 (£8,000,000 to the public)
Interest rate (nominal)	4 percent
Yield at issue	4.4 percent
Issue price	90 percent (to the public) 86 percent (to the government)
Borrowing period	55 years
Loan issue commission	4 percent
Other	the Bank of Japan should apply for £2,000,000 of the bonds before the public subscriptions; ⁷⁶ the loan should be redeemable after 1909 by drawings at the option of the Japanese government on giving 6 months' previous notice.

The Japanese government believed that 'the terms offered are quite favourable especially when compared with [the] market value of bonds of several other countries'.⁷⁷ The 4 percent loan issue commission was nearly equivalent to those of the 1897 re-sale (Table 4.7).⁷⁸

⁷⁵. G.K.S., vol.1, pp.3-6.

⁷⁶. The Bank took them as portfolio investment (B.J.A., Order & Announcement of the Loan Issue of 1899 - the Bank of Japan to Nakai, 23 March 1899).

⁷⁷. J.M.F.A.A., 3-4-4-6, no.30, Matsui to Aoki, 20 May 1899.

⁷⁸. The contract stated the loan issue commission for £400,000 (not 4 percent) (P.B.A., D6800, Agreement, 1 June 1899). This amounts to 5 percent if £8,000,000 is the actual loan issue amount on the market.

4.2.3 Performance

The market assessed this loan issue as very dubious. For example, the Investors' Review was scathing, saying that Japan's deteriorating financial situation did not permit such an enormous loan issue amount (£10,000,000) given the current market conditions; the high issue price would deter many subscribers.⁷⁹ Indeed, the yield of this loan (4.4 percent at issue) was less favourable to investors than that of the 5 percent military bonds re-sold in 1897 (yielding about 4.8 percent at market at the end of June 1899).⁸⁰

The subscriptions were carried out on 6 June but only £980,000, 9.8 percent of the total issue amount, was applied for. The remainder was taken by the underwriters. The quotation price of these bonds on the unofficial market sank immediately to 88 1/2 percent.⁸¹ The Japanese government decided to purchase further £2,500,000 of the bonds from Sino-Japanese War Indemnity Special Account funds.⁸² As a result, in addition to £2,000,000 which was purchased in advance by the Bank of Japan, around 45 percent of the total issue amount was taken by the Japanese government and the Bank of Japan.

Even in September 1899 the underwriters held most of the unsubscribed bonds. Panmure Gordon, Hill & Co., through J.S. Morgan, proposed to J.P. Morgan & Co. (New York) that they should organise a group for selling these bonds in New York. Yet J.P. Morgan & Co. saw no opportunity of doing so.⁸³ Parr's Bank kept many of the

⁷⁹. Investors' Review, 13 May 1899, pp.671-72 and 3 June 1899, p.775.

⁸⁰. I.M.M., 30 June 1899.

⁸¹. B.J.A., Draft of Report to the Prime Minister on the Foreign Loan Issue of 1899 - Report of the Financial Minister to the Prime Minister, 21 October 1899.

⁸². N.G.H.S., vol.2, pp.111-12. Of £2,500,000, £1,700,000 of the bonds were held by the Deposit Money Bureau at the Ministry of Finance. The Yokohama Specie Bank agreed with the other loan issue banks that the Bank should make up 50 percent of the deficiency if applications from the underwriters fell short of £8,000,000 (P.B.A., D6800, Agreement among Parr's Bank, the Chartered Bank, the Hongkong Bank and the Yokohama Specie Bank, 2 June 1899).

⁸³. M.G.A., Ms.21,760, HC 5.2.17, Panmure Gordon, Hill & Co. to J. Pierpont Morgan, 4 September 1900; also see Carosso, op. cit., p.424.

bonds (£316,558) in its investments.⁸⁴ The underwriters suffered seriously from the lack of a market for the bonds.⁸⁵

Table 4.7 indicates the commissions and underwriting amounts at the loan issue banks and stockbroker. It is clear that Panmure Gordon, Hill & Co. largely arranged the underwriting. The Hongkong Bank underwrote £200,000 of the bonds;⁸⁶ the Chartered Bank £250,000;⁸⁷ Parr's Bank £300,000.⁸⁸ From this loan issue, Parr's Bank obtained £38,750 in commissions,⁸⁹ 11.5 percent of its 'declared profit' for 1899 (£337,443).⁹⁰

Why did this loan issue fail to attract public investors' attention? The Japanese government concluded that the causes of this failure were: (i) the issue amount was too large; (ii) the yield of the bonds was disadvantageous in comparison with that of the 5 percent military bonds of 1897; (iii) public investors had misgivings about the stability of Japan's national finance; (iv) there was the competition with other countries' loan issues on the market.⁹¹ The contemporary market conditions, especially high Bank Rate, discouraged new loan issues.

Up to that time the Japanese government, for its foreign loan issues, had relied upon specific financiers such as the Oriental Bank, the Hongkong Bank, the Chartered Bank and M. Samuel & Co., which had occupied an influential position in Far Eastern trade. This time Takahashi exploited a new channel, based on his personal relations with

⁸⁴. P.B.A., D1354, General Manager's Report.

⁸⁵. In 1902 J.S. Morgan & Co. participated in the syndicate for the sale of the unsubscribed bonds for £65,000 (M.G.A., Ms.21,760, HC 5.2.17, Panmure Gordon, Hill & Co. to J.S. Morgan & Co., 20 January 1902; Ms.21,793, vol.2).

⁸⁶. H.S.B.A., Board Minutes, 30 May 1899.

⁸⁷. C.B.A., Extract from Board Minutes, 8 May 1899.

⁸⁸. P.B.A., B11417, Board Minutes, 29 May 1899.

⁸⁹. The quotation price of the bonds sank to 84 percent at the end of December 1899, and the paper loss of Parr's Bank (the balance between the issue price at the subscriptions and the quotation price) in this loan issue amounted to £18,993 because the Bank took £316,558 of the bonds in its portfolio investments (I.M.M. and P.B.A., D1354, General Manager's Report).

⁹⁰. Ibid..

⁹¹. B.J.A., Draft of Report to the Prime Minister on the Foreign Loan Issue of 1899 - Report of the Financial Minister to the Prime Minister, 21 October 1899.

Shand, and Parr's Bank played a leading part in the loan issue. However beneficial these loan issue terms were to the Japanese government, the financial operation itself did not generate interest among investors.

The outcome of this loan issue revealed Japan's low creditworthiness in the City: the Japanese government was overestimating this when it said that 'Japan is now rated at between Germany and Italy'.⁹² The newly exploited financial channel, Parr's Bank (a clearing bank), was not so effective in Japan's foreign loan issue operation as the government had expected. The Japanese government realised that foreign loan issues on the London capital market would require the assistance of merchant banks as well as clearing banks. In fact, the eminent merchant banks, such as Baring Brothers, J.S. Morgan & Co., Schröder and the London Rothschilds, showed no great interest in this operation.⁹³

4.2.4 Parr's Bank and Japanese government loan business

Chapter 2 mentioned the attitude of clearing banks towards foreign loan issue business. This is now examined in greater depth as a case study of Parr's Bank. Why did Parr's Bank play a prime role in the Japanese government loan issue in 1899?

At that time foreign loan issue business was often regarded as hazardous for clearing banks, but Parr's Bank paid much attention to this business. Parr's Bank started as a small country bank at Warrington in 1865 and rapidly increased its business by amalgamation.⁹⁴ After amalgamation with Fuller Banbury Nix & Co. in 1891, the Bank became a London clearing bank. However, the absorption of the National Bank of Liverpool in 1883, the Alliance Bank in 1892 and the Consolidated Bank in 1896

⁹². G.T.R., no.164 (15 July 1899), p.976.

⁹³. J.M.F.A.A., 3-4-4-6, secret no.33, Matsui to Aoki, 29 July 1899.

⁹⁴. T.E. Gregory, The Westminster Bank through a Century, vol.2 (1936), chapter ix.

afforded the Bank an opportunity for international transactions: acceptances in Liverpool and loan issues in London.

In 1896 Parr's Bank underwrote the Chinese government 5 percent loan issue through Panmure Gordon, Hill & Co. and built up business connections with the Hongkong Bank.⁹⁵ Perhaps it was because of this relationship that Parr's Bank paid attention to the Japanese government loan issue in 1899. Shand's personal connections with the Japanese government added additional impetus. Shand, even after his return to England in 1878 and joining the Alliance Bank, maintained extensive relations with Japan. For instance, in 1881 he introduced S. Hihara, of the Yokohama Specie Bank, to the Alliance Bank's Bartholomew Lane Branch for the opening of a private account, and in 1885 an account for the Yokohama Specie Bank itself.⁹⁶ After the amalgamation with the Alliance Bank, Parr's Bank took over this relationship and favourably admitted unsecured advances to the Yokohama Specie Bank.⁹⁷ In 1898, as shown, Takahashi approached Parr's Bank through Shand.

In the period between 1890 to 1896 Parr's Bank received a growing amount of deposits which had reached over £20 million by 1897 (Table 4.8). As indicated in Table 4.9, Parr's Bank's advances plus discounts / deposits ratios were declining seriously in 1894 and 1895. It is clear from these figures that at the beginning of the 1890s Parr's Bank had some difficulties in finding lucrative investment projects. In order to employ these superfluous funds Parr's Bank explored new business fields.

In 1895 Parr's Bank underwrote the Brazilian government 5 percent loan issue. During the period between 1895 and 1899 the Bank was involved in the following operations connected with foreign government loan issues:

⁹⁵. P.B.A., B11416, Board Minutes, 23 January and 10 September 1896.

⁹⁶. Ibid., D1080, Connection of the Alliance Bank and Parr's Bank on the New Account Signature Books of the Alliance Bank, Bartholomew Lane; Y.S.G.Z., vol.1, p.96 (note 10).

⁹⁷. P.B.A., B11416, Board Minutes, 5 December 1895.

- 1895 Brazilian government 5 percent loan underwriting⁹⁸
Chinese government 7 percent loan negotiation⁹⁹
- 1896 United States government loan negotiation¹⁰⁰
Chinese government 5 percent loan underwriting and application¹⁰¹
- 1897 Serbian government 4 1/2 percent loan issue¹⁰²
- 1898 Chinese government 4 1/2 percent loan underwriting¹⁰³
- 1899 Japanese government 4 percent loan issue

Table 4.11 indicates the amount and composition of Parr's Bank's portfolio investments. It must be noted that from 1899 the Bank obviously changed its investment policy and held an increased amount of miscellaneous investments, mainly foreign government bonds.¹⁰⁴ The proportion of miscellaneous (foreign) securities to the total investments at Parr's Bank was much larger than that at the Union Bank of London.¹⁰⁵

In the foreign loan issue business, however, Parr's Bank never ran great risks. Its maximum underwriting amount of a loan issue was usually under £300,000, which was only 2.2 percent of the total discounts and advances of 1896. Table 4.10 shows Parr's Bank's sources of earnings in the period from 1894 to 1901. The item 'commission' includes the underwriting and loan issue commissions, and the 'realisations of investment' means the profit earned from the sale of stocks held by the Bank. These figures did not occupy a large proportion of the Bank's total earnings.¹⁰⁶ It is fair to say, therefore, that

⁹⁸. Ibid., 18 July 1895.

⁹⁹. Ibid., 2 May 1895.

¹⁰⁰. Ibid., 9, 23 and 30 January 1896.

¹⁰¹. Ibid., 23 January and 10 September 1896.

¹⁰². Ibid., 24 June 1897.

¹⁰³. Ibid., 24 February 1898.

¹⁰⁴. Ibid., D1354, General Manager's Report. Most of them were Japanese government 4 percent bonds issues in 1899.

¹⁰⁵. The proportion of foreign securities to the total investments at the Union Bank of London in 1900 amounted to 13.4 percent (calculated from C.A.E. Goodhart, *The Business of Banking 1891-1914* [1972] pp.491-517 [appendix iv-i]).

¹⁰⁶. For the Union Bank of London, security dealings were one of its main earning sources. For instance, the proportion of realisation of investment to the total earnings amounted to 17.1 percent in 1896 (U.B.L.A., B11508-9, Profit and Loss Account).

Parr's Bank behaved primarily as a London clearing bank and the business related to foreign loan issues was not major.

Table 4.6 Outstanding Amount of Japanese Government's Borrowings, 1893-1903
(¥ million; ¥1=2s. 1/2d.)

Year	[Long-term Borrowings]			[Short-term Borrowings]		(6) Total	Total/ General account revenue (%)
	(1) Domestic	(2) Foreign	(3) Sub- total	(4) Treasury bills	(5) Borrowing		
1893	233	3	236	0	32	268	235.4
1894	272	2	274	0	53	327	332.2
1895	341	1	342	0	68	410	345.9
1896	357	0	357	0	53	410	219.4
1897	399	0	399	0	22	421	186.1
1898	391	0	391	0	22	413	187.8
1899	383	98	481	0	25	506	199.1
1900	389	98	487	0	32	519	175.3
1901	405	98	503	10	56	569	207.2
1902	433	98	531	10	44	585	196.6
1903	441	98	539	0	78	617	237.2

Notes: End of the Financial Year;
(3)=(1)+(2); (6)=(3)+(4)+(5).

Source: M.H.S.K.T., p.158.

Table 4.7 Commission of 4 Percent Loan Issue in 1899
(percent)

Underwriting	2	
Loan issue bank	1	
Brokerage (placing underwriting)		1/2
Brokerage (application)		1/4
Advertising		1/4
<hr/>		
Total	4	

Underwriting syndicate	Underwriting (amount)	Underwriting (commission) (2%)	Broker- age (commi- ssion) (1/2%)	Loan issue bank (commi- ssion) (1%)	Total commi- ssion
Panmure Gordon	5,106,000	102,120	25,530	-	127,650
Hongkong Bank	1,146,400	22,928	5,732	18,750	47,410
Chartered Bank	547,500	10,950	2,737.5	18,750	32,437.5
Yokohama Specie Bank	2,491,000	49,822	12,455.5	31,250	93,527.5
Parr's Bank	709,000	14,180	3,545	31,250	48,975
<hr/>					
Total	9,999,900	200,000	50,000	100,000	350,000

Notes: £;
There was a shortage of the underwriting for £100.

Source: W.B.A., D2469; C.S.S., 8 June 1899.

Table 4.8 Balance Sheets of Parr's Bank, 1890-1903
(£000)

Year	Capital	Reserve	Deposit (index)	Acceptance	Profit (gross)
1890	600	370	6294(100)	576	185
1891	650	390	7153(114)	796	207
1892	1000	1000	10879(173)	1483	355
1893	1000	1000	10361(165)	2145	359
1894	1000	1000	13179(209)	1959	376
1895	1000	1000	17065(271)	2101	383
1896	1320	1320	19269(306)	2183	529
1897	1320	1320	20506(326)	2760	540
1898	1370	1370	21752(345)	2485	557
1899	1370	1370	23786(378)	2373	624
1900	1464	1464	24502(389)	2830	635
1901	1464	1464	24500(389)	2559	639
1902	1709	1709	27623(439)	2615	732
1903	1709	1709	27510(437)	3541	728

Year	Cash	Call loan	Investment	Discount (index)	Advance (index)
1890	*2358		1209	677(100)	2995(100)
1891	*2289		1106	903(133)	3881(130)
1892	1508	1675	1402	1485(219)	6779(226)
1893	1773	1951	1215	1334(197)	6003(200)
1894	2216	2986	1751	1339(198)	6704(224)
1895	2648	4929	2022	1697(251)	7580(253)
1896	2729	3201	2109	2143(317)	11472(383)
1897	3053	4215	1992	2317(342)	11288(377)
1898	3352	5249	2197	2093(309)	11257(376)
1899	3866	4370	3077	2200(325)	12595(421)
1900	4156	3437	3094	2280(337)	14103(471)
1901	4358	3576	3081	2422(358)	13600(454)
1902	4923	4833	3309	2461(364)	14673(490)
1903	4785	4469	3330	2690(397)	15057(503)

Note: *Cash + Call loan.

Source: Gregory, op. cit., vol.2, pp.320-23.

Table 4.9 Advances plus Discounts / Deposits Ratios
at Main Clearing Banks, 1890-1903
 (percent)

Year	CCB	LB	LJB	LPB	LSB	LWB	MLB	MB	NPB	PB	UBL
1890	60.4	69.7	99.8	60.8	54.2	58.8	83.7	86.8	54.1	58.0	56.9
1891	57.3	62.5	77.9	59.5	55.0	61.4	77.6	73.3	57.2	66.9	56.8
1892	55.5	61.2	71.9	64.8	55.9	62.4	77.3	72.3	56.8	76.0	55.6
1893	58.1	62.8	78.3	71.0	53.0	64.3	83.6	70.8	56.2	70.8	54.0
1894	58.2	62.7	79.4	67.2	46.4	63.1	70.3	66.2	54.4	61.0	54.6
1895	53.8	60.1	85.4	67.2	48.8	64.5	74.5	64.6	54.0	54.4	59.9
1896	53.8	63.2	81.4	64.9	51.4	66.4	74.6	66.6	53.8	70.7	56.2
1897	55.8	62.0	78.9	70.2	53.3	59.3	70.0	65.9	52.7	66.3	57.7
1898	53.2	62.9	81.4	75.4	60.4	60.7	72.1	62.7	54.5	61.4	56.5
1899	56.0	63.2	82.8	72.9	59.5	63.6	72.4	65.2	55.8	62.2	55.6
1900	57.5	63.5	83.4	66.1	60.3	63.0	75.9	63.1	55.0	66.9	55.1
1901	58.0	63.9	53.3	65.6	58.9	60.9	73.6	61.9	54.1	65.4	55.7
1902	56.1	63.9	57.1	66.7	60.3	60.2	73.9	58.9	54.4	62.0	53.8
1903	58.1	68.3	54.0	67.3	60.6	61.3	76.1	63.7	58.5	64.5	61.3

Abbreviation:

CCB	Capital & Counties Bank	MB	London & Midland Bank (London City & Midland Bank)
LB	Lloyds Bank	MLB	Manchester & Liverpool District Bank
LJB	London Joint Stock Bank	NPB	National Provincial Bank
LPB	London Provincial Bank	PB	Parr's Bank
LSB	London & South Western Bank	UBL	Union Bank of London (Union of London & Smiths Bank)
LWB	London & Westminster Bank		

Source: Bankers' Magazine, annually; The Economist, annually.

Note: London Joint Stock Bank's advance plus discount from 1890 to 1900 included call.

Table 4.10 Earning Sources at Parr's Bank, 1894-1901
(£)(percent)

Year	Interest received (gross)	Commission (%)	Realisa- tion of invest- ment	(%)	Rebate	Others	Total	(%)
1894	372089	81515	(17.6)	8370	(1.8)	798	459	463231 (100)
1895	376758	85606	(18.5)	-	-	-	127	462491 (100)
1896	527903	101145	(15.1)	5000	(0.7)	1153	35730	670931 (100)
1897	612510	112678	(15.4)	3130	(0.4)	1067	155	729540 (100)
1898	694376	115528	(14.2)	-	-	1377	142	811423 (100)
1899	863264	123307	(12.4)	5738	(0.6)	-	137	992446 (100)
1900	936800	135380	(12.6)	-	-	4481	132	1076793 (100)
1901	915424	131939	(12.6)	-	-	1350	169	1048882 (100)

Source:

P.B.A., D1354, General Manager's Report.

Table 4.11 Investments of Parr's Bank, 1897-1901
(£)

Investment	1897 June	1897 December	1898 December	1899 December
British Funds	1,007,527 (100.0) [45.4]	1,017,527 (100.9) [49.4]	1,027,526 (101.9) [45.1]	1,050,000 (104.2) [32.7]
Colonial Stocks	326,600 (100.0) [14.7]	262,467 (80.3) [12.7]	295,066 (90.3) [13.0]	368,666 (112.8) [11.5]
Indian Railways	136,500 (100.0) [6.2]	156,500 (114.6) [7.6]	145,500 (106.5) [6.4]	200,500 (146.8) [6.3]
Home Railways (debenture)	155,583 (100.0) [7.0]	155,583 (100.0) [7.5]	155,583 (100.0) [6.8]	180,583 (116.0) [5.6]
Home Railways (preference)	180,510 (100.0) [8.2]	120,510 (66.7) [5.8]	96,510 (53.4) [4.2]	146,510 (81.1) [4.6]
Home Railways (ordinary)	50,000 (100.0) [2.2]	25,000 (50.0) [1.3]	40,000 (80.0) [1.7]	175,000 (350.0) [5.5]
Home Railways (ordinary & preference)	- - -	- - -	95,000 (100.0) [4.2]	65,000 (68.4) [2.0]
Miscellaneous	362,357 (100.0) [16.3]	325,282 (89.7) [15.7]	423,049 (116.7) [18.6]	1,020,367 (281.5) [31.8]
Total	2,219,077 (100.0) [100.0]	2,062,869 (92.9) [100.0]	2,278,234 (102.6) [100.0]	3,206,626 (144.5) [100.0]

Table 4.11 Investments of Parr's Bank, 1897-1901 (cont.)
(£)

	1900 June	1900 December	1901 December
British Funds	1,098,050 (108.9) [35.5]	1,237,000 (122.7) [37.8]	1,380,000 (136.9) [42.2]
Colonial Stock	294,766 (90.2) [9.5]	294,766 (90.2) [9.0]	247,000 (75.6) [7.5]
Indian Railways	200,500 (146.8) [6.5]	223,500 (163.7) [6.8]	224,500 (164.4) [6.8]
Home Railways (debenture)	180,583 (116.0) [5.8]	180,583 (116.0) [5.5]	187,583 (120.0) [5.7]
Home Railways (preference)	146,510 (81.1) [4.7]	146,510 (81.1) [4.5]	139,510 (77.2) [4.3]
Home Railways (ordinary)	65,562 (131.1) [2.1]	67,761 (135.5) [2.1]	87,250 (174.5) [2.7]
Home Railways (ordinary & preference)	175,000 (184.2) [5.7]	175,000 (184.2) [5.4]	158,000 (166.3) [4.8]
Miscellaneous	935,513 (258.1) [30.2]	945,094 (260.8) [28.9]	849,576 (234.4) [26.0]
Total	3,096,485 (139.4) [100.0]	3,270,214 (147.3) [100.0]	3,273,419 (147.5) [100.0]

Notes: () annual index of amounts (base year for changes is 1897 June [100]);
[] shares of investment;
'Miscellaneous' includes foreign government, corporation and industrial stocks;
There are differences with the investments published in annual balance sheets.

Source: P.B.A., D1354, General Manager's Report.

4.3 Re-sale of 5 Percent Domestic Bonds in 1902

The Japanese government's financial position had not improved remarkably even after the foreign loan issue in 1899. The government still accumulated debts, both domestic and foreign, as indicated in Table 4.6. Further new loan issues were not acceptable on the sluggish domestic market and the government, in fact, failed to float domestic loans. To raise the required funds there was no other recourse left but a foreign loan. As early as 1901 various rumours spread in Japan concerning a new foreign loan issue. According to J.B. Whitehead, the British Minister (Chargé d'Affaires) in Tokyo, however, Japan's foreign loan issue was only a vain hope for the moment because of its reduced creditworthiness on the foreign capital markets.¹⁰⁷

In 1901 the Japanese government started negotiations on the re-sale of the 5 percent domestic bonds for ¥50,000,000 (£5,104,000), held by the Deposit Money Bureau at the Ministry of Finance.¹⁰⁸ The Japanese government ordered K. Takahira, the Japanese Minister in Washington, to arrange this in the United States, but the negotiations with American financiers proved futile.¹⁰⁹ After the Anglo-Japanese Alliance¹¹⁰ concluded on 30 January 1902, however, public opinion in Britain became more amicable to Japan.

In the summer of 1902, in response to the Hongkong Bank's offer through the Industrial Bank,¹¹¹ the Japanese government decided to sell these domestic bonds to British financiers. The government immediately directed the Deposit Money Bureau at the

¹⁰⁷. F.O.46/540, J.B. Whitehead to Foreign Office, 22 July 1901.

¹⁰⁸. In 1901 the Deposit Money Bureau held 5 percent domestic bonds for ¥57,572,734 (*M.T.Z.*, vol.12, p.809). The objects of this loan were railway construction and improvement, the establishment of steelworks, the expansion of the telephone service, the tobacco monopoly, military outlay and the colonisation of Fomosa.

¹⁰⁹. *T.K.Z.*, vol.44-1101, 5 October 1901, pp.696-97; *Japan Daily Mail*, 20 October 1901. Only 'Colonel Mac' was revealed as the concerned person (J.M.F.A., Sone Papers, 2-3b, T. Asahina to K. Sone, 14 August [probably 1901]).

¹¹⁰. The alliance was for an exchange of benefits for both Japan and Britain in the Far East, especially against Russia's menace in Manchuria.

¹¹¹. J.M.F.A., Z317-1, *Gikai Sankōsho* (Reference Book for Diet [17th Session]) (1902).

Ministry of Finance to sell abroad the bonds and to purchase in their place the new ones, scheduled for issue in the financial year of 1902. The re-sale of domestic bonds abroad produced the same effects as a new foreign loan issue to the government.

4.3.1 Loan issue negotiations

At that time there were two Japanese financial institutions, the Yokohama Specie Bank and the Industrial Bank, capable of arranging a foreign loan issue. These two banks stood in a special relation to the Japanese government. The Yokohama Specie Bank was set up in 1879. The Japanese government directly controlled its management; the Minister of Finance had the power to intervene in the Bank's business and to nominate the Governor and directors. The Bank of Japan also exceptionally made large advances to the Yokohama Specie Bank.¹¹² After 1899 the Yokohama Specie Bank was connected with most of the government's foreign loan issues as one of the loan issue banks.

On the other hand, in March 1900 a special act to establish the Industrial Bank was promulgated. Two years later, with ¥2,500,000 (£255,208) paid up capital (¥10,000,000 [£1,020,833] authorised capital) the Industrial Bank was set up. The Japanese government provided several privileges for the Bank, as will be seen in chapter 8. The Hongkong Bank undertook the management of share subscriptions when the Industrial Bank was founded in 1902 and thereafter they maintained close relations.¹¹³

In the period before the Russo-Japanese War, the Japanese government fixed no definite boundary between the Yokohama Specie Bank and the Industrial Bank in foreign loan issue business. Therefore, the Yokohama Specie Bank obviously regarded the Industrial Bank as a formidable competitor which was 'squeezing into the foreign loan

¹¹². Y.S.G.Z.S., vol.2, pp.22-37; N.G.H.S., vol.1, pp.382-83; N. Tamaki, 'The Yokohama Specie Bank: A Multinational in the Japanese Interest 1879-1931' in G. Jones (ed.), Banks As Multinationals (1990), pp.193-94.

¹¹³. N.K.G.G.S., pp.22-37.

issue business'.¹¹⁴ In such an entangled situation, the Industrial Bank, in collaboration with the Hongkong Bank, took the initiative in the re-sale of the 5 percent domestic bonds.

In October 1902 the Japanese government decided to re-sell ¥50,000,000 (£5,104,166) of the 5 percent domestic bonds to the Hongkong Bank through the Industrial Bank. The Hongkong Bank considered inviting three eminent merchant banks: Baring Brothers, the London Rothschilds and Ernest Cassel, to the bond re-sale. The London Rothschilds inquired of the British Foreign Office whether the proposed Japanese government loan business would be acceptable, both politically and commercially, to them.¹¹⁵ F. Bertie, the British Under-Secretary of State for Foreign Affairs, admitted that it was 'a matter of political importance that Japan should be able to raise in this country rather than elsewhere the money which she requires' and explained the Foreign Office's non-intervention policy towards private transactions. In this re-sale operation the London Rothschilds only agreed to become a major underwriter.

Baring Brothers, which had growing interests in the Far East, agreed to become the main issuer.¹¹⁶ Cassel played an important part in also taking much of the underwriting.

In September 1902 the Hongkong Bank embarked upon the loan issue negotiations with the Industrial Bank. The Hongkong Bank's role was, in substance, to be an intermediary between Baring Brothers and the Japanese government. The proposed terms were as follows: the bonds should be delivered to London at 98 percent per ¥1,000 (96 percent to par); the Hongkong Bank and the Yokohama Specie Bank should become an issuer of this re-sale; the total issue amount should be at most ¥50,000,000 (£5,104,000) which, according to market conditions, could be reduced to ¥30,000,000 (£3,063,000); the Japanese government should not withdraw gold directly from the Bank of England but

¹¹⁴. T.K.J., vol.2, pp.158-61.

¹¹⁵. F.O.46/560, the London Rothschilds to F. Bertie, 17 September 1902.

¹¹⁶. B.B.A., PF302, Lord Lansdowne to Lord Revelstoke, 27 September 1902.

would be allowed to purchase it on the open market; the intermediary commission to the Industrial Bank should be 3/4 percent of the total re-sale amount.¹¹⁷

The Japanese government was willing to conclude the negotiations by the end of September and the Minister of Finance approved most of these terms.¹¹⁸ On 30 September 1902 the Hongkong Bank, with Baring Brothers' consent, concluded the negotiations with the Industrial Bank and the Japanese government. The outline of the contract was as follows:¹¹⁹

Re-sale amount	¥50,000,000 (£5,104,000)
Re-sale price	£98 per a nominal price of the ¥1,000 bond (96 percent to par)
Interest rate (nominal)	5 percent ¹²⁰
Borrowing period	55 years
Others	the Japanese government should guarantee to pay the principal and interest in sterling at the rate of ¥1 = 2s. 1/2d; the Japanese government should desire the Hongkong Bank to fix the re-sale price in London at more than £103, based on the quotation price of Japanese government 5 percent bonds.

The Hongkong Bank invited the Yokohama Specie Bank to this re-sale as one of the issuers when the negotiations with the Japanese government were concluded. The Yokohama Specie Bank agreed to this.¹²¹ The Yokohama Specie Bank, because it set great store by its business relations with Parr's Bank, persuaded the Industrial Bank to include Parr's Bank as well in this bond re-sale as one of the loan issuers.¹²² The Hongkong Bank's Yokohama Branch also suggested to the London Office that Parr's

¹¹⁷. Ibid., Copy of telegram from Yokohama, 27 and 29 September 1902.

¹¹⁸. J.N.D.L., Sakatani Papers, 497-10, Papers on the finance, 21 August 1902. Y. Sakatani, the Vice-Minister of Finance, thought that the re-sale price should be more than 95 percent and that the Industrial Bank should co-operate with the Bank of Japan and the Yokohama Specie Bank in this operation.

¹¹⁹. J.N.D.L., Sone Papers, 1-28, Contract of a Re-sale of the 5 Percent Domestic Bonds dated 30 September 1902.

¹²⁰. The yield at issue was 5 percent at the issue price of £102 1s. 8d. (100 percent).

¹²¹. B.B.A., PF302, Telegram to Yokohama, 1 October 1902.

¹²². Y.S.G.Z.S., vol.2, pp.95-96.

Bank should be included as an issuer, but the London Office only allowed Parr's Bank to be an underwriter.¹²³ Parr's Bank underwrote ¥1,000,000 (£102,083) of the bonds.¹²⁴

4.3.2 Forming a syndicate

The Hongkong Bank's original idea of forming a syndicate for this re-sale can be seen from the letter addressed by E. Cameron, a Hongkong Bank's London Manager, to Lord Revelstoke, the Head of Baring Brothers:

..... if New Court [the London Rothschilds] and the Banque de Paris take 1 million, we then have 4 1/2 millions assured, as follows, Yourselves and the Bank [the Hongkong Bank] 2 millions, C.J. Hambro Co. 1 million (of which they have booked £350,000), Cassel, New Court and the Banque de Paris £1,500,000. I think one of the conditions with the syndicate should be that each member applies, when the lists are open, for the full amount of their subscription, and be prepared to take their full proposition of the allotment. In that way the issue would be bound to be a success as no one, either of the public or of the syndicate would get an allotment in full. That would give back bone to the market and would much more than compensate members of the syndicate for the extra amount they would have to hold. If the public applied very largely, the syndicate might be consulted and asked how much stock they would like to keep and we would allot accordingly.¹²⁵

Baring Brothers, the Hongkong Bank and the Yokohama Specie Bank formed syndicates¹²⁶ to invite 'leading Stock Exchange firms' to participate. Panmure Gordon, Hill & Co. acted as the stockbroker for this re-sale.

In October Baring Brothers immediately started organising their own syndicate for guaranteeing the placement of the bonds on their world-wide business correspondent network, from the Continent to the United States. In regard to the Paris capital market, Baring Brothers informed the Banque de Paris of this re-sale. Their proposal was that the

¹²³. B.B.A., PF302, Telegram from Yokohama, 3 October 1902.

¹²⁴. P.B.A., D6801, Panmure Gordon, Hill & Co. to R.W. Whalley, 2 October 1902.

¹²⁵. B.B.A., PF302, Cameron to Lord Revelstoke, 29 September 1902.

¹²⁶. The character of this syndicate was an 'underwriting' syndicate, but the commission was not decided in advance and the profit of the syndicate was distributed among members according to their shares, after deducting the loan issue bank commission and miscellaneous charges.

Banque de Paris should guarantee £250,000 of the bonds on the condition that the Banque de Paris would be allowed to share in the rest of the profit after deducting a 1 percent loan issue bank commission charged by the Hongkong Bank and Baring Brothers.¹²⁷ The Banque de Paris was at first adverse to the proposed business because of the political climate there, namely hostility towards Japan under the alliance with Russia,¹²⁸ but, after the French government's authorisation, agreed to participate in the syndicate for £250,000.¹²⁹ Baring Brothers offered Hottinguer, an old private financier in Paris, £25,000 of the share.¹³⁰ Baring Brothers also invited Hope & Co., a long-established financial house in Amsterdam, to join the syndicate for £50,000¹³¹ and the Banque Federal in Zurich for £10,000.¹³²

Since early in the nineteenth century, Baring Brothers had had firm relations with the United States markets. Kidder, Peabody & Co. in Boston¹³³ shared £100,000 of the bonds.¹³⁴ They also informed Baring, Magoun & Co. in New York¹³⁵ of reserving the share for £50,000.¹³⁶ In London many merchant banks, overseas banks, stockbrokers and merchants showed interest in this re-sale: Hambros, for instance, took £100,000 of the bonds;¹³⁷ Cassel £500,000; the London Rothschilds £300,000.¹³⁸

In this way, by 8 October Baring Brothers had completed their own syndicate for £2,100,000. Table 4.12 shows the names, shares and profits of Baring Brothers'

¹²⁷ . B.B.A., PF302, Baring Brothers to the Banque de Paris, 26 September 1902.

¹²⁸ . Ibid., the Banque de Paris to Baring Brothers, 27 September 1902.

¹²⁹ . Ibid., the Banque de Paris to Baring Brothers, 1 October 1902.

¹³⁰ . Ibid., Hottinguer to Baring Brothers, 2 October 1902.

¹³¹ . Ibid., Baring Brothers to Hope & Co., 30 September 1902.

¹³² . Ibid., the Banque Federal to Baring Brothers, 3 October 1902.

¹³³ . For their intimate relations with Baring Brothers, see V.P. Carosso, More than A Century of Investment Banking (New York, 1979), pp.21-23.

¹³⁴ . B.B.A., PF302, Kidder Peabody & Co. to Baring Brothers, 1 October 1902.

¹³⁵ . J. Orbell, Baring Brothers & Co., Ltd. (1985), p.65. The Company was formed in 1891 out of the old Kidder Peabody partnership.

¹³⁶ . B.B.A., PF302, Baring Brothers to Baring Magoun & Co., 30 September 1902.

¹³⁷ . Ibid., Hambros to Baring Brothers, 29 September 1902.

¹³⁸ . Ibid., the London Rothschilds to Baring Brothers, 29 September 1902.

syndicate.

4.3.3 Performance

The Hongkong Bank and Baring Brothers asked the British government to inscribe the bonds at the Bank of England. In general, the method of inscribing stocks afforded several facilities to bondholders: transfer of inscribed stocks was exempt from the stamp duty, the payment of dividends could be posted and dividends could be invested automatically.¹³⁹ The practice of inscribing stocks could be an impetus to public investors; Cameron acknowledged that 'it will be a great encouragement to subscribers'.¹⁴⁰ In 1891 there were at least thirty five colonial government inscribed stocks quoted on the London Stock Exchange.¹⁴¹ This method was a characteristic of Colonial government loans, but was often employed also in the important foreign loans, such as the Chinese government 5 percent loan in 1896 and the 4 1/2 percent loan in 1898, when the British government regarded them as diplomatically important. Because of the conclusion of the Anglo-Japanese Alliance, the Foreign Office and the Treasury recognised the political importance of this Japanese government 5 percent bond re-sale¹⁴² and the Bank of England agreed to inscribe the bonds for ¥5,731,000 (£585,039), 11.7 percent of the re-sale amount.¹⁴³

On 7 October 1902 the Hongkong Bank, Baring Brothers and the Yokohama Specie Bank published the prospectus. The issue price was fixed at £102 1s.8d. per ¥1,000 (100 percent to par). This was slightly lower than the price of more than £103, which the

¹³⁹. S.E.O.I. (1903), p.8. The Bank of England did not charge for inscriptions of bonds.

¹⁴⁰. B.B.A., PF302, Cameron to Lord Revelstoke, 29 September 1902.

¹⁴¹. S.E.O.I. (1891), pp.120-21.

¹⁴². F.O.46/560, E.W. Hamilton to T.H. Sanderson, 30 September 1902.

¹⁴³. B.E.A., G4/125, Court of Directors Minutes, 9 October 1903 and SJ/Jap/1, Stock Jacket.

Japanese government had been hoping for in the negotiations. The subscriptions took place from 7 to 9 October. The Statist assessed that 'the high interest loving public' favourably received the subscriptions.¹⁴⁴ The total amount of the applications reached ¥97,993,000 (£10,003,000), 1.96 times the issue amount (Table 4.13). On 20 October the scrips for ¥50,000,000 (£5,104,166) was quoted on the official price list of the London Stock Exchange.¹⁴⁵

The Industrial Bank received a 1 1/4 commission (3/4 percent from the syndicate and 1/2 percent from the Japanese government) in total; a 3 1/4 percent profit was paid to the members of the syndicate; the Hongkong Bank, Baring Brothers and the Yokohama Specie Bank received a 1 percent loan issue bank commission; the total commission of this bond re-sale amounted to 5 1/2 percent (Table 4.14). The cost of this bond re-sale seems expensive to the Japanese government, the level of the loan issue commission being higher than the previous loan issues in 1897 and 1899 (about 4 percent).

It was the first time that the Japanese government was successful in attracting the pre-eminent London merchant banks, such as Baring Brothers, the London Rothschilds and E. Cassel, to its financial operations. Although the outcome was not fully satisfactory to the Japanese government, this bond re-sale, without doubt, prepared for Japan's future financial operations on the London capital market.

¹⁴⁴. The Statist, 11 October 1902, p.626.

¹⁴⁵. L.S.E.A., Ms.18,000, 83B/464 and 89B/236, Quotation Application.

Table 4.12 Baring Brothers' Syndicate for 5 Percent Bond
Re-sale in 1902
 (£)

Name	Occupation	(1) Share of syndicate	(2) Profit
E. Cassel	merchant banker	500,000	16,250
N.M. Rothschild	merchant bank	300,000	9,750
Banque de Paris	foreign bank	250,000	8,125
C.J. Hambro	merchant bank	100,000	3,250
Kidder Peabody	foreign bank	100,000	3,250
Hope & Co.	foreign bank	50,000	1,625
H.J. Lefevre & Co.	merchant	50,000	1,625
Baring Magoun	foreign bank	50,000	1,625
(No 2)		50,000	1,625
Frühling & Goschen	merchant bank	25,000	812
Glyn Mills, Currie	clearing bank	25,000	812
Hottinguer	foreign bank	25,000	812
Cunliffes	merchant bank	25,000	812
A. Wagg	stockbroker	25,000	812
Derenberg Meyer	merchant bank	10,000	325
Lord Farguhar	-	10,000	325
J. Birch & Co.	merchant	10,000	325
W. Bisset	retired civil servant	10,000	325
F. Huth & Co.	merchant bank	10,000	325
L. Messel & Co.	stockbroker	10,000	325
J.C. & C.W. Morrice	stockbroker	10,000	325
Steer Lawford & Co.	stockbroker	10,000	325
J. & A. Scrimgeour	stockbroker	10,000	325
Baring Brothers	merchant bank	375,000	12,187
Banque Federal	foreign bank	10,000	325
Lord Rothschild	merchant banker	10,000	325
Senior Perugid	-	10,000	325
W. Betzold	-	10,000	325
Morris Prevost	merchant bank	10,000	325
Total		2,090,000	67,922

Syndicate profit: £3 5s. per ¥1,000.

Notes: (1) 8 October 1902;
 (2) 11 November 1902;
 - implies no information.

Sources: B.B.A., 302, ff.70 and 146c;
London Post Office Directory, 1903.

Table 4.13 Subscriptions of 5 Percent Bond
Re-sale in 1902
 (¥; ¥1=1s. 1/2d.)

Loan issue bank	Application	Allotment
Hongkong Bank	45,525,000	22,330,000
Baring Brothers	44,986,000	24,590,000
Yokohama Specie Bank	7,482,000	3,080,000
Total	97,993,000	50,000,000

Source: B.B.A., 302, f.112.

Table 4.14 Commission of 5 Percent
Bond Re-sale in 1902
 (percent)

Loan issue bank commission	1	
Brokerage (placing underwriting)		1/4
Brokerage (application)		1/4
Industrial Bank		3/4
Syndicate profit	3	1/4
Total	5	1/2

Source: B.B.A., 302, f.2.

4.4 Conclusion

After a long interval, in 1897, the Japanese government returned to the London capital market for its financial operations. The establishment of the gold standard in Japan in 1897 facilitated the Japanese government's financial operations in London. The three loan issues in 1897, 1899 and 1902, related to the Sino-Japanese War, included a variety of the financial institutions in the City. Their roles in these loan issues are reviewed here.

In 1897 the overseas bank (the Hongkong Bank), the clearing bank (the Capital & Counties Bank) and the merchant bank (M. Samuel & Co.) in collaboration carried out the bond re-sale. They had established commercial relations with Japan. Their position was much the same as that of the Oriental Bank which had issued the Japanese government loan in 1873. The loan issue negotiations were completed mainly in Japan and the Japanese government did not have direct access to the London capital market, only through intermediaries.

In the following loan issue, in 1899, the financial institution (the Yokohama Specie Bank), patronised by the Japanese government, played a prominent role for the first time. It was expected in Japan that this powerful Japanese bank could help the government's loan issue negotiations with foreign financiers in London. The Bank's Deputy-Governor conducted the market research abroad and successfully built up business relations with Parr's Bank. Yet this newly established channel between the Yokohama Specie Bank and Parr's Bank was not very effective in this loan issue, so that the Japanese government turned more of its attention to merchant banks, the experts in loan flotations in London.

The bond re-sale negotiations in 1902 got off to a curious start. There was keen competition between two Japanese banks (the Yokohama Specie Bank and the Industrial Bank) in this business. Before 1905 the Japanese government had fixed no definite boundary between the two banks for foreign loan issue business. However, this financial operation, to a considerable extent, broadened the range of financiers for Japanese

government foreign loan issues. The Japanese government could now depend upon the Hongkong Bank's wide ranging business relationships in the City, especially with many pre-eminent merchant banks. The Hongkong Bank, in co-operation with Panmure Gordon, Hill & Co., had formed these relationships during the negotiations of Chinese government loan issues. The Hongkong Bank's successful invitation of the first-class merchant banks (Baring Brothers, the London Rothschilds and Cassel)¹⁴⁶ to the bond re-sale was a goal that the Japanese government had pursued for a long time. The happy combination of the financial institutions, including both the banks with Far Eastern and Japanese connections (the Hongkong Bank and the Yokohama Specie Bank) and the merchant banks (Baring Brothers, the London Rothschilds and Cassel), on the loan issue market paved the way for Japan's further large-scale financial operations on the international capital markets during the Russo-Japanese War period.

¹⁴⁶. A Russian financier depicted a first-class merchant bank's (J.S. Morgan & Co.'s) financial power on the London capital market as 'we want a flag and a name in London and we think that the go and spirit that you have shown everywhere will insure a glorious success' (M.G.A., Ms.21,760, HC 12.3, Alexander Koch to J. Pierpont Morgan, 10/22 February 1898).

CHAPTER 5

RUSSO-JAPANESE WAR LOAN ISSUES (1)

The Japanese government needed to raise a considerable amount of money abroad during the Russo-Japanese War (1904-1905). Japan had to fight another war with foreign financiers in London as Russia did in Paris.¹ K. Takahashi, now the Deputy-Governor of the Bank of Japan, conducted all these loan issue negotiations. It is no exaggeration to say that it was Takahashi who established the definitive pattern of the Japanese government's foreign loan issues which his successors would follow. Up to the present time, Takahashi's autobiography² has been the only detailed study of these important financial operations on the international capital markets.³ It must be noted, however, that his autobiography had a decisive fault: Takahashi, because of his position as the Japanese Government Special Loan Commissioner, was shut out completely from the financiers' internal negotiations. His autobiography cannot tell the whole story of the negotiations.

Takahashi firmly believed that 'a stroke of good fortune' won him success of the loan issues,⁴ but it was merchant banks' world-wide business network that enabled the Japanese government to manage the huge loan issue operations in London, New York,

¹. Romanov explained Russia's financial operations in Paris during the Russo-Japanese War (B.A. Romanov [translated from the Russian by S.W. Jones], Russia in Manchuria [1892-1906] [Michigan, 1952], chapter vii).

². T.K.J., vol.2. Recently the Japanese National Diet Library obtained Takahashi's Diary (from 22 February to 18 December 1904), written in English, which fully covered the period when he acted as the Japanese Government Special Loan Commissioner in 1904. Obviously this becomes a new source for the study of foreign loan issues during the Russo-Japanese War (J.N.D.L., Takahashi Papers, 135, Diary).

³. The following pioneering studies mentioned the Japanese government war loan issues: U. Kobayashi, War and Armament Loans of Japan (New York, 1922), pp.61-91; M.T.Z., vol.12, pp.50-86; M. Kajima, Nippon Gaikōshi (Diplomatic History of Japan), vol.7 (Tokyo, 1970), pp. 127-137. Nish argued the matter mainly from the diplomatic viewpoint on the basis of the British Foreign Office Papers, A.J. Balfour Papers and J. Austen Chamberlain Papers (I.H. Nish, The Anglo-Japanese Alliance, 2nd. ed. [1985], pp.287-89).

⁴. T.K.J., vol.2, p.205.

Berlin and Paris. In this chapter, material from hitherto little-explored British and Japanese archival records will be used to illuminate the first foreign loan issue made by the Japanese government during the Russo-Japanese War.

Since the Boxer Rebellion of 1900 Japan had been exposed to the growing menace of Czarist Russia in Manchuria and Korea. At the end of 1903 the futile negotiations in St. Petersburg resulted in a diplomatic rupture. The Japanese government began to make full-scale preparations for war against Russia and made extraordinary military outlay from the annual budget. In addition, it made three interim military budgets for the war during 1904 and 1905.⁵ It is fair to say that the Japanese government financed the Russo-Japanese War largely by public loans. The total war expenditure amounted to ¥1,826,290,483 (£186,433,819); 77.7 percent of which, approximately ¥1,418,731,000 (£144,828,789), was raised by public loans and borrowings both abroad and in Japan (Table 5.1). Table 5.2 indicates the Japanese government loans in 1904 and 1905 during the Russo-Japanese War.

In March 1904 the Japanese government implemented the first domestic war loan (Exchequer bonds) issue ‘under very favourable feelings’.⁶ At the same time, it aimed to issue a foreign loan to obtain gold (or gold standard currency), because Japan’s trade balance at that time suffered severely from constant deficits and there was a continued drain of gold. From the outbreak of the war in February 1904, the Bank of Japan’s gold reserves sank rapidly and by May had plummeted to its lowest point, ¥68,087,262 (£6,950,574).⁷ For Japan, it was obvious, a foreign loan was the most convenient and immediate way for obtaining gold on a large scale. C.M. MacDonald, the British Minister in Tokyo, predicted: ‘I cannot but think that the drain of gold must continue in such proportions as to render a foreign loan an absolute necessity before the end of the

⁵ *M.T.Z.*, vol.1, p.225.

⁶ F.O.46/577, C.M. MacDonald to Lord Lansdowne, 18 February 1904.

⁷ The Bank of Japan roughly estimated the total drain of gold in a year at nearly ¥65,000,000 (£6,635,416). It held the ¥116,962,184 (£11,939,889) gold reserves for the note issues at the end of 1903 (*T.K.J.*, vol.2, p.182).

year [1904]'.⁸

Table 5.1 Proportion of Loans to Total Military Expenditure for the Russo-Japanese War

Total military expenditure	1,826,290
Total amount of public loans and borrowings	1,418,731
(Ratio to total military expenditure	77.7 percent)
Total amount of foreign loans	689,594
(Ratio to total military expenditure	37.8 percent)
Total military expenditure for the Sino-Japanese War (1894-95)	233,400
Total amount of public loans and borrowings	116,805
(Ratio to total military expenditure	50.1 percent)

Notes: ¥000; ¥1=2s. 1/2d..

Source: Japanese Ministry of Finance (S. Usami), Shōwa Zaiseishi (History of Japanese Finance in the Shōwa Era), vol.iv (Tokyo, 1955), pp.9 and 16-17.

Table 5.2 Japanese Government Loan Issues during the Russo-Japanese War

Loan	Date	Interest rate (nominal) (%)	Net proceeds (¥)
Domestic (Exchequer Bond)			
1st	March 1904	5	92,376,123
2nd	June 1904	5	90,981,795
3rd	November 1904	5	71,288,675
4th	March 1905	6	90,254,961
5th	May 1905	6	89,984,080
Domestic total			434,885,634 (£44,459,230)
Foreign			
1st	May 1904	6	86,834,171
2nd	November 1904	6	100,463,594
3rd	March 1905	4 1/2	251,158,987
4th	August 1905	4 1/2	251,137,817
Foreign total			689,594,569 (£70,396,112)

Note: ¥1=2s. 1/2d..

Source: M.T.Z., vol.1, pp.245-46.

⁸. F.O.46/578, MacDonald to Lord Lansdowne, received 31 May 1904.

5.1 Diplomatic Negotiations

The Japanese government needed to secure funds when a Russo-Japanese War appeared inevitable in October 1903. Under the Anglo-Japanese Alliance of 1902 Japan could expect some financial assistance from Britain, although Britain's strict neutrality was stipulated in the treaty unless allied countries began war with Japan.⁹ T. Hayashi, the Japanese Minister in London, learnt that Lord Lansdowne, the British Secretary of State for Foreign Affairs, had confidentially told Marcus Samuel, a senior partner of M. Samuel & Co. (a London merchant bank),¹⁰ to take into serious consideration the possibility of Britain's guaranteeing a Japanese government loan.¹¹

The Japanese government, at the onset of the diplomatic negotiations, expected that Marcus Samuel's influence over the British government could help Japan's loan issue, intended as part of the preparations for the imminent Russo-Japanese conflict.¹² His idea was for a loan for £20,000,000 to be raised by the British government and afterwards to be lent to the Japanese government at a 4 percent rate of interest. Marcus Samuel was reasonably confident that Baring Brothers and the Hongkong Bank would co-operate with him in this loan issue. Yet Lord Lansdowne considered that the British government would not accept such an offer because of the current unfavourable market conditions to borrowings.¹³ Marcus Samuel made a revised proposal: a loan guaranteed by the British government to pay 4 percent annual interest for only £10,000,000. Lord Lansdowne, though, held out no hope of obtaining the British government's guarantee.¹⁴

⁹. Nish, *op. cit.*, pp.216-17; A.M. Pooley(ed.), The Secret Memoirs of Count Tadasu Hayashi (London, 1915), chapter iii-v.

¹⁰. R. Henriques, Marcus Samuel (1960), pp.59-60.

¹¹. J.N.D.L., Sakatani Papers, 498-13, no.91, T. Hayashi to J. Komura, 31 December 1903.

¹². Henriques, *op. cit.*, p.472. For Hayashi's career, see Pooley(ed), *op. cit.*, pp.1-23.

¹³. F.O.46/575, Lord Lansdowne's Memorandum, 29 December 1903.

¹⁴. F.O.46/564, Lord Lansdowne to MacDonald, 31 December 1903.

These negotiations clearly show the British government's attitude towards the Russo-Japanese War. The British Prime Minister A.J. Balfour, who had a policy of avoiding direct interference in other countries' affairs, declared that 'we must be most careful not to give any advice to the Japanese to which, in case of war, they might point and say "you must help us, for it was through following your lead that we find ourselves in this mess"'.¹⁵ In the Cabinet, J.A. Chamberlain, the Chancellor of the Exchequer, also upheld this opinion.¹⁶ As early as 26 December 1903 the British government, through the Hongkong Bank, was informed of the likelihood that the Japanese government would invoke the British government's financial assistance. Lord Lansdowne replied: 'I suppose a favourable answer is out of the question, and there seems no object in sending our unfavourable one'.¹⁷ E. Cameron, a Hongkong Bank's London Manager, was afraid that the current market conditions were not favourable to the prospect of issuing a large Japanese government loan.¹⁸

The Japanese government started rather impetuous diplomatic negotiations with the British government on this matter. On 27 December J. Komura, the Japanese Minister for Foreign Affairs, ordered Hayashi to try to ascertain Lord Lansdowne's opinion on whether Japan would be able to obtain some financial assistance from the British government on the basis of the Anglo-Japanese Treaty.¹⁹ Lord Lansdowne considered that the British government could probably only allow Japan to use British fleet coaling stations and colonial communications facilities. This reply was far from what the Japanese government hoped. Hayashi told Lord Lansdowne that the Japanese government desired assistance from the British government in raising money in London, and that for this purpose it had already authorised Marcus Samuel to negotiate informally with Lord

¹⁵. Add. Ms.49,728, A.J. Balfour to Lord Lansdowne, 22 December 1903.

¹⁶. Add. Ms.49,735, Extract from Letter to Lord Lansdowne in J.A. Chamberlain to Balfour, 30 December 1903.

¹⁷. F.O.46/575, Cameron to Lord Lansdowne, 26 December 1903.

¹⁸. Ibid., Cameron to Campbell, 28 December 1903.

¹⁹. The Japanese Ministry of Foreign Affairs, Komura Gaikōshi (History of the Diplomat Komura Jutarō (Tokyo, 1953 [reprinted 1966]), pp.407-8.

Lansdowne. Yet the matter was too serious for the British Foreign Office to decide on its own and Lord Lansdowne saw reason to consult other Cabinet members.²⁰

At the end of 1903 Lord Lansdowne reluctantly received from the Japanese government the direct proposal of a loan guarantee. Immediately Lord Lansdowne told Balfour that 'what she [Japan] most wants is money.....I do not suppose that there is any chance of our finding the £20,000,000 for which they ask'.²¹ Balfour considered it unfeasible to find the £20,000,000 for Japan. He was of the firm opinion that Britain's guarantee of the Japanese government war loan would be construed as an act of war against Russia.²² Chamberlain desired Lord Lansdowne to deal with the matter in the same spirit as Balfour had, and pointed out the unfavourable conditions of the money market for a new loan issue.²³

On 1 January 1904 Hayashi again discussed the subject of financial assistance with Lord Lansdowne.²⁴ Hayashi, although not explicitly, explained a plan of converting Japanese government domestic bonds to more favourable terms on the British government's guarantee.²⁵ Chamberlain, who thought that the current market would be unable to absorb the proposed Japanese government war loan issue because of an excess of loans issued during the Boer War, gave an unwilling reply to Lord Lansdowne that:

I [Chamberlain] fear that the moment is not opportune for raising any new loans in the London market, which, owing to the other large borrowings during the Transvaal War, is overstocked with what are known as 'gilt edged' securities.²⁶

Thus the success of the diplomatic negotiations for securing the financial assistance of the British government was questionable. It seems to have achieved nothing so far.

Foreign governments and British financiers often requested that the British

²⁰. F.O.46/564, Lord Lansdowne to MacDonald, 29 December 1903.

²¹. Add. Ms.49,728, Lord Lansdowne to Balfour, 29 December 1903.

²². Ibid., Balfour to Lord Lansdowne, 31 December 1903.

²³. Add. Ms.49,735, J.A. Chamberlain to Balfour, 2 January 1904.

²⁴. F.O.46/576, Lord Lansdowne to MacDonald, 1 January 1904.

²⁵. Ibid..

²⁶. F.O.46/585, Lord Lansdowne to T. Hayashi, 4 January 1904.

government should guarantee payment of their intended loans. Yet this was completely against the practice of the British government and before the First World War only three foreign government loans enjoyed such unusual backing, as indicated in Table 5.3.

Table 5.3 British Government's Guaranteed Loans before 1914

Year	Act	Guaranteed loan	Loan issuer
1855	18 & 19 Vict. c.99	Turkey £5,000,000	Bank of England
1885	48 Vict. c.11	Egypt £9,424,000	the London Rothschilds
1898	61 Vict. c.4	Greece £6,800,000	Bank of England

Source: T.168/55, Memorandum.

Also the Bank of England never dealt with any foreign loan issue business. A letter, addressed to the Serbian government from the Bank, declared that it was not its practice to undertake foreign loan issues as the Bank invariably acted for the British government, India and the British Colonies.²⁷

In the middle of January 1904, as an alternative to Marcus Samuel the Japanese government looked around for financiers who could make favourable arrangements for its loan issue without the British government's guarantee.²⁸ The Japanese government courted the favour of the London Rothschilds,²⁹ but Alfred Rothschild, the second son of Lionel Nathan Rothschild (younger brother of Nathaniel Meyer Rothschild), merely indicated his House's possible support at a later occasion.³⁰ The London Rothschilds could not openly participate in Japan's financial operations during the war because of Jewish concerns in Russia.³¹

Meanwhile, Hayashi requested the Japanese government to send a financial expert

²⁷. B.E.A., G23/87, Secretary to C.B. Norman, 4 August 1896.

²⁸. No.32, Komura to Hayashi, 15 January 1904 (N.G.B., vol.37-2, pp.125-26); J.N.D.L., Sakatani Papers, 498-15, 7 January 1904.

²⁹. No.31, Komura to Hayashi, 15 January 1904 (N.G.B., vol.37-2, p.125).

³⁰. Count Corti, (translated by Brian and Beatrix Lunn) The Reign of the House of Rothschild (1928), pp.459-60.

³¹. J.N.D.L., Takahashi Papers, 135, Diary, 3 May 1904.

as a Government Special Loan Commissioner to conduct loan issue negotiations in London directly.³² He also reported that some of the eminent financiers in the City would take up the loan issue on certain securities such as customs or railway revenues, instead of the British government's guarantee.³³

Apart from these diplomatic links, the Hongkong Bank desired to undertake the Japanese government war loan issue through its own channels. On 8 January 1904 the Hongkong Bank's Yokohama Branch proposed to the London Office an issue of £5,000,000 Japanese government Treasury bills for less than 5 years.³⁴ The London Office, after communicating with Baring Brothers, took a wait-and-see attitude and dispatched the following telegram to the Yokohama Branch:

our opinion is that a loan for a moderate amount can be floated if they are prepared to hypothecate some revenues as security. Probably five years Treasury Bills with holders' option to convert later on into 5% Bonds. It is impossible to say now what the terms would be, but fear onerous. If unwilling to hypothecate in Japan probably Formosa would do. Others are now trying to float [a] loan, consequently we would do Japanese government more harm than good by our trying the market at the present moment.³⁵

In this way, the Hongkong Bank's London Office by no means rejected the possibility of the Japanese government loan issue on the London capital market.

5.2 Baring Brothers and War Loan Issue

Before Takahashi's loan issue negotiations, Baring Brothers, together with the Hongkong Bank, had played a leading role in the early war loan issue negotiations with the Japanese government, although their all-out efforts came to naught. However, Baring Brothers' original idea of developing the New York capital market for international loan issues

³². No number, Hayashi to Komura, 15 January 1904 (*N.G.B.*, vol.37-2, pp.126-27).

³³. No.34, Hayashi to Komura, 6 January 1904 (*Ibid.*, pp.127-28).

³⁴. F.O.46/587, Cameron to F. Campbell, 8 January 1904.

³⁵. *Ibid.*, Cameron to British Foreign Office, 9 January 1904.

under London's primacy was to be realised in the first Japanese government war loan issue of May 1904, as will be seen later.

The Hongkong Bank and Baring Brothers were looking for attractive opportunities for the Japanese government war loan issue. In February 1904 the Hongkong Bank started loan issue negotiations. The Hongkong Bank's Yokohama Branch mediated the loan issue negotiations between the Japanese government and Baring Brothers. The Hongkong Bank's Yokohama Branch suggested the following loan issue terms to the London Office: a £10,000,000 6 percent loan for 5 years at 85 percent without any security.³⁶ Given the negative prospect for Japanese government bonds on the London Stock Exchange, the Hongkong Bank's London Office considered it imperative to take prompt action and told the Yokohama Branch 'to advise [the] Japanese government [that] do not delay [in] accept[ing] any money we can offer now[,] as [a] temporary reverse will occasion [a] heavy fall [of] Japanese government bonds rendering [a] new loan impossible on any terms'.³⁷

The Hongkong Bank, together with Baring Brothers, agreed to offer the following preliminary terms for the Japanese government war loan issue:³⁸

Issue amount	£10,000,000
Interest rate (nominal)	6 percent
Government proceeds	85 percent per £100
Borrowing period	10 years
Security	£2,000,000 of the proceeds to be retained in London
Redemption	option of repayment after 2 years
Others	the Japanese government should not issue any more foreign loans for 12 months except through Baring Brothers and the Hongkong Bank.

This was the most definite proposal of any submitted by the British banks before

³⁶. B.B.A., PF303, Hongkong Bank Yokohama Branch to London Office, 17 February 1904.

³⁷. Ibid., Hongkong Bank London Office to Yokohama Branch, 18 February 1904.

³⁸. Ibid., 19 February 1904; Memorandum given to Cameron, 12 February 1904.

Takahashi's loan issue negotiations. Yet, even given that a war loan was regarded as extremely risky among financiers, the terms were in every respect highly unfavourable to the Japanese government: i.e. the 6 percent high rate of interest; the low proceeds; the security condition. They were not acceptable.

Meanwhile, Baring Brothers took several diplomatic actions. Since Britain took a strictly neutral attitude towards the Russo-Japanese War, they were afraid of sowing discord between their business strategy and the British government's diplomatic policy by becoming publicly connected with the Japanese government loan affairs. Lord Revelstoke, the Head of Baring Brothers, contacted Count Alexandre Benckendorff, the Russian Ambassador in London, about this matter.³⁹ Lord Revelstoke also frankly asked Lord Lansdowne whether it would be inconvenient to the British government if they dealt with the Japanese government war loan. Because of the delicate character of the business, Baring Brothers considered it desirable to obtain the British government's official approval before embarking upon it. Lord Lansdowne perfunctorily said 'that I could not see that we had any business to object, but that of course we could take no official cognizance of the matter and that we would be able to say that we had not been in any way concerned in it'.⁴⁰ Lord Lansdowne only reiterated the Foreign Office's established rule - no intervention in private transactions.

Baring Brothers scrutinised the loan issue markets on the Continent, particularly the Paris capital market for the proposed Japanese government loan issue. Lord Revelstoke immediately contacted E. Noetzlin, Administrateur (Director) of the Banque de Paris, on whether it could take some part in the impending Japanese government loan issue. In spite of the antagonistic feelings to Japan there, Baring Brothers expected the Paris capital market to act as a buffer should the London capital market fail to take a sufficient amount.

³⁹. Ibid., Count A. Benckendorff to Lord Revelstoke, Friday February 1904 [no date].

⁴⁰. Add. Ms.49,728, Lord Lansdowne to Balfour, 21 February 1904.

Noetzlin declined this offer, saying that 'you are right to foresee that political considerations would undoubtedly prevent the Banque de Paris doing so, however tempting such a business might be ... it would put us in the most awkward position if it became known here that the Banque de Paris has an interest in providing money for the Japanese'.⁴¹ At that time the Banque de Paris was negotiating an issue of the Russian government Treasury bills in Paris. The public sentiment in Paris showed the 'tellement surchauffé en faveur des russes (really overheated in favour of the Russians)'.⁴²

Baring Brothers found it impossible to arrange the proposed Japanese government loan issue in London alone, without the co-operation of Continental financiers, and subsequently, did similar market research in the United States. They paid much attention to the New York capital market which at that time had not yet sufficiently developed for foreign loan issues. Baring Brothers asked Baring, Magoun & Co. in New York whether it could take the Japanese government war loan for £5,000,000 there. Baring Brothers also made an urgent contact with several pre-eminent financiers in the United States: J. Stillman, the President of the National City Bank (New York), who had close connections with the Rockefellers; J. Schiff, a senior partner of Kuhn, Loeb & Co.; Kidder Peabody & Co. (Boston).⁴³

F.A. Vanderlip, the Vice-President of the National City Bank, relayed Stillman's message to the effect that he [Stillman] admitted the probability of being able to underwrite £5,000,000 of the bonds in the United States markets, but felt very dubious of a large amount of the loan being taken by public investors. Vanderlip also communicated with W.G. Rockefeller, son of William Rockefeller, and J.A. McCall, the President of the New York Life Assurance Co., who had been expected to become

⁴¹. B.B.A., PF303, Extract form Letter E. Noetzlin to Lord Revelstoke, 20 February 1904. For a history of the Banque de Paris, see H. Collas, La Banque de Paris et des Pays-Bas et les émissions d'emprunts publics et privés (Dijon, 1908).

⁴². R.A.L., XI/101/62, the Paris Rothschilds to the London Rothschilds, 29 February 1904.

⁴³. B.B.A., PF303, Baring, Magoun & Co. to Baring Brothers, 3 March 1904.

large takers of this operation. Yet the proposed Japanese government loan business did not attract them partly because of neutral feelings in the United States towards the war and partly because of the great risks. Furthermore, Vanderlip strongly recommended that Baring Brothers should approach Kuhn, Loeb & Co., which had acquired much experience in dealing with railway securities, about the business.⁴⁴

Baring, Magoun & Co., however, was optimistic about the proposed loan issue on the United States market saying 'there must be a fair chance of attracting the public'. They considered that underwriting of the loan issue for £5,000,000 would be feasible and public subscriptions at 90 percent would take £2,000,000 of the bonds on the condition of the principal and interest being paid in New York.⁴⁵ Baring, Magoun & Co. was keen to launch the Japanese government war loan issue in New York. Even after Baring Brothers' withdrawal from the business early in March, it was still willing to handle it when the Hongkong Bank requested placing some of the loan directly in the United States,⁴⁶ but Baring Brothers did not like their name [Baring] to be connected with any Japanese government borrowings during the Russo-Japanese War.⁴⁷

On 4 March 1904 Baring Brothers taking into consideration all the factors surrounding the Japanese government loan issue business, finally found a reason to postpone involvement in it. Lord Revelstoke's letter addressed to Hugo Baring, a partner of Baring, Magoun & Co., adduced his reasons for reaching such a conclusion:

⁴⁴. Ibid.. For the business relations between the National City Bank and Kuhn Loeb & Co., see H. van B. Cleveland & T.F. Huertas, Citibank, 1812-1970 (Cambridge [Mass.], 1985), pp.37-41.

⁴⁵. B.B.A., PF303, Hugo Baring to Lord Revelstoke, 4 March 1904. For the history of the Kidder, Peabody Co., see V.P. Carosso, More Than a Century of Investment Banking (New York, 1979).

⁴⁶. B.B.A., PF303, Baring, Magoun & Co. to Baring Brothers, 9 March 1904.

⁴⁷. Ibid., Baring Brothers to Baring, Magoun & Co., 9 March 1904.

we have decided, after mature deliberation, not to take part in a public issue at the present moment. The fact is that there is a feeling here among the highest people that it would be well to preserve a more or less neutral attitude, in spite of the fact that the Japanese are our allies; and as it is obvious that these Japanese are not averse to raising a Loan, and that if things go against them they might have to come again for a still further issue: you will understand how averse we should be to making an issue which might go to a discount, and how much we are convinced that we had better await a probable conclusion of hostilities before embarking on a large responsibility, which we should have to carry through without any help from the Continent. We have explained our attitude fully to the Hongkong & Shanghai Bank, who are on the most friendly terms with us, and who quite recognised the wisdom and soundness of our views. They are evidently in a different position from ourselves: they have a large business with the East, and are above all things anxious that no competitor should wrest any good business from them. To this consideration we do not attach so much importance, and have, therefore, informed the Hongkong & Shanghai Bank that we consider they were quite justified in proceeding to arrange any negotiations they may have in hand with fresh partners.⁴⁸

Obviously there were several reasons for Baring Brothers' faltering in the business. Firstly, they were sensitive about the Russo-Japanese War and had still retained close connections with the Russian government as a London agent. In terms of business strategy, it was more prudent by far for Baring Brothers to maintain strict neutrality than to play an aggressive role in the Japanese government war loan issue. Secondly, and more important, Baring Brothers were afraid of being involved in a perilous loan issue, because they would have to carry out the Japanese government war loan issue without any assistance from the Paris capital market; their estimate of the United States markets was that it could absorb at most £ 2,000,000. Thirdly, Baring Brothers, unlike the Hongkong Bank, had no large volume of transactions with the Far East. In this situation they showed no inclination to plunge into such a risky venture. In fact, when Takahashi arrived in London toward the end of March 1904, Lord Revelstoke explained the impossibility of undertaking public subscriptions of the Japanese government loan issue and proposed a private borrowing to the extent of £60,000 in the form of Japanese

⁴⁸. Ibid., Extract from Letter Lord Revelstoke to Hugo Baring, 8 March 1904. Later Takahashi found that Baring Brothers 'have so much interest in Russia and at this moment they don't want to come out' (J.N.D.L., Takahashi Papers, 135, Diary, 22 September 1904).

government Treasury bills.⁴⁹

However, when Baring Brothers as well as the London Rothschilds, desired to become one of the loan issuers of the Japanese government 4 percent loan in 1905, R.H. Whalley, the General Manager of Parr's Bank, censured this conduct. He emphasised that even when hostilities to Japan had already commenced, Baring Brothers had felt that they could not have their name, which would have been of value to the Japanese government, publicly connected with any Japanese loan issue.⁵⁰

The London Rothschilds' attitude towards the Russian government was different. Despite an amicable letter from the Russian Ministry of Finance,⁵¹ since the 3 1/2 percent loan issue in 1893 the London Rothschilds had refrained from involvement in Russian government loan issues and were acting only as a paying agent because of the ill-treatment of Jews in Russia.⁵² The London Rothschilds no longer placed trust in the Russian government finance and Alfred Rothschild rightly depicted it as a 'juggler'.⁵³

Although the Japanese government had embarked upon the loan issue negotiations with the Hongkong Bank's Yokohama Branch, on 3 March 1904 the government appointed K. Takahashi as the Special Loan Commissioner.⁵⁴ This meant that the Japanese government had decided to negotiate the intended loan issue not through the Hongkong Bank's Yokohama Branch but directly in London. The Hongkong Bank's Yokohama Branch for its part, warned the Bank's London Office that 'it is not in the interest of the Hongkong Bank to wait [the] arrival of [the] person referred to [- Takahashi]'.⁵⁵ Mainly

⁴⁹. T.K.J., vol.2, pp.195-96. There is no record of this proposal in Baring Brothers' Archives. It may have been made verbally.

⁵⁰. F.O.800/134, R.W. Whalley to Takahashi, 1 November 1905.

⁵¹. R.A.L., XI/89/10A, W. Kokovtsoff to the London Rothschilds, 7 February 1904.

⁵². The London Rothschilds sent much money to the Jewish Committee in Russia (R.A.L. XI/130A/0, the London Rothschilds to Paris Rothschilds, 1 January 1906).

⁵³. Add. Ms.49,747, Alfred Rothschild to Balfour, 4 April 1905; an anonymous paper which discussed the Russian government finance also concluded that 'equipment provided by the help of French capital...by no means succeeded in enriching the country' (M.B.A., ACC36/231, France and England, and the Future Russian Loans, 1909).

⁵⁴. B.B.A., PF303, Hongkong Bank in Tokyo to London Office, 3 March 1904.

⁵⁵. Ibid., Hongkong Bank Yokohama Branch to London Office, 5 March 1904.

because of Baring Brothers' withdrawal from the loan issue negotiations, the Hongkong Bank's London Office decided to negotiate directly with Takahashi.⁵⁶

Cameron was unwilling to give up this lucrative business opportunity and persuaded Lord Revelstoke to reconsider the previous decision.⁵⁷ Although the Hongkong Bank's original plan of issuing the Japanese government loan in conjunction with Baring Brothers had reached an impasse, Cameron believed it feasible saying:⁵⁸

Our [the Hongkong Bank London office] opinion is that danger is exaggerated, but we do not feel confident that money can be got here, in any case it is certain not without American help.

The Hongkong Bank considered that the Japanese government war loan issue was, perhaps, possible with 'American help'.

5.3 Takahashi's Mission

On 6 February 1904 Japan broke off diplomatic relations with Russia and the Russo-Japanese War broke out. Initially M. Matsukata, a Senior Statesman, who was in charge of the management of the war finance, nominated Takahashi to be the Japanese Government Loan Commissioner.⁵⁹

The Japanese government decided to raise war loans for ¥200,000,000 (£20,417,000) at the Cabinet Meeting held on 17 February 1904,⁶⁰ and ordered the Bank of Japan to arrange a foreign loan for £10,000,000 on the following terms:⁶¹

⁵⁶. B.B.A., PF303, Hongkong Bank London Office to Yokohama Branch, 5 March 1904.

⁵⁷. Ibid., Cameron to Lord Revelstoke, 4 March 1904.

⁵⁸. Ibid., Hongkong Bank London Office to Yokohama Branch, 7 March 1904.

⁵⁹. T.K.J., vol.2, pp.186-89.

⁶⁰. J.M.F.A., Shōda Papers, 27-1, Cabinet Decision on the Foreign Loan Issue, 17 February 1904.

⁶¹. Ibid., Order dated 22 February 1904.

Issue amount	£10,000,000
Interest rate (nominal)	less than 5 percent
Redemption	within 45 years
Security	customs and railway revenues
Issue charges	less than 4 percent excluding the British stamp duty
Others	re-sale of existing domestic bonds should also be taken into consideration.

On 19 February 1904 Takahashi left for London via New York. At that time Takahashi pondered the lack both of money and of experience in dealing with large foreign loan issues which he felt would hamper the Japanese government war loan issue on the New York capital market.⁶²

Towards the end of March Takahashi began loan issue negotiations with financiers in the City and looked for a loan issue bank which could favourably undertake the intended war loan. He considered it best to approach the Yokohama Specie Bank's correspondents, for the loan issue. First, Takahashi sounded out A.A. Shand, a Manager of Parr's Bank, on the possibility of the loan issue for £10,000,000. Shand introduced him to Cecil P. Parr, the Chairman of Parr's Bank, and John Dun, former General Manager and now a Director of Parr's Bank.⁶³ Takahashi continued interviews on the loan issue with several banks and stockbrokers, such as Cameron,⁶⁴ W.M. Koch and A. Levita, partners of Panmure Gordon & Co.,⁶⁵ J.H. Gwyther, the Chairman of the Chartered Bank,⁶⁶ and the Union of London & Smiths Bank's directors.⁶⁷

Takahashi made the acquaintance of several pre-eminent merchant bankers, such as Lord Revelstoke⁶⁸ and Alfred Rothschild.⁶⁹ Meanwhile, H.R. Beeton, a stockbroker in

⁶². T.K.J., vol.2, pp.191-92.

⁶³. J.N.D.L., Takahashi Papers, 135, Diary, 12 April 1904.

⁶⁴. Ibid., 7 and 13 April 1904.

⁶⁵. Ibid., 12 April 1904. I.D. Cameron, of Panmure Gordon & Co., informed me in his letter of 18 July 1984 that no record of the Japanese government loan issues during this period survives at its archives.

⁶⁶. J.N.D.L., Takahashi Papers, 135, Diary, 13 April 1904.

⁶⁷. There is no description of the Japanese government loan in Court Minutes of the Union of London & Smiths Bank from February to June in 1904 (U.L.S.B.A., B11498) nor in the letter book from Felix Schuster from July 1902 to March 1905 (ibid., D3610).

⁶⁸. J.N.D.L., Takahashi Papers, 135, Diary, 14 April 1904.

the firm of Woolston, Beeton, Brodrick & West, suggested to Takahashi that the Japanese government should employ its financial agent in London, in the same way as Colonial governments, and depend upon influential financiers such as Ernest Cassel who was able to arrange Anglo-American loan issues by inviting the Rothschilds, J.S. Morgan and so on.⁷⁰ Ernest Cassel was a string-puller of huge financial operations in the City and an intimate friend of King Edward VII. Cassel seems to have played an important role in the series of Japanese government war loan issues during 1904 and 1905, even though his name never became public. In fact, Takahashi often relied upon Cassel's paramount influence over financiers, as a last resort, when difficulties occurred in the loan issue negotiations.⁷¹ It must be noted that from the early stage of the Japanese government loan issue negotiations, financial experts in the City paid much attention to the possibility of an Anglo-American loan.

Takahashi did not easily make headway in the loan issue negotiations. Not only because of the ominous market conditions for a large new loan issue, but also because of misgivings over Japan's supremacy in the war, the British banks cast doubts upon the success of the proposed loan issue on the market. Since the outbreak of the war (6 February) the prices of the Japanese government bonds on the London Stock Exchange had fallen considerably, while those of the Russian government bonds had remained more stable (Chart 5.1). The Russian government secured firm financial assistance from France. Unlike the French government, the British government did not make its attitude clear towards the Russo-Japanese War. There were serious debates on the neutrality under the Anglo-Japanese Alliance and some bankers even considered that raising money for

⁶⁹(...continued)

⁶⁹. Ibid., 13 April 1904.

⁷⁰. Ibid., 22 April 1904. Beeton was asked to visit Takahashi by Malcolm D. McEacharn, McIlwraith, McEacharn & Co., an Australian merchant, shipowner and commission agent.

⁷¹. T.K.J., vol.2, p.194. For Cassel's business career, see P. Thane, 'Financiers and the British State: The Case of Sir Ernest Cassel' (Business History, vol.xxviii-no.1 [1986], pp.80-99). There was a description of Cassel's transaction with de Zoete & Gorton, a stockbroker, in de Zoete & Gorton: A History (no place and date), pp.48-49.

Japan might violate it.⁷²

Takahashi had to hasten completion of the loan issue. The drain of gold from Japan being so immense since the outbreak of the war, the specie reserves at the Bank of Japan were rapidly diminishing, far more in fact than had been anticipated. They fell from ¥116,962,184 (£11,939,000) in December 1903 to ¥100,931,306 (£10,303,000) in February 1904, to ¥92,127,709 (£9,405,000) in March and to ¥80,821,272 (£8,250,000) in April. In May the reserves reached a bottom of ¥68,087,261 (£6,951,000).⁷³ The Japanese government was afraid of depleting gold stocks reserved for settlement of the trade balances. Takahashi lost no more time in bringing about the loan issue, even though the terms proposed by British financiers in the loan issue negotiations were not fully satisfactory.

So imperative was it to ensure financial resources for the war that on 9 April 1904 Komura informed Hayashi that if it should prove impossible to conclude the loan issue negotiations immediately, the Japanese government gave permission even for making temporary private borrowings and afterwards converting them to public bonds when the market showed a favourable turn.⁷⁴

In spite of Takahashi's proposal of the loan issue to the City financiers, only three banks: Parr's Bank, the Hongkong Bank and the Yokohama Specie Bank, accepted this. The Chartered Bank which had participated in some of the Japanese government loan issues in the past, after long deliberation, refused to undertake the proposed loan.⁷⁵ Because of the unfavourable outcome of the previous loan issue in 1899, it came to hold to a conservative policy towards the Japanese government war loan issue.

Why was Parr's Bank involved in this operation?, for it is true that Shand took the initiative in Takahashi's loan issue negotiations with Parr's Bank. On the basis of the

⁷². T.K.J., vol.2, pp.199-201.

⁷³. Japanese Ministry of Finance, Report on the War Finance (Tokyo, 1906), p.24.

⁷⁴. No.210, Komura to Hayashi, 8 April 1904 (N.G.B., vol.37-2, p.134).

⁷⁵. T.K.J., vol.2, p.194.

established business relationship with the Japanese government, Takahashi persuaded Parr's Bank to become the main loan issuer.⁷⁶ Hayashi described it thus 'he [Takahashi] had approached several financiers on the subject [the loan issue] but all of them declined to take the matter up, except Mr. Dun of the Parr's Bank. He succeeded in forming a group of issuing banks and in floating the loans'.⁷⁷

The Hongkong Bank was looking for a new partner in the Japanese government war loan business after Baring Brothers' withdrawal. At the next stage, Takahashi and Shand mediated between the Hongkong Bank and Parr's Bank, and successfully formed a group of the loan issue banks.⁷⁸

Takahashi considered the three following methods of raising money on the market: (i) an issue of Treasury bills for 1 or 2 years; (ii) an issue of new bonds; (iii) a re-sale of domestic bonds. Given the bad market circumstances, Takahashi at first supposed that either an issue of Treasury bills or a re-sale of domestic bonds would be more feasible. The Japanese government instructed him to attempt an issue of Treasury bills rather than a re-sale of domestic bonds.⁷⁹

However, Japan's victories at the onset of the war brought about favourable changes in the ongoing negotiations. This is clear from the fluctuations of the prices of the Japanese government bonds on the London Stock Exchange, which suddenly began rising in the middle of April 1904 (Chart 5.1). Given these improved circumstances, Takahashi now proposed to issue a new secured loan for £10,000,000, not Treasury bills, and the loan issue banks finally agreed to this for half the proposed amount.⁸⁰ On 27

⁷⁶. Parr's Bank's Board of Directors agreed to present Shand with £1,000 for his services in the Japanese government loan and in maintaining for the Bank the Japanese connections. (P.B.A., B11417, Board Minutes, 23 June 1904).

⁷⁷. F.O.800/134, Hayashi to Lord Lansdowne, 2 November 1905.

⁷⁸. J.N.D.L., Takahashi Papers, 135, Diary, 20 April 1904.

⁷⁹. Ibid., 17 April 1904; no.217, Komura to Hayashi, 18 April 1904 (*N.G.B.*, vol.37-2, p.136); The Japanese Ministry of Finance, *Ōkurashō Hyakunenshi (One Hundredth Anniversary History of the Japanese Ministry of Finance)*, vol.1 (Tokyo, 1969), p.192.

⁸⁰. J.N.D.L., Takahashi Papers, 135, Diary, 24 April 1904.

April 1904 Takahashi informed the Japanese government of the following provisional terms reached with the loan issue banks:⁸¹

Issue amount	£5,000,000 (half of the total amount of £10,000,000)
Interest rate (nominal)	6 percent
Borrowing period	7 years
Security	revenue of the customs duty (nominal)
Issue price	93 percent (to the public)
	88 percent (to the government)
Others	every month one-twelfth of the total yearly payment of the principal and interest should be paid to the representative bank of bond holders in London.

In response to this proposal, the Japanese government directed Takahashi to re-negotiate on the following points: (i) to raise the government proceeds closer to 90 percent from 88 percent; (ii) to remove the clause of the remittance of the principal to London. S. Matsuo, the Governor of the Bank of Japan, urged him to complete the negotiations as soon as possible.⁸² It seemed likely that the Japanese government would accept the terms of the loan issue.

Takahashi raised the proceeds to 90 percent from 88 percent.⁸³ In the final stages, the Japanese government, through Cameron, received confirmation of the British government's favourable views towards this financial operation in London.⁸⁴ In this way, by 3 May 1904 the loan issue negotiations between Takahashi, Parr's Bank, the Hongkong Bank and the Yokohama Specie Bank were closed, leaving the other half of the £5,000,00 issue amount reserved for the future. However, the ongoing loan negotiations with the loan issue banks effected a significant change. Baring Brothers,

⁸¹. Ibid., 27 April 1904; J.M.F.A., Matsukata Papers, 40-42, On the 6 percent Sterling Loan Issue of May 1904.

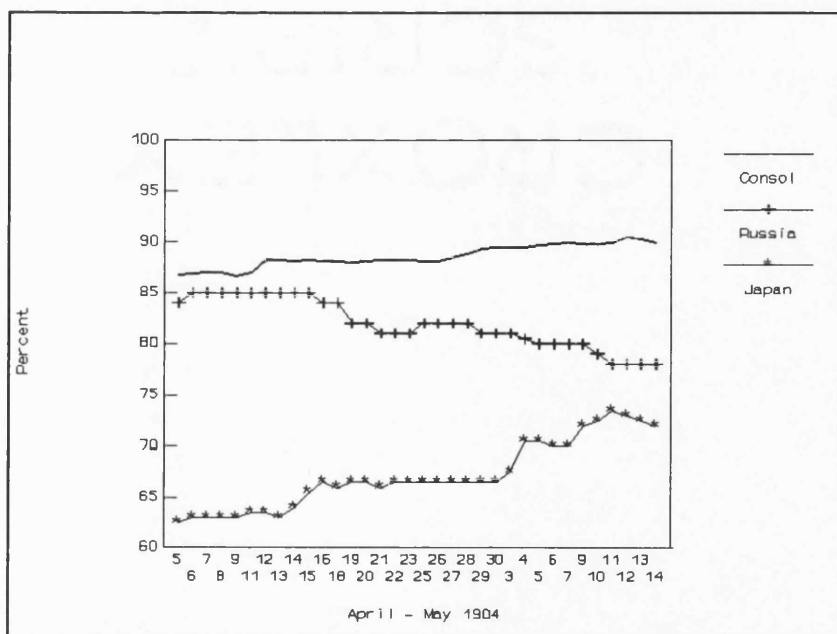
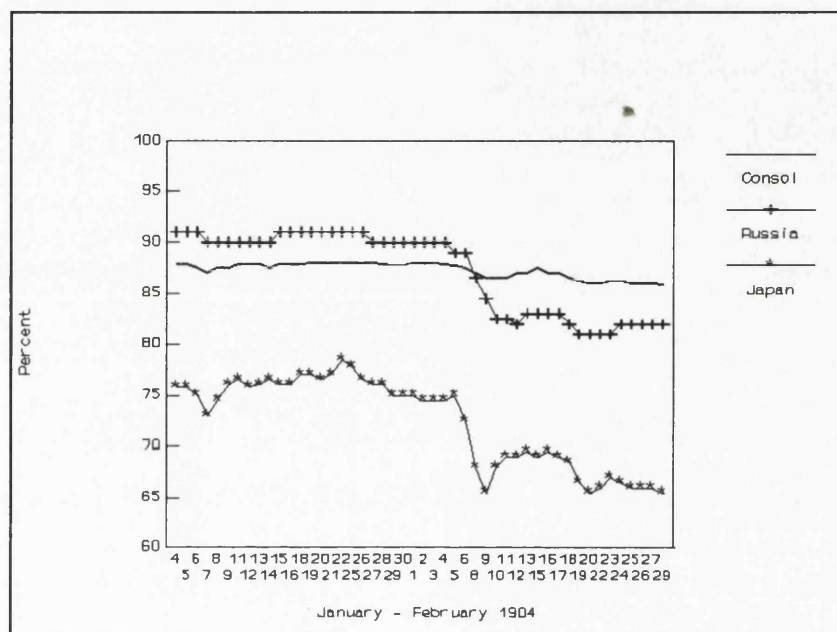
⁸². No.230, S. Matsuo to Takahashi through Komura, 30 April 1904 (N.G.B., vol.37-2, p.136).

⁸³. J.N.D.L., Takahashi Papers, 135, Diary, 2 May 1904; no.147, Hayashi to Komura, 1 May 1904 (N.G.B., vol.37-2, p.137).

⁸⁴. No.149, Hayashi to Komura, 2 May 1904 (ibid., pp.139-40).

probably as the result of Cassel's influence, had almost persuaded J. Schiff, a senior partner of the Kuhn, Loeb & Co. in New York, to become a loan issuer of the other £5,000,000. The 'team activity' nature of merchant banks produced an international linkage of the loan issue markets to the Japanese government loan issue.

Chart 5.1 Prices of British, Russian and Japanese Governments Bonds in London (January, February, April and May 1904)



Notes: Consol 2 1/2 percent;
Russian government 3 1/2 percent bonds of 1894;
Japanese government 4 percent bonds of 1899.

Source: London Stock Exchange Daily Official List.

5.4 Loan Issue in New York

Early in March 1904 Baring Brothers had withdrawn from the loan issue negotiations. At the end of March Lord Revelstoke, in accordance with the progress of Takahashi's negotiations with the loan issue banks, directed G. Farrer, a Director of Baring Brothers and then temporarily in the United States, to make contact again with Stillman on the possibility of floating the Japanese government war loan on the New York capital market.⁸⁵ Stillman, however, was not keen to issue it.⁸⁶

However, as a consequence of Cassel's strong influence in the City, the other half of the Japanese government war loan (£5,000,000) was to be arranged on the New York capital market. Cassel always acted as a co-ordinator behind the scenes among financiers involved in a connection, and it is difficult to know to what extent Cassel was actually concerned in this operation. E. Fukai, Takahashi's secretary in the loan issue negotiations, inferred in his reminiscences that Cassel would persuade Schiff to take part in the Japanese government war loan issue in the United States,⁸⁷ although he [Schiff] had already been approached by Baring Brothers. Following a trip to Egypt in May 1904, it is certain that Cassel and Schiff met in Frankfurt.⁸⁸ Both were Jewish emigrants from Germany. There is no definite evidence but probably they should discuss the possibility of a Japanese government war loan issue in the United States.⁸⁹ It should be noted that the Japanese government war loan issue in the United States was thus promoted by a merchant banker's network connected by filial, ethnic and religious ties.

Schiff had moved to the United States from Frankfurt in 1865 when he was 18 years old, and ten years later threw himself energetically into the affairs and operations

⁸⁵. B.B.A., PF303, Lord Revelstoke to G. Farrer, 31 March 1904.

⁸⁶. Ibid., G. Farrer to Lord Revelstoke, 6 April 1904.

⁸⁷. E. Fukai, Kaiko Shichijūnen (My Retrospect for Seventy Years) (Tokyo, 1941), p.70.

⁸⁸. C. Adler, Jacob H. Schiff: His Life and Letters, vol.2 (New York, 1928), p.337.

⁸⁹. E. Fukai, Jinbutsu to Shisō (Man and Thought) (Tokyo, 1939), p.60.

of Kuhn, Loeb & Co. founded by Abraham Kuhn and Solomon Loeb in 1867.⁹⁰ Schiff had made substantial transactions in American railway investment with Cassel and their relations were so intimate that Cassel always retained his own account at Kuhn, Loeb & Co..⁹¹ It was said that 'he [Schiff] had the advantage of the guidance of that distinguished financier [Cassel]'.⁹² It was the second time that Schiff was involved in Japanese government loan issue business. In 1873, although it had been fruitless, the young Schiff had attempted to raise money for the Japanese government in Frankfurt, as seen in Chapter 3.

No evidence survives showing the negotiations between Schiff and Cassel but perhaps Cassel, who was looking for a loan issuer for the other half of the Japanese government war loan, persuaded Schiff to introduce it on the United States market. This idea of Cassel accidentally coincided with Baring Brothers' business strategy to develop the New York capital market for foreign loan issues. Cassel probably mediated between Lord Revelstoke and Schiff. It is confirmed that Lord Revelstoke met Schiff towards the end of April 1904.⁹³

The negotiations between Lord Revelstoke and Schiff seemed to go well and Lord Revelstoke immediately despatched a telegram to Farrer that '[I have] seen Schiff who is anxious [to] take £5,000,000 loan [as a] part of the £10,000,000 issue here and in America - Schiff [is] very confident'.⁹⁴ It was in that evening that Schiff first met Takahashi in London at a dinner given by Arthur Hill.⁹⁵ Hill, a former partner of Panmure Gordon, Hill & Co. and then a partner of Hill & Sons and also of Speyer

⁹⁰. Adler, *op. cit.*, vol.1, pp.6 and 11. For the foundation of Kuhn Loeb & Co., see [Kuhn, Loeb & Co.], *Investment Banking through Four Generations* (New York, 1955), pp.7-8.

⁹¹. A.J.A.A., Schiff Papers, Box 442, Schiff to Cassel, 13 May 1915.

⁹². Adler, *op. cit.*, vol.1, p.10.

⁹³. Southampton University Library, Sir Ernest Cassel Papers, X17, Lord Revelstoke to Cassel, 28 April 1904. Schiff depicted Lord Revelstoke's negotiations as 'your masterly and straight-forward conduct of affairs' (Adler, *op. cit.*, vol.1, p.230).

⁹⁴. B.B.A., PF303, Lord Revelstoke to Farrer, 3 May 1904.

⁹⁵. J.N.D.L., Takahashi Papers, 135, Diary, 3 May 1904.

Brothers, may have arranged this so as to introduce Schiff to Takahashi.

On 4 May Takahashi informed the Japanese government that Schiff had agreed to undertake the other half amount of the loan in New York and by this, he had successfully completed the war loan issue for £10,000,000. Hayashi strongly advised Komura to accept this offer promptly by pointing out 'not only financial but also political benefits'.⁹⁶ The Japanese government approved this proposal⁹⁷ and declined M. Samuel & Co.'s offer of a loan for £12 or £13 million on the same terms as the loan issue banks'.⁹⁸

The negotiations were nearing the final stage. Now Schiff was fully empowered to conclude the negotiations with the loan issue banks⁹⁹ and Baring Brothers agreed to prepare marketing for the loan issue in New York. Lord Revelstoke offered the business to Stillman and expected him to 'choke off' the probable competition among financiers there.¹⁰⁰ The terms of the loan issue in New York arranged between Lord Revelstoke, Schiff and Cameron were as follows:¹⁰¹

- (i) The London issue banks (Parr's Bank, the Hongkong Bank and the Yokohama Specie Bank) should purchase the Japanese government 6 percent bonds for £10,000,000.
- (ii) The London issue banks should pay a 90 percent price of the bonds with a half-yearly coupon payable 5 October 1904.
- (iii) Kuhn, Loeb & Co. should agree to purchase bonds to the value of £5,000,000 from the London issue banks at 90 percent and pay a 1/2 percent commission to Baring Brothers.
- (iv) The bonds and coupons should be payable in sterling and dollars otherwise at the rate of exchange of U.S.\$4.87 to £1.

⁹⁶. No.153, Hayashi to Komura, 4 May 1904 (*N.G.B.*, vol.37-2, pp.140-141).

⁹⁷. No.240, Komura to Hayashi, 5 May 1904 (*ibid.*, pp.143-44).

⁹⁸. No.249, Governor of the Bank of Japan [Matsuo] to Deputy Governor [Takahashi], 7 May 1904 (*ibid.*, p.144).

⁹⁹. B.B.A., PF303, Schiff to Lord Revelstoke, 4 May 1904.

¹⁰⁰. *Ibid.*, Lord Revelstoke to J. Stillman, 4 May 1904.

¹⁰¹. *Ibid.*, Memorandum of Conversation held at 8 Bishopsgate on 5 May 1904.

- (v) Issue price was to be 93 1/2 percent and an underwriting syndicate was to be formed at a 2 percent commission. The London issue banks and Kuhn Loeb & Co. should place £5,000,000 of the bonds separately for underwriting but the London issue banks should have an interest of £1,000,000 in the bonds underwritten in American.

These terms of the New York issue banks were almost same as the London issue banks', except for paying the 1/2 percent intermediary commission to Baring Brothers. Baring Brothers' position in this agreement was rather ambiguous. Baring Brothers were the intermediary of this loan issue in New York. The loan issue banks, especially Parr's Bank, from the outset to the end, regarded Baring Brothers' role as 'Kuhn, Loeb & Co.'s agent'.¹⁰²

Why was Schiff so ardent to tackle the Japanese government war loan issue in the United States? As an investment banker he seems to have sufficiently assessed the potential of this business.¹⁰³ In addition, Schiff, as the President of the American Jewish Association, had a particular interest in the outcome of the Russo-Japanese War. Takahashi, in his contribution to Schiff's biography, explained what he felt to be Schiff's subconscious intention as 'he [Schiff] felt sure that if defeated, Russia would be led in the path of betterment, whether it be revolution or reformation, and he decided to exercise whatever influence he had for placing the weight of American resources on the side of Japan'.¹⁰⁴ Ill-treatment of Jews in Russia may have influenced Schiff's final decision to embark upon the Japanese government war loan issue.

In this loan issue the London issue banks were somewhat pressed to find a partner for the other half of the amount. It was their established business practice, in the first place, to look to the Continent, especially the Paris capital market. Yet the

¹⁰². F.O.800/134, R.W. Whalley to Takahashi, 1 November 1905.

¹⁰³. Fukai, *Jinbutsu to Shisō*, op. cit., p.60.

¹⁰⁴. Adler, op. cit., vol.1, p.218. Schiff referred to the Russian government privately as "the enemy of mankind" (*Investment Banking Through Four Generation*, op. cit. p.18). *The Economist* paid much attention to this point by saying that 'it is also noted that the Jewish factor in the floating of the loan here [in New York] is pronounced, and the popular inference is that something of sentiment is behind it all, in view of what has been so heartily resented - Russia's treatment of Jews' (21 May 1904, p.872).

Russo-Japanese War frustrated Paris financiers' desire of taking up the Japanese government war loan business. Instead of Paris, Baring Brothers switched their attention to the New York capital market. However, there had been 'a harbinger of change'¹⁰⁵ in 1900 when the Chancellor of the Exchequer (M.H. Beach), on the basis of J.S. Morgan & Co.'s London-New York axis, turned more of his attention to the New York capital market for issuing the Boer War loans.

Baring Brothers' efforts to introduce the Japanese government war loan issue to New York were of great importance in the history of the foreign loan issues in the United States. Cassel was highly appreciative of Baring Brothers' conduct in this loan issue.¹⁰⁶ Up to about the beginning of the century the New York capital market had only worked in an underwriting capacity, in conjunction with London, for large volume Continental securities, and sold bonds especially for German and Swedish governments. The Japanese government war loan issue in New York accelerated the rise of a foreign loan issue market in the United States.¹⁰⁷ Carosso in his general history of American investment banking depicted this as 'one of its [Kuhn, Loeb & Co.'s] largest and most important flotations up to this time [1904]'.¹⁰⁸ All things considered, it is fair to say that this loan issue altered the contemporary structure of the international loan issue markets, over-centralised as they were on Europe, and assisted New York's rise.

Meanwhile, the loan issue in New York held another significance for Britain, in a political sense. The British government did not like to be seen giving direct assistance to Japan and desired to keep strictly a neutral attitude towards the Russo-Japanese War. The Japanese government loan issue in London would surely have presented a crucial problem for the British government even though there had been no official intervention.¹⁰⁹

¹⁰⁵ . K. Burk, Morgan Grenfell 1838-1988 (1989), p.112.

¹⁰⁶ . B.B.A., PF303, Cassel to Lord Revelstoke, 9 May 1904.

¹⁰⁷ . Takahashi anticipated the great rise of the New York capital market in the post world war (A.A.J.A., Schiff Papers, Box 446, Takahashi to Schiff, 11 February 1915).

¹⁰⁸ . V.P. Carosso, Investment Banking in America (Cambridge[Mass.], 1970), p.81.

¹⁰⁹ . Lord Lansdowne wrote on the back of the correspondence that 'we must be very
(continued...)

Such worry was now ended by the American banks' participation. The co-operation of the two markets, Schiff wrote, prepared for the success of the subsequent Japanese government war loan issues during 1904 and 1905.¹¹⁰

5.5 Performance

By 6 May 1904 the loan issue negotiations for £10,000,000, equally split between London and New York were completed. The final terms of the loan issue contract with the loan issue banks were as follows:¹¹¹

Issue amount	£10,000,000
Issue place	London and New York equally
Issue price	93 1/2 percent (to the public) 90 percent (to the government)
Interest rate (nominal)	6 percent
Yield at issue	6.4
Borrowing period	7 years
Security	first charge on the customs revenues
Others	the Japanese government should pay 1/12 of the sum required for the interest every month to the Hongkong Bank and the Yokohama Specie Bank; the principal should be first charge on the secured customs revenues if the principal of the loan is not paid at least 14 days before the due date; Kuhn, Loeb & Co. should pay a 1/2 percent commission to Baring Brothers; the Japanese government should reserve the right to redeem at par, all or any of the bonds, at any time after 1907, on giving 6 months' previous notice.

Yet the Japanese government was not entirely satisfied with these terms. In fact, Y. Sakatani, the Japanese Vice-Minister of Finance, complained of the low issue price and

¹⁰⁹(...continued)

careful to steer clear of any official connection into the loan issue' (F.O.46/581, MacDonald to Lord Lansdowne, 9 May 1904).

¹¹⁰ J. Schiff, 'Japan after the War' in North American Review, vol.183-no.dxcvii (1906), p.162.

¹¹¹ P.B.A., D.6802, Agreement, 7 May 1904.

the high rate of interest.¹¹²

The loan issue in London and New York was to be underwritten fully by the separate syndicates¹¹³ at a 2 percent commission. In London the loan issue banks organised their own syndicates, as indicated in Table 5.4.

The Hongkong Bank itself underwrote £235,000 of the bonds;¹¹⁴ the Chartered Bank participated in the Yokohama Specie Bank's underwriting syndicate for £30,000;¹¹⁵ the London Joint Stock Bank underwrote for £20,000;¹¹⁶ J.S. Morgan & Co. for £50,000.¹¹⁷ Baring Brothers underwrote £202,000 of the bonds for the Hongkong Bank's¹¹⁸ and £300,000 for Kuhn, Loeb & Co.'s underwriting syndicates.¹¹⁹ Baring Brothers employed several sub-underwriters, including Hambros, Frühling & Goschen and Derenberg & Meyer.¹²⁰ The Japanese records emphasised that Cassel¹²¹ and the London Rothschilds took a significant role as large underwriters in this loan issue.¹²² The amounts which the London Rothschilds received from the Yokohama Specie Bank (£539 7s. 9d.), the Hongkong Bank (£219 18s. 3d.) and Parr's Bank (£905 18s. 3d.),¹²³ imply that the scale of their underwriting was approximately £83,350. The underwriting syndicate in

¹¹². F.O.46/578, MacDonald to Lord Lansdowne, 7 June 1904.

¹¹³. The Agreement Clause 5 and 6 (B.B.A., PF303, ff.54-58).

¹¹⁴. H.S.B.A., Board Minutes, 10 May 1904.

¹¹⁵. C.B.A., Extracts from Board Minutes, 11 May 1904. It also decided to apply the subscriptions for £100,000.

¹¹⁶. L.J.S.B.A., Q 12, Board Minutes, 12 May 1904.

¹¹⁷. M.G.A., Ms.21,793, vol.3.

¹¹⁸. B.B.A., PF303, Cameron to Lord Revelstoke, 9 May 1904.

¹¹⁹. Ibid., Kuhn, Loeb & Co. to Baring Brothers, 9 May 1904.

¹²⁰. Ibid., ff.78 and 241.

¹²¹. According to Takahashi, Cassel would take the £50,000 (J.N.D.L., Takahashi Papers, 135, Diary, 7 May 1904).

¹²². The Japanese Ministry of Foreign Affairs, Nichiei Gaikōshi (Anglo-Japanese Diplomatic History), vol.1 (Tokyo, 1937), p.594. It was quite difficult to trace Cassel's behaviour in a loan issue. For instance, The London Rothschilds' correspondence to the Paris Rothschilds concerning the Russian government loan issue of 1909 said 'no one knows exactly how much Sir Ernest Cassel underwrote business in Paris' (R.A.L., XI/130A/3, the London Rothschilds to the Paris Rothschilds, 6 December 1909).

¹²³. R.A.L., VIII/13/191, Cash Book with the Union of London & Smiths Bank.

New York included many of largest banks and insurance companies there. Kuhn, Loeb & Co. completed the underwriting syndicate for U.S.\$25,000,000 (£5,000,000).¹²⁴ It was confirmed that J.P. Morgan & Co. underwrote £100,000 of the bonds for Kuhn, Loeb & Co.'s syndicate.¹²⁵

On 11 May 1904 the prospectuses were issued simultaneously both in London and New York.¹²⁶ Kuhn, Loeb & Co. persuaded the National City Bank and the National Bank of Commerce in New York to take part in this loan issue as the loan issuers.¹²⁷ Enthusiasm for the Japanese government bonds on the London Stock Exchange began and their prices suddenly and steeply rose after the announcement of the new 6 percent war loan issue. Many financial papers made a very favourable assessment and had an optimistic view of placing the loan on the market. The Statist, from the viewpoint of public investors, pointed out the following advantages of this loan issue:¹²⁸ the low rate of the issue price, an excellent security of the loan and the high rate of interest.

The number of the subscribers was enormous: the Financial Times described them as 'expecting to receive no more than 2 percent, of their subscriptions'¹²⁹ and the London & Brazilian Bank reported that '[the] Japanese war loan applications were made for £100,000,000 within a few hours of the publication of the prospectus'.¹³⁰ A clerk at the Hongkong Bank's London Office depicted the rush of the subscriptions as 'when the door was opened the crowd pushed the Bobbies inside and bent many of our railing in their scramble to get application forms. It was necessary to call out all the Rugger players'.¹³¹ In London the total amount of the applications reached £151,975,500, almost 30 times

¹²⁴. Financial Times, 9 May 1904.

¹²⁵. V.P. Carosso, The Morgans (Cambridge[Mass.], 1987), pp.526-27.

¹²⁶. B.B.A., PF303, ff.54-58.

¹²⁷. Schiff was also a director of these two banks at that time (J.N. Ingham, Biographical Dictionary of America Business Leaders [Connecticut, 1983]).

¹²⁸. The Statist, 7 May 1904, p.894.

¹²⁹. Financial Times, 13 May 1904.

¹³⁰. L.B.B.A., G3/7, Head Office to Rio de Janeiro, 12 May 1904.

¹³¹. H.S.B.A., G8. I, Extract from Enclosure to Letter from Hongkong Bank New York Branch dated 1 July 1949.

oversubscribed, and the total number was 30,022.¹³² One of the prominent features of these subscriptions was a large number of small applicants. The scrips were transacted at a 2 1/2 percent premium.¹³³ The London Rothschilds recommended to their Continental clients to purchase the bonds, saying that they were better secured than the Japanese government 4 percent loan of 1899.¹³⁴ Thus the operation in London showed great success. Temporary pressure on the money market, caused by the subscriptions, had been feared, but the money requirements for them brought about only a slightly higher rate of interest than usual.¹³⁵

The subscriptions in New York were also over-subscribed fivefold. The closing price on the kerb market (an unofficial market) amounted to 94 3/4 percent, 1 1/4 percent above the issue price.¹³⁶

The first Japanese government war loan issue in 1904 deserved many investors' especial interest.¹³⁷ The reason was that, compared with other foreign government loans issued on the London capital market in 1904, the yields of the two Japanese government war loans issued in 1904 (6.4 percent and 6.6 percent) were the most advantageous (Table 5.5), and the loan issue was firmly underwritten by many first-class merchant banks, which undoubtedly gave some assurance to public investors.¹³⁸ Owing to the enormous amount of the subscriptions, the applications were cut off in the allotment

¹³². M.T.Z., vol.12, p.75.

¹³³. Financial Times, 16 May 1904.

¹³⁴. R.A.L., XI/148/390, London Rothschilds to Iavasche Bank (Amsterdam), 12 May 1904. *De*

¹³⁵. Financial Times, 13 May 1904.

¹³⁶. The Times, 14 May 1904.

¹³⁷. Secret no.3, M. Arakawa to Komura (Report on the Japanese Government Bond Subscriptions addressed to Minister of Finance, dated 19 May 1904), 19 May 1904 (N.G.B., vol.37-2, p.155).

¹³⁸. 'When subscriptions to a foreign issue are invited by means of a public prospectus, it is almost certain that that issue will be vouched for by one of these issuing houses [merchant banks] whose name will be evident that it has been thoroughly examined and the interests of the investors protected as far as possible' (Committee on Finance and Industry, Report, 1931 [Cmd. 3897], B.P.P. 1930-31, xiii, para 387).

(Table 5.6). For instance, Kleinworts were actually allotted only £1,000 of its £50,000 application.¹³⁹

The scrips (48 1/2 percent paid) were quoted on the London Stock Exchange Daily List on 23 June 1904¹⁴⁰ and on 23 November the bonds were officially quoted.¹⁴¹ In the United States the bonds were also admitted for dealing on the New York Stock Exchange on 10 June 1904¹⁴² and on 1 December the Governing Committee granted the official quotation.¹⁴³

In comparison with the bond re-sale in 1902 (the 5 1/2 percent) and the loan issue in 1899 (the 4 percent), the 6 1/2 percent loan issue commission, partly deriving from the balance of the interest paid in October 1904,¹⁴⁴ was very expensive to the Japanese government (Table 5.7). Undoubtedly the financiers considered the character of this war loan to be parlous.

5.6 Conclusion

The Japanese government, depending upon the merchant banks' widely scattered network of correspondents, successfully accomplished the first foreign war loan issue, even though the loan issue terms themselves were not favourable. Now the New York capital market came to be included in the Japanese government financial operations. The collaboration of the Anglo-American markets would lead the Japanese government to success in further loan flotations on the international capital markets. Without doubt, this newly established loan issue pattern was born of the combination of the loan issue banks which had been

¹³⁹. K.A., Ms.22,105, Stock Account Ledgers.

¹⁴⁰. London Stock Exchange Daily Official List, 23 June 1904.

¹⁴¹. L.S.E.A., Ms.18,000, 96B/530, Application for Listing.

¹⁴². B.B.A., PF303, Kuhn, Loeb & Co. to Baring Brothers, 10 June 1904.

¹⁴³. L.S.E.A., Ms.18,000, 96B/530, New York Stock Exchange to London Stock Exchange, 2 December 1904; B.B.A., PF303, Kuhn, Loeb & Co. to Baring Brothers, 2 February 1905.

¹⁴⁴. P.B.A., D6802, Agreement, 7 May 1904.

formed in the previous Japanese government loan issues. At first, the banks with Far Eastern and Japanese connections, such as the Hongkong Bank, Parr's Bank and the Yokohama Specie Bank, brought loan issues to the London capital market and floated it in conjunction with the merchant banks (Baring Brothers and Cassel) and stockbroker (Panmure Gordon & Co.). The banks with Far Eastern and Japanese connections, however, were not experts in international financial operations and played only a limited role in linking the international capital markets. Subsequently, the merchant banks, although their names did not appear publicly, prepared the expansion of the loan issue markets for the Japanese government loan issue. The merchant banks brought off the Japanese government loan issue in London and New York simultaneously.

Table 5.4 London Issue Banks' Underwriting
(May 1904, London)
(£)

Underwriting syndicate	Underwriting amount	Underwriting commission (2%)	Brokerage commission (1/2%)*
Panmure Gordon	2,500,000	50,000	50,000
Hongkong Bank	1,152,666.66	23,053.33	
Yokohama Specie Bank	646,666.66	12,933.33	
Parr's Bank	1,000,666.66	20,013.33	
Total	5,300,000	106,000	50,000

Notes: £300,000 over-underwritten;
* 1/2 percent of £10,000,000 (total issue amount).
Source: W.B.A., D2469.

Table 5.5 Yields of Foreign Government Loans issued in London during 1904
(percent)

(1) Month	(2) Government	(3) Interest rate (nominal)	(4) Issue price	(5) Yield at issue
February	Ecuador	4	68	5.9
May	Japan	6	93 1/2	6.4
May	Cuba	5	97	5.2
June	Greece	4	84	4.8
July	China	5	97 1/2	5.1
November	Japan	6	90 1/2	6.6
December	Mexico	4	94	4.3

Note: (5) = (3)/(4) × 100.
Source: Table 1.3.

Table 5.6 Allotment of 6 Percent Loan Issue (May 1904, London)
(£)

Application amount			Allotment amount
100	and	200	passed over
300	-	3,000	100
3,000	-	5,000	200
5,000	-	10,000	300
10,000	-	30,000	700

Source: Financial Times, 19 May 1904.

Table 5.7 Commission of 6 Percent Loan Issue
(May 1904, London)
(percent)

Underwriting	2	
Brokerage (placing underwriting)		1/2
Brokerage (application)		1/4
Advertising		1/4
Coupon paying	1	23/48
Issue banks	2	1/48
Total	6	1/2

Notes: Balance of the interest of October 1904 was included in the commission.

Source: W.B.A., D2469.

CHAPTER 6

RUSSO-JAPANESE WAR LOAN ISSUES (2)

Japan's unprecedented financial experience during the Russo-Japanese War (1904-1905) is of great use for a study of foreign loans on the international capital markets. In a very short span of time (19 months), Japan floated a series of five foreign loans in London, New York, Germany and Paris. The large scale of financial operations on the international capital markets, especially the expansion of the loan issue markets, was so remarkable that the Bankers' Magazine paid extraordinary attention to the Japanese Government Special Loan Commissioner, K. Takahashi.¹

The first Japanese government foreign war loan was floated on the London and the New York capital markets in May 1904, as shown previously. In November the second one was made by the same banks. This loan was placed on the practically same terms as the first. The Japanese government, however, reconsidered the excessive reliance on the Anglo-American capital markets. In the third loan issue of March 1905 German banks approached the London issue banks: i.e. Parr's Bank, the Hongkong Bank and the Yokohama Specie Bank, to participate in this loan issue, but the London issue banks refused this. The pattern of the fourth war loan issue in July 1905 did not follow the previous three and the loan issue places came to include Germany. Through Kuhn, Loeb & Co.'s business channel the German banks floated the Japanese government war loan in Germany.

After the Russo-Japanese War, in November 1905 the French government came to agree to the Japanese government loan issue in Paris. The Paris and the London Rothschilds were finally involved in this large financial operation as the main loan issuers. This became a landmark in the history of Japanese government foreign loan issues. Now, with London's profound influence on Japan's borrowing undermined, the

¹. 'Mr. Korekiyo Takahashi', Bankers' Magazine, vol.78 (1904), pp.355-56.

Japanese government held to a new policy of systematically seeking to concentrate loan issues on the international centre offering the most attractive terms.

The expansion of loan issue markets for Japanese government loans becomes a key question here. Hobson noted 'the elasticity of the foreign demand' in a market responding to a rate of interest;² Hall, though very vaguely, pointed out 'the purely market elements' working in the long-term capital movements.³ Borrowing countries, pursuing more favourable loan issue terms, could move from one capital market to another through merchant banks' correspondent networks.⁴ In this chapter the effect of the liaison of the loan issue markets in the Japanese government loans during 1904 and 1905 will be scrutinised. To what extent did this geographical expansion of the loan issue markets help to reduce loan issue commissions in the Japanese government loan issue negotiations?

6.1 6 Percent Loan Issue in November 1904

The Japanese government repeatedly attempted to bring out a new war loan after the first in May 1904. The specie reserves at the Bank of Japan had reached their minimum, £6,808,700, in May and showed a considerable increase from June.⁵ Yet the Japanese government nervously anticipated accelerated military expenditure in accordance with the progress of the war. In order to build up firm specie reserves for the settlement of the trade balances, the Japanese government aimed at further foreign loan issues.

In July 1904 K. Sone, the Japanese Minister of Finance, drew up a plan for raising money for either £10,000,000 or £20,000,000 within 1904.⁶ His initial idea was

². C.K. Hobson, The Export of Capital (1914), p.42.

³. A.R. Hall, 'Introduction' in Hall (ed.), The Export of Capital From Britain, 1890-1914 (1968), p.11.

⁴. D.S. Landes, Bankers and Pashas (Cambridge[Mass.], 1958 [reprinted 1979]), p.16.

⁵. Japanese Ministry of Finance, Report on the War Finance (Tokyo, 1906), p.24.

⁶. M.T.Z., vol.12, p.87.

to re-sell Japanese government 5 percent domestic bonds endorsed to pay the principal and interest in sterling.⁷ Yet Takahashi suggested a new 5 percent loan issue because the 5 percent domestic bonds had not yet been quoted on the New York Stock Exchange.⁸ Finally they agreed on the following terms:⁹

Issue amount	£10,000,000
Rate of interest (nominal)	5 percent
Government proceeds	not less than 90 percent
Borrowing period	within 50 years
Other	unsecured.

The allure of Japanese government bonds on the London Stock Exchange was not sufficiently strong and their quotation prices had temporarily plummeted. Public investors expected a new more advantageous Japanese government loan issue.¹⁰ On 20 September Takahashi reported that under the contemporary market conditions he was forced to accept a 6 percent loan.¹¹

Meanwhile, the Japanese government received many inquiries about a new loan issue from both inside and outside Japan: for instance, in June 1904 S. Samuel & Co. offered to purchase 5 percent domestic bonds for ¥50,000,000 (£5,104,000);¹² in August one American made an offer through J. Soyeda, the Governor of the Industrial Bank, to take 5 percent domestic bonds for the Mutual Alliance Trust Co. (New York);¹³ in September Baring Brothers desired to buy 5 percent domestic bonds through Kirby &

⁷. *Ibid.*, p.88.

⁸. *Ibid.*.

⁹. *Ibid.*.

¹⁰. Secret no.6, M. Arakawa to J. Komura, 16 September 1904 (*N.G.B.*, vol. 37-2, p.175).

¹¹. *M.T.Z.*, vol.12, p.88. He admitted that 'in order to float [a] 5% [loan] some change or turn is necessary' (J.N.D.L., K. Takahashi Papers, 135, Diary, 10 September 1904).

¹². J.N.D.L., Y. Sakatani Papers, 370-4, Y. Sakatani to K. Inoue, 8 September 1904.

¹³. *Ibid.*, 498-2, Diary, 21 June 1904; No.1500, K. Sone to Komura, 20 August 1904 (*N.G.B.*, vol.37-2, p.168).

Co., their agent in Japan.¹⁴ The Japanese government, however, rejected them all.

On 17 September Parr's Bank sounded out Kuhn, Loeb & Co. on a new Japanese government loan issue.¹⁵ The usual loan issue banks, except for Kuhn, Loeb & Co., did not seem to oppose it if the terms were reasonable. E. Cameron, a Hongkong Bank's London Manager, told C.S. Addis, a Sub-manager, that 'we have no objection [to placing the new Japanese government loan], if the Japanese are prepared to take the risk of what may happen during the next few months, but we have to consult with America'.¹⁶

Towards the end of September Takahashi reached a preliminary accord with Parr's Bank on a new 6 percent loan issue.¹⁷ Clearly the 6 percent rate of interest was far from what Takahashi really wanted. On 11 October R.W. Whalley, the General Manager of Parr's Bank, Cameron and Lord Revelstoke, the Head of Baring Brothers, arranged the following provisional terms on the second Japanese government war loan issue:¹⁸

Issue amount	£12,000,000
Kind of loan	Exchequer bonds
Rate of interest (nominal)	6 percent
Government proceeds	90 percent
Borrowing Period	3 or 4 years
Security	the second charge on the customs revenues
Issue price	90 percent.

Kuhn, Loeb & Co. proposed obtaining the railway receipts and tobacco monopoly revenues for the security and increasing the issue amount to a figure large enough to cover probable war requirements.¹⁹ In response to this, Parr's Bank made a second

¹⁴. J.N.D.L., Sakatani Papers, 498-19.

¹⁵. B.B.A., PF304, Parr's Bank to Kuhn, Loeb & Co., 17 September 1904.

¹⁶. S.O.A.S.A., PP MS 14, 354, Addis Papers, E. Cameron to C.S. Addis, 22 August 1904. For Addis's career, see R.A. Dayer, *Finance and Empire* (1988). She made no mention of Addis's activities for the Japanese government loan issues in this period.

¹⁷. *M.T.Z.*, vol.12, p.89. Takahashi's initial contact with Parr's Bank was through A. Shand (B.B.A., PF304, Parr's Bank to Kuhn, Loeb & Co., 17 September 1904).

¹⁸. B.B.A., PF304, Parr's Bank to Kuhn, Loeb & Co., 11 October 1904; J.N.D.L., Takahashi Papers, 135, Diary, 11 October 1904.

¹⁹. B.B.A., PF304, Kuhn, Loeb & Co. to Parr's Bank, received 11 October 1904.

proposal.²⁰ Yet Kuhn, Loeb & Co. had no confidence in placing the insufficiently secured long-term bonds on the market,²¹ since the popularity of the first Japanese government war bonds had temporarily faded in New York and the quotation price was always much lower than in London (see Chart 6.1). The demand for them in New York was limited. This cleavage in the quotation prices between the two markets decisively impeded the smooth conclusion of the second war loan issue negotiations. On 14 October Kuhn, Loeb & Co. made a new proposal of pooling the subscriptions both in London and New York.²² Yet Parr's Bank considered that the London Stock Exchange Committee would not give permission to quote the interim certificates (scrips) issued abroad, and that most of the underwriters and subscribers in London were unwilling to do so.²³

Cassel began to co-ordinate various interests among the loan issue banks behind the scenes.²⁴ By lowering the issue price Kuhn, Loeb & Co. finally agreed to take half the issue amount (£6,000,000) in much the same way as before.²⁵ On 17 October Kuhn, Loeb & Co. and the London issue banks agreed on the following loan issue terms:²⁶

Issue amount	£12,000,000 (split equally between London and New York)
Rate of interest (nominal)	6 percent
Yield at issue	6.6 percent
Issue price	91 percent (to the public) 87 1/2 percent (to the government)
Borrowing period	7 years
Security	remainder of the customs revenues
Loan issue commission	nearly 4 7/10 percent including the half yearly interest.

²⁰. Ibid., Parr's Bank to Kuhn, Loeb & Co., 12 October 1904.

²¹. Ibid., Kuhn, Loeb & Co. to Parr's Bank, 14 October 1904.

²². Ibid..

²³. Ibid., Parr's Bank to Kuhn, Loeb & Co., 14 October 1904. Cameron was afraid that London might be imposed the whole burden of the loan issue (F.O.46/587, F.A. Campbell Memorandum, 15 October 1904).

²⁴. B.B.A., PF304, Kuhn, Loeb & Co. to Lord Revelstoke, 14 October 1904.

²⁵. Ibid., Kuhn, Loeb & Co. to Parr's Bank, 17 and 18 October 1904.

²⁶. Ibid., Parr's Bank to Kuhn, Loeb & Co., 14 and 17 October 1904.

Takahashi immediately reported these to the Japanese government,²⁷ but the government did not readily assent to them because these were very different from what Sone and Takahashi had previously agreed. In particular, the low government proceeds (87 1/2 percent) were unsatisfactory and S. Matsuo, the Governor of the Bank of Japan, ordered Takahashi to raise them.²⁸ On 21 October Matsuo also gave instructions to postpone finalising the present negotiations, unless more favourable terms were offered.²⁹ As things turned out, however, this wait-and-see attitude of the Japanese government proved wrong. The movement in rates of interest was upwards and they rose sharply from November;³⁰ accordingly the quotation prices of the Japanese government bonds began to fall steeply in the New York Stock Exchange. Once it perceived the exacerbated market conditions, the Japanese government authorised Takahashi to conclude the negotiations promptly on the previous terms,³¹ but the loan issue banks had by then withdrawn the offer.

The Japanese government's mistaken appreciation of the contemporary market conditions frustrated Takahashi's procuring the advantageous loan issue terms which the government could have enjoyed. Loan issue terms are always regulated by current market conditions and a definite tender cannot be valid for long.³²

British public opinion showed a considerable change. At the beginning of October, S. Ōkuma's pessimistic speech at the Tokyo Clearing House, in which he stressed the need for further foreign loan issues for the war, caused a considerable decline in the

²⁷. No.61, S. Matsuo to Takahashi, 17 October 1904 (N.G.B., vol.37-2, p.186).

²⁸. No number, Matsuo to Takahashi, 19 October 1904 (ibid.). After the continued victories in Manchuria the public in Japan would not be satisfied with the 87 1/2 percent (J.N.D.L., Takahashi Papers, 135, Diary, 19 October 1904).

²⁹. No number, Matsuo to Takahashi, 21 October 1904 (N.G.B., vol.37-2, pp.187-88); J.N.D.L., Takahashi Papers, 135, Diary, 21 October 1904.

³⁰. S. Nishimura, The Decline of Inland Bills of Exchange in the London Money Market 1855-1913 (Cambridge, 1971), table-30.

³¹. Secretariat secret no. 1965, Sone to Komura, 25 October 1904 (N.G.B., vol.37-2, pp.188-89); J.N.D.L., Takahashi Papers, 135, Diary, 25 and 26 October 1904.

³². B.B.A., PF304, Lord Revelstoke to Whalley, 21 October 1904.

prices of the Japanese government bonds in London and New York.³³ In addition, the Russian Baltic Fleet's brutal attack on British fishing boats in the North Sea raised British war fears.³⁴

On 26 October Kuhn, Loeb & Co. informed the London issue banks that the critical downfall in the prices of the first Japanese government war bonds on the New York Stock Exchange made it impossible at 91 percent for them to place any Japanese government loan for the moment (see Chart 6.1).³⁵ Kuhn, Loeb & Co. wished to reduce the issue price reflecting the market conditions in New York.³⁶ In general, new loan issue prices are determined by the prices of existing bonds on the market.³⁷ The quotation price of the first 6 percent war bonds sank to 91 7/8 in New York, only a 7/8 surplus to the new issue price. Obviously the 91 percent issue price was too high for the New York capital market.

On 3 November Takahashi and the loan issue banks, again, agreed on the second war loan issue for £12,000,000:³⁸

Issue amount	£12,000,000 (split equally between London and New York)
Rate of interest (nominal)	6 percent
Yield at issue	6.6 percent
Issue price	90 1/2 percent (to the public) 86 1/2 percent (to the government)
Borrowing period	7 years
Others	the excess of the issue price above 90 percent, namely 1/2 percent, should be divided between the loan issue banks and the Japanese government;

³³. No.83, Arakawa to Komura, 7 October 1904 (N.G.B., vol.37-2, p.181); Commercial & Financial Chronicle, vol.lxxix, p.2053, 5 November 1904.

³⁴. The Times, 26 October 1904; The Economist, 29 October 1904, p.1725.

³⁵. B.B.A., PF304, Kuhn, Loeb & Co. to Parr's Bank, 28 October 1904.

³⁶. Ibid., 29 October 1904. Takahashi even proposed to cancel Kuhn, Loeb & Co.'s participation (J.N.D.L., Takahashi Papers, 135, Diary, 30 October 1904).

³⁷. J. Riesser, The German Great Banks and their Concentration in Connection with the Economic Development of Germany (Washington, 1911), p.353.

³⁸. B.B.A., PF304, Parr's Bank to Kuhn, Loeb & Co., 2 November 1904; P.B.A., D6802, Agreement, 8 November 1904.

the proceeds raised in New York should be kept there at the disposal of the Japanese government and not be transferred to London; the Japanese government should reserve the right to redeem at par, all or any of the bonds, at any time after 1907, on giving 6 months' previous notice.

Speyer Brothers, an Anglo-American merchant bank, was set up in London in 1861. Speyer Brothers were closely linked with their sister firms: i.e. Speyer & Co. in New York and Lazard Speyer-Ellissen in Frankfurt-on-Main. Speyer Brothers, with a correspondent network covering the United States, the Continent and London, would be most effective in placing a loan simultaneously in major financial centres.³⁹

Speyer Brothers had maintained close connections with the Hongkong Bank through Panmure Gordon & Co.. In the middle of October Speyer Brothers suddenly asked the Hongkong Bank to introduce them to the Japanese government war loan business.⁴⁰ Speyer Brothers, until that time, had had no direct relations with Japan,⁴¹ but were perhaps attracted by the success of the first war loan issue. It was likely that they would become Kuhn, Loeb & Co.'s most formidable competitor in New York. Kuhn, Loeb & Co. could organise a loan issue on the New York capital market alone, but Speyer Brothers were capable of arranging a loan issue internationally through their sister firms.⁴²

³⁹. For Speyer Brothers' history, T.C. Barker & M. Robbins, A History of London Transport, vol.ii (1974), pp.70-71 and 372 (note 44); A.M. Mandeville, The House of Speyer (1915).

⁴⁰. B.B.A., PF304, Lord Revelstoke to Kuhn, Loeb & Co., 17 October 1904. Before then, E. Speyer, A. Hills and H. Oppenheimer, partners of Speyer Brothers, had proposed Takahashi to issue a new loan with the security of railway revenues (J.N.D.L., Takahashi Papers, 135, Diary, 21 September 1904).

⁴¹. In 1900, through Panmure Gordon, Hill & Co., Speyer Brothers intended to purchase Japanese government domestic bonds for the United States markets (T.K.J., vol.2, pp.143-44).

⁴². Similarly Burk placed much emphasis on the advantageous position of J.S. Morgan & Co. as an Anglo-American house in loan issues (K. Burk, Morgan Grenfell 1838-1988 [1989], p.123).

Merchant bankers' business conduct was no longer strictly competitive and co-operation was often preferred.⁴³ Lord Revelstoke advised Kuhn, Loeb & Co. to make a political offer to Speyer Brothers, that is to say, Speyer Brothers would undertake a certain amount of the loan issue on the same terms as the London issue banks.⁴⁴ Yet Kuhn, Loeb & Co. was strongly opposed to this.⁴⁵ Speyer Brothers could bring about the loan issue more favourably than Kuhn, Loeb & Co., for Kuhn, Loeb & Co. had to pay a 1/2 percent intermediary commission to Baring Brothers. Kuhn, Loeb & Co. only agreed to offer Speyer Brothers £500,000 of the bonds at a 1 percent commission in New York and London respectively,⁴⁶ but Speyer Brothers refused this.⁴⁷

The underwriting syndicates were organised on a 2 percent commission (Table 6.1 and Table 6.2).⁴⁸ Parr's Bank participated on its own for £150,000.⁴⁹ Baring Brothers joined the Parr's Bank's for £200,000 and the Hongkong Bank's for £50,000.⁵⁰ The Chartered Bank underwrote the bonds for £30,000;⁵¹ the London Joint Stock Bank for £50,000;⁵² J.S. Morgan & Co. for £40,000;⁵³ the Hongkong Bank for £220,000.⁵⁴ The loan issue banks authorised the Swiss Bankverein to receive the subscriptions in Switzerland.⁵⁵ In New York, Kuhn, Loeb & Co. did not form an underwriting syndicate and the loan issue banks (loan issue syndicate) underwrote the whole amount. Baring

⁴³. S. Chapman, *The Rise of Merchant Banking* (1984), p.158. On this point Landes mentioned that 'it was easier to absorb rivals [in the syndicate] than to fight them' (Landes, *op. cit.*, p.30).

⁴⁴. B.B.A., PF304, Lord Revelstoke to Kuhn, Loeb & Co., 18 October 1904.

⁴⁵. Ibid., Kuhn, Loeb & Co. to Lord Revelstoke, 18 October 1904.

⁴⁶. Ibid., Kuhn, Loeb & Co. to Speyer Brothers, 10 November 1904.

⁴⁷. Ibid., Speyer Brothers to Kuhn, Loeb & Co., 11 November 1904. But Speyer Brothers joined the underwriting in London for £500,000.

⁴⁸. Ibid., f.130.

⁴⁹. P.B.A., B11417, Board Minutes, 10 November 1904.

⁵⁰. B.B.A., PF304, f.130.

⁵¹. C.B.A., Extracts from Board Minutes, 9 November 1904.

⁵². L.J.S.B.A., Q 12, Board Minutes, 10 November 1904.

⁵³. M.G.A., Ms.21,793, vol.3.

⁵⁴. H.S.B.A., Board Minutes, 15 November 1904.

⁵⁵. B.B.A., Parr's Bank to Kuhn, Loeb & Co., 11 November 1904.

Brothers also participated in the underwriting in New York for £300,000.⁵⁶

On 14 November the prospectuses were published and the public subscriptions implemented. All the subscriptions were oversubscribed. In London the total number of applicants amounted to 29,938 and the total sum £80,533,800, 13 2/5 times oversubscribed;⁵⁷ in New York the oversubscription was 1 1/2 times;⁵⁸ in Hamburg there were subscriptions for £101,000.⁵⁹ These bonds were quoted on the official list of the London Stock Exchange on 31 May 1905 and of the New York Stock Exchange on 15 June 1905.⁶⁰

The London Joint Stock Bank's allotment was £25,000.⁶¹ The Imperial Bank of Persia was allotted £25,000 of the bonds in November 1904 and in March 1905 sold it at 101 5/8 percent.⁶² The commission earned from this loan issue was remunerative to the loan issue banks: Parr's Bank obtained £50,900⁶³ and the Hongkong Bank £38,000.⁶⁴

Takahashi and the loan issue banks had much difficulty in fixing the issue prices, which resulted mainly from the different quotation prices of the first war bonds in London and New York. In addition, the rise in interest rates also frustrated the smooth loan issue. However, the terms of the loan issue still seemed too expensive to the Japanese government and incurred much criticism in Japan: the 6 percent interest rate was too high and the 90 1/2 issue price was less than the first by 2 percent. Perhaps most Japanese expected that the second war loan issue would have obtained a more favourable assessment from foreign investors on the basis of the victories against Russia in

⁵⁶. Ibid., Kuhn, Loeb & Co. to Baring Brothers, 5 November 1904.

⁵⁷. M.T.Z., vol.12, p.109.

⁵⁸. B.B.A., PF304, Kuhn, Loeb & Co., to Parr's Bank, 22 November 1904. M.T.Z. mentioned fourfold oversubscribed (vol.12, p.109).

⁵⁹. H.S.B.A., LOHI/57, Hamburg Branch to London Office, 15 November 1904.

⁶⁰. L.S.E.A., Ms.18,000, 98B/257, Quotation Application.

⁶¹. L.J.S.B.A., Q12, Board Minutes, 24 November 1904.

⁶². I.B.P.A., W2/1, Investment Ledger.

⁶³. W.B.A., D2469.

⁶⁴. H.S.B.A., Board Minutes, 29 November 1904.

Manchuria.⁶⁵ The Japanese government reconsidered its current policy of counting so heavily upon the Anglo-American capital markets alone for war finance. It attempted to approach other notable American financiers, for instance the Morgan group, which was often in opposition to Kuhn, Loeb & Co. in railway investment business.⁶⁶ Furthermore, Sone ordered the Japanese Minister in Paris to investigate the likelihood of a Japanese government war loan issue there.⁶⁷ The Japanese government was looking around for more favourable loan issue facilities.

Table 6.1 Commission of 6 Percent Loan Issue (November 1904, London)
(percent)

Underwriting	2	
Brokerage (placing underwriting)		1/2
Brokerage (application)		1/4
Advertising		1/4
Coupon	1	107/240
Loan issue banks	2	73/240
Total	6	3/4

Source: W.B.A., D2469.

Table 6.2 London Issue Banks' Underwriting (November 1904, London)
(£)

Underwriting syndicate	Underwriting amount	Underwriting commission (2 %)	Brokerage commission (1/2 %)*
Panmure Gordon	2,100,000	52,000	30,000
Speyer Brothers	500,000	-	-
Hongkong Bank	1,367,000	27,340	-
Yokohama Specie Bank	666,000	13,320	-
Parr's Bank	1,367,000	27,340	-
Total	6,000,000	120,000	30,000

Note: * 1/2 percent of the issue amount in London (£6,000,000).

Source: W.B.A., D2469.

⁶⁵. F.O.46/579, C.M. MacDonald to Lord Lansdowne, 21 November 1904.

⁶⁶. J. Komura to T. Uchida, 10 December 1904 (N.G.B., vol.37-2, p.198).

⁶⁷. Secretariat secret 1983, Sone to I. Motono, 28 October 1904 (ibid., pp.189-90).

Table 6.3 Allotment of Bonds (November 1904, London)
(£)

Hongkong Bank	1,638,600
Yokohama Specie Bank	1,540,800
Parr's Bank	2,820,600
<hr/>	
Total	6,000,000

Source: H.S.B.A., LOHI/57.

6.2 4 1/2 Percent Loan Issue in March 1905

The Japanese government had not obtained really advantageous foreign loan issues so far. In order to ensure more favourable loan issue terms for the third war loan issue, it intended to extend a loan issue to the markets on the Continent, but I. Motono, the Japanese Minister in Paris, reported that it would be absolutely impossible to place any Japanese government war loan on the Paris capital market during the Russo-Japanese War.⁶⁸ France had built up close relations with Russia under the Franco-Russian Entente of 1894. The diplomatic situation in France thus frustrated Japan's financial operations there.

Germany's political posture towards the Russo-Japanese War was a contrast to France's. Initially Germany had maintained strict neutrality in the war but in January 1905 Russia floated a loan for DM325,000,000 (£15,979,166) under the auspices of the leading Berlin banks such as Mendelssohn, the Disconto-Gesellschaft, S. Bleichröder and the Berliner Handels-Gesellschaft.⁶⁹ In this situation, Bernhard Bülow, Reichskanzeler (Chancellor) asserted that Japan was equally free to borrow money on the German capital

⁶⁸. Secret no.1, Motono to Komura, 5 January 1905 (*ibid.*, vol.38-2, pp.46-48).

⁶⁹. H. Lemke, Finanztransaktionen und Außenpolitik (Berlin, 1985), p.14; V.N. Kokovtsov ([ed.] by H.H. Fisher and [translated] by L. Matveev), Out of My Past (Stanford University [California], 1935), chapter iv.

markets.⁷⁰ K. Inoue, the Japanese Minister in Berlin, reported that it would be feasible to bring about a Japanese government war loan issue in Germany because Baron Freiherr O. von Richthofen, the German Minister of Foreign Affairs, would allow it.⁷¹

In November 1904 the Japanese government drew up the second war budget of ¥700,000,000 (£71,458,333)⁷² (Table 6.4). A Japanese Cabinet Meeting in January 1905 decided, for the moment, to issue a new foreign loan for ¥200,000,000 (£20,416,666).⁷³ On 10 February 1905 Sone ordered Takahashi to arrange a new foreign loan, one at less than 6 percent, for £20,000,000.⁷⁴ Japan needed further foreign loans because it had to import much of its military equipment.

From early in 1905 the market conditions in London improved remarkably for new loan issues; money was extremely plentiful and on 9 March Bank Rate was brought down to 2 1/2 percent. The Japanese government 6 percent high interest rate war bonds then began attracting much investor attention not only in London and New York but also on the Continent, and this growing demand resulted in their price soaring. Due to these favourable market conditions, the loan issue banks became optimistic about flotation of the third war loan and considered a 5 percent loan on the security of either the tobacco monopolies or railway revenues.⁷⁵ Takahashi's proposal was a 5 percent loan for either £20,000,000 or £30,000,000 on the security of the tobacco monopolies at 90 to 92 1/2 percent. He was keen to invite German banks to participate in this loan issue.⁷⁶

On 20 March Takahashi started the negotiations with the loan issue banks involving Baring Brothers. They submitted the following two alternative plans:⁷⁷

⁷⁰. The Times, 18 March 1905.

⁷¹. No.86, K. Inoue to Komura, 3 March 1905 (N.G.B., vol.38-2, pp. 55-56).

⁷². M.T.Z., vol.1, pp. 228-29.

⁷³. T.K.J., vol.2, p.223.

⁷⁴. Secret no.4, Komura to Hayashi, 16 February 1905 (N.G.B., vol.38-2, pp.50-52).

⁷⁵. B.B.A., PF305, Kuhn, Loeb & Co. to Lord Revelstoke, 3 February; Lord Revelstoke to Kuhn, Loeb & Co., 15 February 1905.

⁷⁶. Ibid., Kuhn, Loeb & Co. to Lord Revelstoke, 9 March 1905.

⁷⁷. Ibid., Baring Brothers to Kuhn, Loeb & Co., 20 March 1905.

Issue amount	£30,000,000 (£15,000,000 in London and New York respectively)	30,000,000
Rate of interest (nominal)	5 percent	4 1/2 percent
Issue price (to the government)	96 percent	90 percent
(to the public)	92 1/2 percent	85 1/2 percent
Yield at issue	5.2 percent	5.0 percent
Borrowing period	25 years	25 years
Security	Tobacco monopolies	Tobacco monopolies.

Both included the following term of the redemption: the Japanese government should reserve the right to redeem at par, all or any of the bonds, at any time after 1910, on giving 6 months' previous notice.

Takahashi opted for the second proposal. The Japanese government wanted to raise the issue price by 1 or 2 percent and to reduce the loan issue commission which it still considered too high. The negotiations were concluded immediately: the government proceeds were raised from 85 1/2 to 86 3/4 percent; the borrowing period was fixed at 20 years.⁷⁸ As early as 24 March Takahashi made a contract with the loan issue banks.⁷⁹ According to *The Statist*, these loan issue terms were 'very much better than last time'.⁸⁰ In addition to the favourable market conditions, the vying tender from the German banks and Speyer Brothers may perhaps have made the loan issue negotiations go smoothly.

The loan issue banks again encountered Speyer Brothers' keen competition. Speyer Brothers approached the Japanese government directly in Tokyo. Early in March 1905 their agent in Japan, Faber & Voigt,⁸¹ proposed a 5 percent loan issue on the security of the railways.⁸² By mid-March Speyer Brothers asked the loan issue banks whether they could take part in the forthcoming loan business as a co-issuer.⁸³ Except for Germany's

⁷⁸. Ibid., Parr's Bank to Kuhn, Loeb & Co., 20 March 1905; P.B.A., B11417, Board Minutes, 23 and 30 March 1905.

⁷⁹. *G.K.S.*, vol.1, pp.137-41.

⁸⁰. *The Statist*, 25 March 1905, p.521.

⁸¹. This was a respectable firm in Yokohama (K.A., Ms.22,025, Information Book).

⁸². B.B.A., PF305, Kuhn, Loeb & Co. to Lord Revelstoke, 9 March 1905; P.A.A.A., Abteilung I A, Japan 3, Finanzen, Bd.5, A.4095 dated 10 March 1905.

⁸³. B.B.A., PF305, Baring Brothers to Kuhn, Loeb & Co., 20 March 1905.

participation, Takahashi and the loan issue banks had already agreed to conduct the loan issue through the usual business channels: i.e. Parr's Bank, the Hongkong Bank, the Yokohama Specie Bank and Kuhn, Loeb & Co..⁸⁴ The loan issue banks refused to authorise Speyer Brothers as a loan issuer and their final decision was that Speyer Brothers should only be allowed to be an underwriter.⁸⁵ Speyer Brothers did not accept this.⁸⁶

The loan issue banks, in fact, paid more attention by far to an offer from two other groups of German banks. Without doubt the Japanese government aimed to spread out the loan issue markets to the Continent. Schiff, who understood that the German government would no longer be opposed to a Japanese government loan issue there, suggested to Takahashi that a Japanese government war loan issue could be made in Germany through Warburg in Hamburg. Schiff maintained close relations with Warburg - more than the usual business correspondence.⁸⁷ At that time the Japanese government foreign loan issue became a delicate matter in Germany, because some of the eminent Berlin banks had substantial interests in the Russian government loan business, as shown previously. Schiff considered it expedient to ask Warburg in Hamburg, in conjunction with the Hongkong Bank's Hamburg agent M. Brüssel, to float the Japanese government loan in Germany.⁸⁸

In addition to Warburg, the German bank group headed by the Deutsch-Asiatische Bank attempted to place the Japanese government war loan on the Berlin capital market.⁸⁹ They, with the consent of the German government, made a firm proposal to undertake

⁸⁴. Ibid., Kuhn, Loeb & Co. to Lord Revelstoke, 9 March 1905.

⁸⁵. Ibid., Lord Revelstoke to Kuhn, Loeb & Co., 23 March 1905.

⁸⁶. Ibid., Kuhn, Loeb & Co. to Parr's Bank, 28 March 1905.

⁸⁷. They had filial relations (E. Rosenbaum & A.J. Sherman, M.M. Warburg & Co., 1798-1938 [1979], p.94).

⁸⁸. B.B.A., PF305, Kuhn, Loeb & Co. to Lord Revelstoke, 10 March 1905. 'We shall act jointly with the Hongkong Shanghai Bank branch as agents of the issuing houses in Hamburg' (P.B.A., D6804, Max Warburg to Parr's Bank, 25 March 1905).

⁸⁹. B.B.A., PF305, Lord Lansdowne to Lord Revelstoke, 15 March 1905.

£10,000,000 worth of the bonds out of the total amount (£30,000,000). This group included the leading German credit banks, such as the Deutsche Bank and the Dresdner Bank.⁹⁰ The Hongkong Bank and the Deutsch-Asiatische Bank had maintained close relations since the Chinese government war indemnity loan issues in 1896 and 1898.

The Japanese government considered allocating £10,000,000 or even £15,000,000 worth of the bonds to the Deutsch-Asiatische Bank group, but the London issue banks strenuously opposed it on the same terms as theirs.⁹¹ The London issue banks, pioneers of the Japanese government war loan business, did not see the necessity of inviting an additional partner and had full confidence in being able to place the present loan issue on the Anglo-American markets alone. The loan issue banks only authorised the Deutsch-Asiatische Bank group as underwriters and agents for the public subscriptions in Germany.⁹² The Deutsch-Asiatische Bank group, however, refusing to play such a secondary role,⁹³ withdrew from the business.⁹⁴

In consequence, the loan issue banks organised the public subscriptions in Germany through Warburg alone. Warburg, confirming that the attitude of the German Foreign Office was favourable, participated in the business as an agent for the public subscriptions in Hamburg.⁹⁵ The names of the Continental agents for this loan issue were

⁹⁰. Ibid., Baring Brothers to Kuhn Loeb & Co., 21 March 1905; F.O.46/602, the Hongkong Bank to F.A. Campbell, 27 March 1905. For the relations between the Hongkong Bank and the Deutsch-Asiatische Bank, see M. Müller-Jabusch, Fünfundzwanzig Jahre Deutsch-Asiatische Bank, 1890-1939 (Berlin, 1940), pp.206-8.

⁹¹. P.A.A.A., Abteilung I A, Japan 3, Finanzen, Bd., 5, A.4893, the Deutsche Bank to G.L. Klehmet, 23 March 1905; A.4816, 22 March 1905.

⁹². B.B.A., PF305, Lord Revelstoke to Kuhn, Loeb & Co., 21 March 1905; no.99, Komura to Hayashi, 25 March 1905 (N.G.B., vol.38-2, p.59); P.A.A.A., Abteilung I A, Japan 3, Finanzen, Bd. 5, A.4816, dated 22 March 1905. Takahashi's tentative plan was an offer for £100,000 to Speyer Brothers and for £300,000 to the Deutsch-Asiatische Bank group at a 2 3/4 percent commission (T.K.J., vol.2, p.234).

⁹³. B.B.A., PF305, Parr's Bank to Kuhn, Loeb & Co., 23 March 1905; The Economist, 23 March 1905, p.486.

⁹⁴. The Standard, 22 March 1905.

⁹⁵. M.M. Warburg, Aus Meinen Aufzeichnungen (New York, 1952), p.19; Rosenbaum & Sherman, M.M. Warburg & Co., op. cit., p.101. Warburg also underwrote £1,000,000 of the bonds at a 1 1/2 percent commission.

as follows:⁹⁶

M.M. Warburg & Co.
Amsterdamsche Bank
Swiss Bankverein
Caisse General
Banque d'Outremer
Anglo-Österreichische Bank

Hamburg
Amsterdam
Switzerland
Brussels
Brussels
Vienna.

Although the loan issue banks' network thus covered most of the Continent except for France, it was still difficult for the Japanese government to effect a loan issue on the Continent with an independent loan issuer, not a subsidiary of the London issue banks.

The subscriptions started from 29 March 1905.⁹⁷ The loan was oversubscribed elevenfold in London and sevenfold in New York.⁹⁸ The total amount of applications in Hamburg reached £4,121,500.⁹⁹ As shown in Table 6.5, the loan issue commission was significantly reduced this time. The loan issue banks, which now felt safe about Japan's borrowing for the war, agreed to lower them to 5 1/2 percent. In addition, competition with Speyer Brothers and the German banks in the loan issue negotiations also helped to bring about this reduction. The Continental subsidiary loan issue banks took the underwriting for £2,210,000. Panmure Gordon & Co. underwrote a large amount of the loan, £8,690,000 (Table 6.6). Baring Brothers participated in the underwriting syndicate organised by Parr's Bank for £500,000.¹⁰⁰ Parr's Bank itself underwrote £200,000 of the bonds. Baring Brothers and Cassel participated in the underwriting in New York for £500,000 respectively.¹⁰¹ The London Joint Stock Bank underwrote £50,000 of the bonds;¹⁰² J.S. Morgan & Co. £75,000;¹⁰³ the Hongkong Bank £400,000¹⁰⁴ and the Imperial

⁹⁶. B.B.A., PF305, Parr's Bank to Kuhn, Loeb & Co., 27 March 1905.

⁹⁷. S.O.A.S.A., PP MS 14/23, Addis Diary, 23 March 1905.

⁹⁸. M.T.Z., vol.12, p.133.

⁹⁹. B.B.A., PF305, Warburg to Lord Revelstoke, 30 March 1905.

¹⁰⁰. Ibid., f.109.

¹⁰¹. Ibid., Kuhn, Loeb & Co. to Baring Brothers, 24 March 1905.

¹⁰². L.J.S.B.A., Q 12, Board Minutes, 30 March 1905.

¹⁰³. M.G.A., Ms.21,793, vol.3.

¹⁰⁴. H.S.B.A., Board Minutes, 28 March 1905.

Bank of Persia £25,000.¹⁰⁵ As for the subscriptions the Chartered Bank applied for £250,000 of the bonds.¹⁰⁶ The London Joint Stock Bank received an allotment for £30,000 against an application for £100,000;¹⁰⁷ the Imperial Bank of Persia for £5,000.¹⁰⁸ It is worth noting that the National Provident Institution purchased £32,000 of the bonds.¹⁰⁹ This investment, made by an insurance company, meant that the Japanese government war bonds were now recognised as a respectable investment venture among conservative financial institutions in the City.

In the third war loan issue negotiations, the loan issue banks were confronted with keen competition from the German banks which had not occurred previously. Japan, since its first foreign loan issue in 1870, had depended mainly upon the London capital market for raising the funds, and London, therefore, had become established as the main market. But this time, the Japanese government approached the German market to float the loan as the eagerness of the Continental markets for Russian government loans had diminished.¹¹⁰

¹⁰⁵. I.B.P.A., W2/1, Investment Ledger.

¹⁰⁶. C.B.A., Extract from Board Minutes, 29 March 1905.

¹⁰⁷. L.J.S.B.A., Q12, Board Minutes, 6 April 1905.

¹⁰⁸. I.B.P.A., W2/1, Investment Ledger.

¹⁰⁹. National Provident Institution Archives, Ms.20,274, Investment Ledger, vol.1.

¹¹⁰. B.B.A., PF305, Kuhn, Loeb & Co. to Baring Brothers, 30 March 1905.

Table 6.4 Japanese Government's Sources of Military Expenditure
Budget for the Russo-Japanese War
 (¥ million; ¥1=2s. 1/2d.)

	Budget	Public loans and borrowings	Transfer from Special Account	Others
Imperial Ordinance No.291 (1903)	156	131	25	-
First War Budget (1904)	380	280	30	70
Second War Budget (1905)	700	571	8	121
Outlay out of Budget in 1905	60	60	-	-
Third War Budget (1906)	450	450	-	-
Total (percent)	1,746 (100)	1,492 (85)	63 (4)	191 (11)

Source: M.T.Z., vol.1, pp.228-29.

Table 6.5 Commission of 4 1/2 Percent Loan Issue
(March 1905, London)
 (percent)

Underwriting	2	
Brokerage (placing underwriting)		1/2
Brokerage (application)		1/4
Advertising		1/4
Coupon paying		29/30
Loan issue banks	1	8/15
Total	5	1/2

Source: W.B.A., D2469.

Table 6.6 London Issue Banks' Underwriting (March 1905, London)
(£)

Underwriter	Underwriting amount	Underwriting commission (2%)	Brokerage commission (1/2%)*
Panmure Gordon	8,690,000	173,800	69,475
Hongkong Bank	1,600,000	32,000	
Yokohama Specie Bank	900,000	18,000	
Parr's Bank	1,600,000	32,000	
Continent			5,525
Warburg	1,000,000	20,000	
Swiss Bankverein	500,000	10,000	
Amsterdamsche	500,000	10,000	
Banque d' Outremer	100,000	2,000	
Caisse Générale	110,000	2,200	
Total	15,000,000	300,000	75,000

Note: * 1/2 percent of the issue amount in London (£15,000,000).
Source: W.B.A., D2469.

6.3 4 1/2 Percent Loan Issue in July 1905

The Battle of Tsushima on 27 May 1905 paved the way for peace-making between Russia and Japan. Early in June Theodore Roosevelt, the President of the United States, played a leading part in the diplomatic negotiations for peace.¹¹¹ On 8 July 1905 J. Komura, the Japanese Minister of Foreign Affairs, left for the peace negotiations at Portsmouth [New Hampshire].

The outlook for peace seemed good in June 190⁵~~6~~ when Takahashi started negotiations on the fourth war loan issue. In order to meet deficits from the military expenditure budget in the financial year of 1905, the Japanese government decided to

¹¹¹. I.H. Nish, The Anglo-Japanese Alliance (1985), pp.293-97; Japanese Ministry of Foreign Affairs, Komura Gaikōshi (History of the Diplomat Komura Jutarō) (Tokyo, 1966), pp.459-620.

raise ¥300,000,000 (£30,625,000) by a further foreign loan.¹¹² The Japanese government, always fearing the exhaustion of specie reserves abroad for the settlement of trade deficits, was keen to seek funds for the continuation of the war, reasoning also that, in the event of peace being concluded, these funds could be used for the military expenditure on the evacuations from Manchuria and for the redemption of domestic war bonds.

It was at this time that M. R. Morriss, the representative of Speyer Brothers, proposed to the Japanese Ministry of Finance the purchasing of Japanese government 5 percent domestic bonds for between ¥200,000,000 (£20,416,666) and ¥300,000,000 (£30,625,000).¹¹³ The Japanese government immediately sounded out Takahashi on the possibility of his arranging a new loan for between ¥150,000,000 (£15,312,500) and ¥300,000,000 (£30,625,000) with the usual loan issue banks. The Japanese government was confident that should not the loan issue banks agree on the proposed loan issue, it would accept an offer from Speyer Brothers.¹¹⁴

It was barely two and a half months since the third war loan had been floated. Schiff reluctantly agreed to this prompt action.¹¹⁵ Considering the current enthusiasm for Japanese government bonds, he advised Takahashi to raise the loan issue as soon as possible.¹¹⁶ Lord Revelstoke and Cassel unwillingly acceded to this proposal.¹¹⁷ According to A. Levita, a partner of Panmure Gordon & Co. and known as 'Willy Koch's right-hand man', the London issue banks were of the firm opinion that the intended loan for £30,000,000 might possibly be feasible, provided that 'the Mediterranean horizon [the diplomatic tension in Morocco between France and Germany] clears'.¹¹⁸

¹¹². T.K.J., vol.2, pp.244-45.

¹¹³. S.I.D., vol.5, pp.79-82.

¹¹⁴. T.K.J., vol.2, pp.245-46.

¹¹⁵. Ibid., pp.247-48.

¹¹⁶. B.B.A., PF305, Kuhn, Loeb & Co. to Parr's Bank, 19 June 1905.

¹¹⁷. Ibid., Lord Revelstoke to Kuhn, Loeb & Co., 19 June 1905; T. Davidson to Lord Revelstoke, 20 June 1905.

¹¹⁸. Ibid., Parr's Bank to Takahashi, 19 June 1905. On the other hand, A.M.
(continued...)

Takahashi's initial idea was for a £30,000,000 loan to be placed equally in London, New York and Germany. This constrained the loan issue banks to include some eminent German banks in the operation.¹¹⁹ Fearing that Japan would overload the Anglo-American markets, Schiff strongly recommended that Takahashi should approach the Deutsch-Asiatische Bank through Warburg.¹²⁰ From a diplomatic viewpoint, the Japanese government welcomed German banks' full participation in the war loan issue.¹²¹

However, W.M. Koch, a partner of Panmure Gordon & Co. and a key figure of the previous Japanese government war loan issues, was unwilling to authorise any German banks as a loan issuer. It seems likely that he had an intention of placing a Japanese government loan on the Paris capital market after the war. He believed that Germany's participation would discourage his ambitious plan.¹²² The London issue banks were also averse to Germany's new participation.¹²³ They were afraid of a reduction in their loan issue commission by sharing a loan issue with German banks. However, the London issue banks finally admitted Germany's participation on the same terms as Kuhn, Loeb & Co.'s.¹²⁴

Warburg introduced the Deutsch-Asiatische Bank to this business through Max von Schinckel, a Geschäftsinhaber (owner) of the Norddeutsche Bank and the Disconto-Gesellschaft.¹²⁵ He was also a Geschäftsinhaber (owner) of the Deutsch-Asiatische Bank. The Deutsch-Asiatische Bank was set up in 1889 to boost German overseas banking in the Far East. The Bank had a composite character: most of

¹¹⁸(...continued)

Townsend, a Hongkong Bank London Manager, with his much surprise, informed the British Foreign Office of Japan's intention (F.O.46/602, Campbell Memorandum, 27 June 1905).

¹¹⁹ B.B.A., PF305, Takahashi to Parr's Bank, received 21 June 1905.

¹²⁰ Ibid., Kuhn, Loeb & Co. to Lord Revelstoke, 21 June 1905.

¹²¹ Secret no.11, Inoue to Komura, 31 March 1905 (N.G.B., vol.38-2, pp.64-69).

¹²² T.K.J., vol.2, p.250.

¹²³ B.B.A., PF305, Parr's Bank to Takahashi, no date.

¹²⁴ Ibid., Parr's Bank to Takahashi, 23 June 1905.

¹²⁵ Ibid., Warburg to Lord Revelstoke, 27 June 1905; P.A.A.A., Abteilung I A, Japan 3, Finanzen, Bd., 6, A.11080 (26 June 1905), A.11128 (27 June 1905).

its stock being held by the major private and credit banks in Germany which constituted the Bank's board of directors.¹²⁶ Warburg and the Deutsch-Asiatische Bank, in combination, formed a syndicate for the flotation of the fourth Japanese government war loan in Germany. About half of the founders of the Deutsch-Asiatische Bank became involved in this operation (Table 6.7).

The other group, Mendelssohn, the Disconto-Gesellschaft, S. Bleichröder and the Berliner Handels-Gesellschaft, which had taken part in bringing out the Russian government loan in January 1905, declined to participate in the Japanese government loan issue.¹²⁷ In 1906 A. Schoeller, a Geschäftsinhaber (owner) of the Disconto-Gesellschaft apologised to Takahashi for his conduct of 1905, saying that at that time he had had to be mindful of the financial relations with the Russian government.¹²⁸ Warburg became an independent issuer in Hamburg.¹²⁹ By 4 July 1905 the German loan issue banks and Warburg provisionally agreed with the London issue banks on the placement of the loan for £10,000,000 in Germany.¹³⁰

This loan issue, however, caused debate among German industrialists as to what extent the money raised there would be used for purchasing German manufactured goods. They were afraid that the Japanese government would promptly transfer the loan proceeds to London and purchase British military goods.¹³¹ In 1905 the total amount of the securities issued in Germany amounted to DM3,091 million (about £152 million),¹³² so the two Japanese government war loans of 1905 (July and November) issued in Germany for DM270,962,500 (£13,250,000) amounted to 8.8 percent of that total.

¹²⁶ M. Müller-Jabusch, *op. cit.*, pp.31-32; Riesser, *op. cit.*, pp.455-56.

¹²⁷ *The Economist*, 8 July 1905, p.1124.

¹²⁸ J.M.F.A., Mizumachi Papers, 5-8, no.12, K. Takahashi to K. Saionji & Y. Sakatani, 25 December 1906.

¹²⁹ M. Müller-Jabusch, *op. cit.*, pp.208-9.

¹³⁰ B.B.A., PF305, Baring Brothers to Kuhn, Loeb & Co., 4 July 1905.

¹³¹ *The Economist*, 15 July 1905, p.1162.

¹³² A. Spiethoff, *Die wirtschaftlichen Wechsellen*, vol.ii (Tübingen, 1955), Tafel 3. The rate of exchange was fixed £1 at DM20.45 (*M.T.Z.*, vol.12, p.163).

On 3 July Takahashi started the fourth war loan issue negotiations with the London issue banks. On 4 July they agreed on the following terms.¹³³

Issue amount	£30,000,000 (£10,000,000 in London, New York and Germany respectively)
Rate of interest (nominal)	4 1/2 percent
Issue price	90 percent to the public 86 3/4 percent to the government
Yield at issue	5.0 percent
Borrowing period	20 years
Security	receipt of the second charge on the tobacco monopolies
Redemption	the Japanese government should reserve the right to redeem at par, all or any of the bonds, at any time after 1910, on giving 6 months' previous notice.

These were practically identical to those of the third loan issue.

Baring Brothers joined the underwriting syndicate in London for £250,000 and formed the sub-underwriting syndicate for £189,000, including 26 members such as Cunliffe Brothers, Wallance Brothers, Frühling & Goschen and so on. Baring Brothers also participated in the underwriting syndicate in New York for £335,000.¹³⁴ Parr's Bank underwrote £200,000 of the bonds;¹³⁵ the London Joint Stock Bank £40,000;¹³⁶ J.S. Morgan £50,000;¹³⁷ the Hongkong Bank £300,000.¹³⁸ Table 6.8 and Table 6.9 show the commission and underwriting in London.

The prospectuses were issued on 11 July and the public subscriptions started in London, the United States and Germany simultaneously. In addition to the original loan issuers: i.e. Kuhn, Loeb & Co., the National City Bank and the National Bank of Commerce, the following various financial institutions received public subscriptions in

¹³³. G.K.S., vol.1, pp.171-75.

¹³⁴. B.B.A., PF305, f.138, Underwriting Statement.

¹³⁵. P.B.A. B11418, Board Minutes, 13 July 1905.

¹³⁶. L.J.S.B.A., Q12, Board Minutes, 13 July 1905.

¹³⁷. M.G.A., Ms.21,793, vol.3.

¹³⁸. H.S.B.A., Board Minutes, 4 July 1905.

the United States:¹³⁹

Old Colony Trust Co.	Boston
Kidder, Peabody and Co.	Boston
Lee, Higginson & Co.	Boston
Fidelity Trust Co.	Philadelphia
Girard Trust Co.	Philadelphia
Sailer and Stevenson	Philadelphia
Illinois Trust and Savings Bank	Chicago
Merchants Loan and Trust Co.	Chicago
Francis Brothers & Co.	St. Louis
A.G. Edwards & Sons	St. Louis
Wells Fargo Nevada National Bank of San Francisco	San Francisco
Anglo-Californian Bank	San Francisco.

The assessment of this loan issue was favourable everywhere: in London The Statist mentioned an optimistic view of the operation;¹⁴⁰ in the United States Kidder Peabody & Co. was confident of immense success;¹⁴¹ in Berlin it was understood that the Germans could absorb the loan issue at whatever price they paid.¹⁴²

The first simultaneous loan issue in the three major countries was successfully implemented. The loan was heavily oversubscribed by 10 times in London, 4 1/2 times in the United States and 10 times in Germany.¹⁴³ Japanese government bonds had now become very popular especially in London, so much so that many shrewd premium hunters deceived the loan issue banks by applying several times over for small amounts.¹⁴⁴ The London Joint Stock Bank received an allotment for £30,000;¹⁴⁵ the Imperial Bank of Persia for £2,000;¹⁴⁶ Kleinworts for £14,900.¹⁴⁷ Parr's Bank's profit, earned from this

¹³⁹. The New York Prospectus in G.K.S., vol.1, pp.185-88.

¹⁴⁰. The Statist, 8 July 1905, pp.58-59.

¹⁴¹. B.B.A., PF305, Kidder Peabody & Co. to Baring Brothers, 10 July 1905.

¹⁴². The Economist, 8 July 1905, p.1124.

¹⁴³. M.T.Z., vol. 12, pp.174-75; The Economist, 22 July 1905, p.1199; B.B.A., PF305, Kuhn Loeb & Co. to Baring Brothers, 11 July 1905 and Warburg to Baring Brothers, 12 July 1905.

¹⁴⁴. The Statist, 15 July 1905, p.105.

¹⁴⁵. L.J.S.B.A., Q12, Board Minutes, 20 July 1905.

¹⁴⁶. I.B.P.A., W2/1, Investment Ledger.

¹⁴⁷. K.A., Ms.22,105, Stocks Account Ledgers.

operation, amounted to £75,537.¹⁴⁸

Germany's participation gave a considerable jolt to the established pattern of the Japanese government loan issues depending upon the Anglo-American markets, although London still retained a more or less leading role in the Japanese government loan issue negotiations. From a strictly economic point of view, this new policy of expanding the loan issue markets benefited the Japanese government, which was now able to obtain more favourable loan issue terms on the international capital markets.

Table 6.7 Amounts of 4 1/2 Percent Loan Issue (July 1905, Germany)
(£000)

Bank	Amount
Bank für Handel und Industrie	972
Bayerische Hypotheken und Wechsel Bank	342
Born und Busse	342
Delbrück, Leo & Co.	563
Deutsch-Asiatische Bank	972
Deutsche Bank	1,458
Dresdner Bank	972
National Bank für Deutschland	729
Norddeutsche Bank	850
Sal Oppenheim Jr. & Co.	342
A. Schaaffhausenscher Bankverein	729
Jacob S.H. Stern	729
M.M. Warburg & Co.	1,000
Total	10,000

Note: £1 = DM20.45.

Source : P.B.A., D6804, Agreement, 7 July 1905.

¹⁴⁸. W.B.A., D2469.

Table 6.8 Commission of 4 1/2 Percent Loan Issue (July 1905, London)
(percent)

Underwriting	2	
Brokerage (placing underwriting)		1/2
Brokerage (application)		1/4
Advertising		1/4
Coupon		233/240
Loan issue banks	1	127/240
<hr/>		
Total	5	1/2

Source: W.B.A., D2469.

Table 6.9 London Issue Banks' Underwriting (July 1905, London)
(£)

Underwriting syndicate	Underwriting amount	Underwriting commission (2 percent)	Brokerage commission (1/2 percent)*
<hr/>			
Panmure Gordon & Co.	6,000,000		
Switzerland	25,000		
Continent	125,000		
<hr/>			
Sub-total	6,150,000	123,000	50,000
<hr/>			
Hongkong Bank	1,375,000	27,500	
Yokohama Specie Bank	845,000	16,900	
Parr's Bank	1,630,000	32,600	
<hr/>			
Total	10,000,000	200,000	50,000

Note: * 1/2 percent of the issue amount in London (£10,000,000).
Source: W.B.A., D2469.

Table 6.10 Outstanding Amount of Japanese Government's Borrowings, 1901-1913

	(1)	(2)	(3)	(4)	(5)	(6)	
	[Long-term borrowings]		[Short-term borrowings]				
Year	Domestic	Foreign	Sub-total	Treasury bills	Borrowing	Total	Total/ General account revenue (%)
1901	405 (100)	97 (100)	502 (100)	10	56	568	207.2
1902	433 (107)	97 (100)	530 (106)	10	44	584	196.6
1903	441 (109)	97 (100)	538 (107)	-	78	616	237.2
1904	661 (163)	312 (322)	973 (194)	35	70	1,078	329.4
1905	900 (222)	970 (1000)	1,870 (373)	99	144	2,113	394.9
1906	1,050 (259)	1,146 (1181)	2,196 (437)	96	35	2,327	438.7
1907	1,089 (269)	1,166 (1202)	2,255 (449)	22	28	2,305	268.9
1908	1,063 (262)	1,166 (1202)	2,229 (444)	37	28	2,294	288.4
1909	1,417 (350)	1,166 (1202)	2,583 (515)	19	49	2,651	391.3
1910	1,203 (297)	1,447 (1492)	2,650 (528)	10	120	2,780	413.2
1911	1,146 (283)	1,437 (1481)	2,583 (515)	50	108	2,741	417.3
1912	1,116 (276)	1,457 (1502)	2,573 (513)	35	142	2,750	400.2
1913	1,055 (260)	1,529 (1576)	2,584 (515)	-	102	2,686	372.1

Notes: ¥ million (¥1=2s. 1/2d.);
End of the Financial Year;
(3)=(1)+(2); (6)=(3)+(4)+(5).

Source: M.H.S.K.T., p.158.

6.4 4 Percent Loan Issue in November 1905

On 5 September 1905 Komura and S. Witte, the representative of the Russian government, signed the Russo-Japanese Peace Treaty at Portsmouth.¹⁴⁹ This Treaty was not entirely satisfactory to the Japanese who expected considerable indemnity money from Russia as had been the case with the Sino-Japanese War.

The Japanese government was left with enormous national debts mainly from the huge military expenditure during the war. In 1905 the total government long-term debts outstanding amounted to ¥1,870,386,000 (£190,935,257), ¥899,976,000 [£91,872,550] in domestic and ¥970,410,000 [£99,062,687] abroad (also see Table 6.10); the foreign debts outstanding amount rose as high as 9.9 times the figure in 1901 and the ratio of the borrowing to the total government general account revenue remained at over 394 percent in 1905.

In September 1905 the Japanese government sounded out Takahashi on the possibility of a new 4 percent conversion loan issue in Britain, the United States, Germany and France simultaneously, for redeeming the first and the second 6 percent foreign war loans for £22,000,000 and the fifth 6 percent domestic Exchequer bills for ¥100,000,000 (£10,208,333). The Japanese government instructed him to produce an unsecured 4 percent loan issue for between ¥300,000,000 (£30,625,000) and ¥400,000,000 (£40,833,333) at more than 90 percent.¹⁵⁰

Since 1903 the Japanese government had desired to float a loan on the Paris capital market.¹⁵¹ In 1904 M. Arakawa, Japanese Consul in London, pointed out that probable competition between British and French financiers would restrict the London

¹⁴⁹. G.P. Gooch & H. Temperley (eds.), British Documents on the Origins of the War 1898-1914, vol.iv (1929), pp.107-11.

¹⁵⁰. J.N.D.L., Inoue Papers, 686-8, Takahashi to T. Katsura and Sone, 21 September 1905. According to Takahashi's autobiography, the amount of the domestic bonds was ¥200,000,000 (T.K.J., vol. 2, p.281).

¹⁵¹. J.M.F.A.A., 3-4-4-25, Secret no.5, I. Motono to Komura, 24 March 1903.

issue banks' initiative in loan issue negotiations and allow Japan to obtain more favourable loan issues. He suggested inviting the Paris Rothschilds to a Japanese government loan issue.¹⁵² I. Motono, the Japanese Minister in Paris, was, on the other hand, pessimistic in this regard, learning that the Paris Rothschilds had declared that during the Russo-Japanese War no Japanese government loan issues in France would have been feasible. But he was confident that this attitude would change after the war.¹⁵³

Meanwhile, Takahashi himself intended to establish a channel to the Paris capital market through Koch. Koch, through his kinship, introduced Takahashi to M. de Verneuil, Syndic des Agents de Change (Paris Stock Exchange), and M. Rouvier, the French Minister of Finance.¹⁵⁴ On 28 March 1905 Takahashi had an interview with Verneuil and he gave Takahashi a message from Rouvier to the effect that he [Rouvier] wished to build up much closer economic relations with Japan after the Russo-Japanese War.¹⁵⁵ This action of Rouvier's obviously meant that the French government no longer objected to a Japanese government loan issue on the Paris capital market once the peace negotiations between Japan and Russia were concluded.

In July 1905 Takahashi contacted the French government,¹⁵⁶ since without governmental authorisation it was impossible to make any foreign loan issues there. On 16 September Takahashi and Koch discussed the new Japanese government loan issue with Verneuil and Jacques de Günzburg, the Head of Günzburg et Cie and of the Société Générale de Crédit Industriel et Commercial. Takahashi made the following tentative proposals for the loan issue:¹⁵⁷

¹⁵². Secret no.6, Arakawa to Komura, 16 September 1904 (N.G.B., vol. 37-2, p.176).

¹⁵³. Secret no.1, Motono to Komura, 5 January 1905 (ibid., vol.38-2, pp.46-48).

¹⁵⁴. T.K.J., vol.2, pp.272-73.

¹⁵⁵. J.N.D.L., Inoue Papers, 686-8, Takahashi to Katsura & Sone, 21 September 1905.

¹⁵⁶. No.74, Takahashi to Sone, 15 July 1905 (N.G.B., vol. 38-2, p.89).

¹⁵⁷. T.K.J., vol.2, pp.285-87.

Issue amount	£50,000,000 (£24,200,000 in Britain and the United States for redemption of the first and second foreign war loans of 1904; £25,800,000 in Germany and France for redemption of the fourth and fifth domestic war Exchequer bills)
Rate of interest (nominal)	4 percent
Government proceeds	more than 90 percent.

Verneuil and Günzburg agreed on most points saying, however, that it remained difficult for the French government to authorise the new Japanese government loan issue before the Russian government loan issue which had been pending since March 1905. Although Takahashi and Koch confirmed Rouvier's approval for placing the Japanese government loan on the Paris capital market, French diplomatic relations with Russia greatly influenced the progress of the Japanese government loan issue in Paris.¹⁵⁸

In addition to the channel through Koch, Takahashi, through the London Rothschilds, approached the Paris Rothschilds. During the Russo-Japanese War the London Rothschilds had never become involved in the Japanese government war loan business except as underwriters. It was a long-established policy for them to avoid war lendings.¹⁵⁹ Following the Russo-Japanese War Takahashi asked the London Rothschilds to introduce him to the Paris Rothschilds for a new loan issue in Paris.¹⁶⁰ The Rothschilds were in a paramount position to form an international loan issue consortium on the basis of their strong family ties covering most of the main European cities: Frankfurt-on-Main, Vienna, Paris, Naples and London.¹⁶¹

A series of correspondence between the London and the Paris Rothschilds

¹⁵⁸. No.183, Motono to Katsura, 20 September 1905 (N.G.B., vol.38-2, p.94); R.A.L., XI/101/68, the Paris Rothschilds to the London Rothschilds, 20 September 1905.

¹⁵⁹. J.N.D.L., Inoue Papers, 686-9, Takahashi to Inoue, 27 September 1905. F. Stern, Gold and Iron: Bismarck, Bleichröder, and the Building of the German Empire (1977 [reprinted 1987]), p.73.

¹⁶⁰. T.K.J., vol.2, pp.288-89.

¹⁶¹. Burk, Morgan Grenfell, op. cit., p.31.

unequivocally indicates their involvement in the Japanese government loan issue. In the middle of September 1905 the London Rothschilds informed the Paris Rothschilds of the Japanese government's intention to place a new loan in Paris. The Paris Rothschilds of course showed 'un grand intérêt (a great interest)' but also pointed out difficulties in this business: firstly, political discord between France and Germany might prevent a simultaneous loan issue in France and Germany; secondly, the imminent Russian government loan issue in France would profoundly influence the progress of the Japanese government loan issue, since the French were much more familiar with Russia; thirdly, it was indispensable to obtain the French government's authorisation for a new loan issue in Paris.¹⁶² The Paris Rothschilds also emphasised that they were not able to undertake any Japanese government loan in Paris without the London Rothschilds' participation in the London issue.¹⁶³ The London Rothschilds eventually agreed to be included in the new Japanese government loan in London as one of the loan issue banks.¹⁶⁴

However, the London issue banks were unanimously opposed to the new Japanese government loan issue. They felt that Japan had already borrowed a huge amount, and saw no reason to borrow further even after the war. At this stage Takahashi found no way of completing the loan issue negotiations with them.

Notwithstanding Takahashi's successful approach to the Paris capital market, it is clear that the Japanese government could launch no operation before the Russian government loan issue. The Japanese government loan issue in Paris depended entirely upon the progress of the Russian government loan issue negotiations.¹⁶⁵ Furthermore, until the end of September, nothing had been decided on the German banks' participation in

¹⁶². R.A.L., XI/101/68, the Paris Rothschilds to the London Rothschilds, 13 September 1905.

¹⁶³. Ibid., 15 September 1905.

¹⁶⁴. B.B.A., PF305, Whalley to Kuhn, Loeb & Co., 25 October 1905; J.N.D.L., Inoue Papers, 686-9, op. cit.

¹⁶⁵. R.A.L., XI/101/69, the Paris Rothschilds to the London Rothschilds, 3 October 1905.

this loan issue.¹⁶⁶ Takahashi's tentative plan for the loan issue in London, New York, Germany and Paris was as follows:¹⁶⁷

Total issue amount	£50,000,000
Present issue amount	£25,000,000 (the other half of the amount was to be carried out in the future)
	Paris £12,500,000
	London £ 6,250,000
	New York £ 3,125,000
	Germany £ 3,125,000
Rate of interest (nominal)	4 percent
Government proceeds	90 percent
Borrowing period	either between 10 and 20 years or between 10 and 25 years.

However, the London issue banks agreed to issue the new loan and Takahashi started the negotiations. Interest in Japanese government bonds was still high everywhere and the loan issue banks wanted as large a share of the new loan as possible. The major problem in the loan issue negotiations was how to distribute the issue amount to the members equitably. Lord Revelstoke, in fact, feared that the inclusion of the Paris capital market would lead 'either to a diminution in the amount available for London, New York and Germany, or possibly to the transfer of the German interest to Paris'.¹⁶⁸ The London issue banks were of the firm opinion that Kuhn, Loeb & Co.'s and Germany's shares should be reduced.¹⁶⁹ Kuhn, Loeb & Co. was, for its part, dissatisfied with such an inequitable allocation.¹⁷⁰ Warburg would have great difficulty in persuading the German loan issue banks unless the share of the German banks' participation were equivalent to that of New York issue banks'.

On 14 November Kuhn, Loeb & Co. asked the London issue banks to postpone

¹⁶⁶. *The Economist*, 30 September 1905, p.1552.

¹⁶⁷. B.B.A., PF305, Memorandum between Whalley and Baring Brothers, 1 November 1905; Whalley to Kuhn, Loeb & Co., 25 October 1905.

¹⁶⁸. Ibid., Lord Revelstoke to J. Schiff, 29 September 1905.

¹⁶⁹. Ibid., Baring Brothers to Kuhn, Loeb & Co., 3 November 1905.

¹⁷⁰. Ibid., Kuhn, Loeb & Co. to Parr's Bank, 4 November 1905.

the loan issue for the time because it wanted to negotiate its share of the new loan issue,¹⁷¹ although the Japanese government wished for an immediate conclusion.¹⁷² Yet the London issue banks were about to launch the immediate loan issue in London, Germany and Paris alone, excluding New York.¹⁷³ They informed Kuhn, Loeb & Co. that they were unable to increase the share to Kuhn, Loeb & Co., and finally it acquiesced.¹⁷⁴ However, as the demand for the Japanese government bonds in the United States was limited and their quotation prices on the New York Stock Exchange were lower than in London, the Japanese government war bonds often flowed out from the United States to Britain.¹⁷⁵ The fact that the bonds, even issued in New York, were sterling ones accelerated their outflow to Britain.¹⁷⁶ It was revealed in 1907 that most of the first 6 percent war bonds, issued in London and New York, were in British investors' hands (Table 6.11).

These negotiations revealed that an international loan issue consortium was vulnerable to the entangled interests of the members involved and the different market circumstances. Once the Paris capital market was opened to Japanese government loan issues, the position of the New York capital market became relatively insignificant. Available funds for foreign investment in the New York of that time was nowhere near the level of London and Paris. Paris had retained the second place in the world's financial markets. It was certain that the Japanese government could raise much cheaper money there than in New York. Now the London issue banks, as well as the Japanese government, turned more of their attention to the Paris capital market.

The Russian government loan issue negotiations made no progress. In the middle of October, the Russian government called a meeting in St Petersburg on the pending

¹⁷¹. Ibid., Kuhn, Loeb & Co. to Baring Brothers, 14 November 1905.

¹⁷². Ibid., Parr's Bank to Kuhn, Loeb & Co., 15 November 1905.

¹⁷³. Ibid., Baring Brothers to Kuhn, Loeb & Co., 14 November 1905.

¹⁷⁴. Ibid., Baring Brothers to Kuhn, Loeb & Co., 20 November 1905.

¹⁷⁵. Ibid., Whalley to Kuhn, Loeb & Co., 11 November 1905.

¹⁷⁶. All the Japanese government loans issued during 1904 and 1904 were sterling loans. Their interest and principal were paid at the fixed rates of exchange.

new loan issue. It was found that the international consortium banks could not readily agree to the Russian government's proposal.¹⁷⁷ As a result of this disagreement, the new Russian government loan was eventually to be issued in the following year.¹⁷⁸ The diplomatic hinderance towards the Japanese government loan issue in Paris was removed.

Hearing rumours of the postponement of the Russian government loan issue, early in November the Japanese government ordered Motono to discuss with Rouvier an immediate issue of the Japanese government loan on the Paris capital market.¹⁷⁹ The French government agreed to issue the Japanese government loan before the Russian one¹⁸⁰ and the Russian government had no objection to this.¹⁸¹

In the final stage Takahashi had an interview with the Paris Rothschilds on the loan issue in Paris.¹⁸² On 15 November Takahashi and Koch called at 'Rue Laffitte'.¹⁸³ Meyer Alphonse de Rothschild had died in May 1905¹⁸⁴ and the whole burden of the Paris Rothschilds' direction fell upon James de Rothschild, a nephew of Meyer Alphonse de Rothschild, because Edouard de Rothschild, the Head of the Paris Rothschilds, was ill.¹⁸⁵ In these negotiations Takahashi and the Paris Rothschilds agreed on the following outline of the loan issue:¹⁸⁶

¹⁷⁷. No.347, M. Boutiron to Rouvier, 23 October 1905; no.361, *ibid.*, 27 October 1905 (*D.D.F.*, 2^e série, vol.viii, p.105 and pp.122-23).

¹⁷⁸. No.14, Rouvier to Boutiron, 12 January 1906 (*ibid.*, p.517).

¹⁷⁹. *T.K.J.*, vol.2, pp.294-95; no.228, Katsura to Motono, 4 November 1905 (*N.G.B.*, vol.38-2, pp. 94-95).

¹⁸⁰. No.203, Motono to Katsura, 13 November 1905 (*ibid.*, p.95).

¹⁸¹. A.M.A.E., N.S.53, M.A. Nelidoff to President, 17 November 1905.

¹⁸². R.A.L., XI/101/69, the Paris Rothschilds to the London Rothschilds, 9 November 1905.

¹⁸³. R.A.L., XI/176/47, the London Rothschilds to the Paris Rothschilds, 13 November 1905.

¹⁸⁴. Obituary of Baron Alphonse de Rothschild (*The Economist*, 3 June 1905, p.918).

¹⁸⁵. B.B.A., PF305, Extract from Lord Revelstoke's Letter to E. Noetzelin, 15 November 1905.

¹⁸⁶. R.A.L., XI/101/69, the Paris Rothschilds to the London Rothschilds, 16 November 1905; *T.K.J.*, vol.2, p.295.

Issue amount	half an amount of the total issue
Sale price (to the Paris Rothschild)	89 1/2 percent to the Paris Rothschilds
Rate of exchange	£1 to Fr25-25
Date of the issue	within November 1905.

Subsequently, the Paris Rothschilds came to terms with the banks engaged in the Russian government loan business¹⁸⁷ and had a conference to co-ordinate a smooth placement of the Japanese government loan on the market.¹⁸⁸ Verneuil had approached the Crédit Lyonnais and obtained its assurance to collaborate with the Paris Rothschilds in the forthcoming Japanese government loan issue, although the Crédit Lyonnais had declined to become the chief issuer in Paris because of its close relations with Russia.¹⁸⁹ As shown in Table 6.15, the two large banques de dépôts (the Crédit Lyonnais and the Comptoir National d'Escompte), which had been leading members of the pending Russian government loan issue syndicate, decided to participate in the Japanese government loan issue with the Paris Rothschilds.¹⁹⁰ Once the French government removed the restriction on a Japanese government loan business, many Paris financiers began to take it up openly, deeming it most advantageous.¹⁹¹

According to Addis, from 15 November the Hongkong Bank, with 'usual worry', started underwriting for this loan issue.¹⁹² The London issue banks accepted most of the agreement which Takahashi and the Paris Rothschilds had reached,¹⁹³ and authorised the Paris Rothschilds as the principal issuer in Paris. On 24 November the London issue banks, Kuhn, Loeb & Co. and Warburg agreed to undertake the loan issue.¹⁹⁴ The

¹⁸⁷. R.A.L. XI/101/69, the Paris Rothschilds to the London Rothschilds, 2 November 1905.

¹⁸⁸. B.B.A., PF305, Extract from Noetzelin's letter, 14 November 1905.

¹⁸⁹. J.N.D.L., Inoue Papers, 686-9, op. cit.; A.M.F., F30-³⁷⁶, Ministère des Finances to Verneuil, 1 October 1905; R.A.L., XI/101/69, the Paris Rothschilds to the London Rothschilds, 6 October 1905.

¹⁹⁰. Ibid., the Paris Rothschilds to the London Rothschilds, 25 November 1905.

¹⁹¹. Takahashi clearly understood this point (Inoue Papers, 686-8, op. cit.).

¹⁹². S.O.A.S.A., PP MS 14/23, Addis Diary, 15 November 1905.

¹⁹³. B.B.A., PF305, Parr's Bank to Kuhn Loeb & Co., 15 November 1905.

¹⁹⁴. T.K.J., vol.2, pp.296-97; Kuhn, Loeb & Co. told Baring Brothers that 'the result (continued...)

following contract between the Japanese government, Parr's Bank, the Hongkong Bank, the Yokohama Specie Bank, the London Rothschilds and the Paris Rothschilds was made:¹⁹⁵

Issue amount	£50,000,000 present issue amount should be £25,000,000 (other £25,000,000 to be reserved for a future issue for the redemption of the 6 percent foreign loans of 1904) £12,000,000 in Paris £6,500,000 in London £3,250,000 in New York ¹⁹⁶ £3,250,000 in Germany
Issue purpose	redemption for the 6 percent domestic war Exchequer bills
Rate of interest (nominal)	4 percent
Issue price	90 percent to the public 88 percent to the government
Yield at issue	4.4 percent
Borrowing period	25 years
Security	nil
Redemption	the Japanese government should reserve the right to redeem at par, all or any of the bonds, at any time after 1921, on giving 6 months' previous notice.

The market organisation of this loan issue was very intricate: first, the London issue banks and the Paris Rothschilds should purchase the bonds for £13,000,000 and £12,000,000 respectively from the Japanese government; of the £13,000,000 of the London issue banks, the £3,250,000 respectively should be sold to Kuhn, Loeb & Co. and the German loan issue banks; Kuhn, Loeb & Co. should pay a 1/2 percent commission to Baring Brothers, and the German loan issue banks should pay a 1/2

¹⁹⁴(...continued)

is not satisfactory to us ... but in view of Mr. Takahashi's earnest request not to delay the negotiations we yielded this time' (B.B.A., PF305, 21 November 1905).

¹⁹⁵. Ibid., ff.83-88, Agreement between the London Issuing Syndicate and Kuhn Loeb & Co..

¹⁹⁶. £250,000, out of £3,250,000 in Germany, was ceded to the loan issue in New York (M.T.Z., vol.12, p.187).

percent commission in total to Baring Brothers and the London issue banks;¹⁹⁷ the Paris Rothschilds should pay a 1/2 percent commission to Panmure Gordon & Co..¹⁹⁸

As far as the London issue was concerned, the whole amount of £6,500,000 was underwritten at a 1 1/2 percent commission (Table 6.12 and Table 6.13). Parr's Bank underwrote £200,000 of the bonds;¹⁹⁹ Baring Brothers £250,000;²⁰⁰ the Hongkong Bank £193,000;²⁰¹ the London Joint Stock Bank £40,000;²⁰² J.S. Morgan & Co. £20,000.²⁰³

At that time underwriting was already regarded as sufficiently sound and remunerative to financial institutions. Notwithstanding Lord Rothschild's (Nathaniel Meyer Rothschild's) censure,²⁰⁴ the London Rothschilds themselves organised an underwriting syndicate. This underwriting list included many companies or persons firmly linked with them such as South African financial groups, merchant banks, merchants and stockbrokers.²⁰⁵

The prospectuses were issued on 27 November and the public subscriptions were carried out simultaneously in London, New York, Germany and Paris.²⁰⁶ In London 'a giant rush for the loan' took place²⁰⁷ and the subscriptions were oversubscribed by 28 times (Table 6.14). The Parr's Bank general meeting depicted the subscriptions as 'a record in itself' in 1905.²⁰⁸ The subscriptions in New York were also oversubscribed by 5 times and those in Germany by 10 times.²⁰⁹ The Hongkong Bank was allotted

¹⁹⁷. B.B.A., PF305, ff.83-88.

¹⁹⁸. A.N., 132/AQ/69, B-13-1, Panmure Gordon to the Paris Rothschilds, 5 January 1906.

¹⁹⁹. P.B.A., B11418, Board Minutes, 30 November 1905.

²⁰⁰. B.B.A., PF305, f.145.

²⁰¹. H.S.B.A., Board Minutes, 5 December 1905.

²⁰². L.J.S.B.A., Q12, Board Minutes, 30 November 1905.

²⁰³. M.G.A., Ms.21,793, vol.3.

²⁰⁴. See chapter 2.

²⁰⁵. R.A.L., XI/111/33, Underwriting List.

²⁰⁶. B.B.A., PF305, ff.68-69.

²⁰⁷. S.O.A.S.A., PP MS 14/23, Addis Diary, 28 November 1905.

²⁰⁸. P.B.A., B110201, General Meeting Minutes, 25 January 1906.

²⁰⁹. M.T.Z., vol.12, p.218; B.B.A., PF305, Kuhn, Loeb & Co. to Parr's Bank, 28 November 1905.

£100,000;²¹⁰ the Imperial Bank of Persia £3,000;²¹¹ the London Joint Stock Bank £20,000 against its application for £100,000.²¹² Parr's Bank earned the £34,958 profit from this loan issue;²¹³ its profit (£209,632) earned from the three Japanese government loan issues during 1905 amounted to 27.3 percent of its annual gross profit (£769,000).

In Paris there were no public subscriptions. The syndicate purchased the whole issue amount of the loan and placed it directly to their clients through 'guichets (counters)'.²¹⁴ As indicated in Table 6.15, the Paris Rothschilds established the 'syndicate de prise ferme et de placement',²¹⁵ which encompassed eminent banques de dépôts and banques d'affaires such as the Crédit Lyonnais, the Comptoir National d'Escompte, the Société Générale, the Société Générale de Crédit Industriel et Commercial and the Banque de Paris. The 'ferme' (to take the loan firm) was a 1.5664 percent and the 'placement' (to place the loan) a 1 1/2 percent commission. The shares of the Crédit Lyonnais and the Paris Rothschilds in the placement were particularly larger than others. In Paris, the loan issue banks had to pay some charges to manipulate the press and political parties to smooth the placement.²¹⁶ The 3.8164 percent loan issue commission in Paris was a little cheaper than in London. On 29 December 1905 the French Minister of Finance admitted quotation of the portion of the Japanese government loan issued in

²¹⁰. H.S.B.A., Board Minutes, 5 December 1905.

²¹¹. I.B.P.A., W2/1, Investment Ledger.

²¹². L.J.S.B.A., Q12, Board Minutes, 30 November and 5 December 1905.

²¹³. W.B.A., D2469.

²¹⁴. The direct placement through a 'guichet (counter)' was the placement of bonds which loan issuers took directly to other banks or their customers. In France this method became the preferred channel to place bonds (E. Baldy, Les banques d'affaires en France depuis 1900 [Paris, 1922], p.83).

²¹⁵. Syndicat de prise ferme et de placement took the loan issue amount fully or partly at a fixed price from the borrower at their own risk, that is to say, it directly purchased a full or a certain part of the issue amount and subsequently carried out the placement. The profit of the syndicate came from a difference between the purchase and the placement prices. (*ibid.*, pp.64-67).

²¹⁶. A.N, 132/AQ/69, B-13-1/8.

Paris for Fr300,000,000 on 'la cote officielle' of the Paris Stock Exchange.²¹⁷ As for the subscriptions in Germany, Table 6.17 shows the share of the German loan issue banks.

In the loan issue of November 1905 the Japanese government finally organised a loan issue operation in the Paris capital market. During the Russo-Japanese War such a facility had been totally denied to Japan, and therefore it had had to rely excessively upon the Anglo-American markets.²¹⁸ This ingress into the Paris capital market led the Japanese government to establish a new pattern of foreign loan issues, one which Takahashi's successors would follow in the future, of counting upon simultaneous loan issue markets. Now the Japanese government became relatively independent of the London financiers' strong influence and was able to pursue the most favourable loan issue terms on the international capital markets. As a result, it was able to float the loan at the minimised commission, about 4 percent (Table 6.12 and 6.16), because of the element of competition among financiers involved in loan issue negotiations.

²¹⁷. A.M.F., F30-³⁷⁷, Ministère des Finances to Syndic des Agents de Change, 29 December 1905.

²¹⁸. Commercial & Financial Chronicle, vol.lxxix (1904), p.2174.

Table 6.11 Main Position of First 6 Percent Bonds in 1907

Country	Amount(£)
France	394,875
Germany	177,075
Italy	115,550
Belgium	223,025
Holland	99,500
U.S.A.	4,650
Britain	8,706,875
Japan	50,000

Note: Based on the interest payment at the Yokohama Specie Bank in 1907;
Bonds were issued in June 1904 in London and New York for £10,000,000.

Source: J.M.F.A., Shōda Papers, 28-6.

Table 6.12 Commission of 4 Percent Loan Issue (November 1905, London)
(percent)

Underwriting	1	1/2
Brokerage (placing underwriting)		1/2
Brokerage (application)		1/4
Advertising		1/4
Loan issue Banks	1	1/2
Total	4	

Source: W.B.A., D2469.

Table 6.13 London Issue Banks' Underwriting (November 1905, London)
(£)

Underwriting syndicate	Underwriting amount	Underwriting commission (1 1/2%)	Brokerage commission (1/2%)*
Panmure Gordon	2,375,000	35,625	32,500
London Rothschilds	1,125,000	16,875	
Hongkong Bank	1,000,000	15,000	
Yokohama Specie Bank	700,000	10,500	
Parr's Bank	1,300,000	19,500	
Total	6,500,000	97,500	32,500

Note: * 1/2 percent of the issue amount in London (£6,500,000).
Source: W.B.A., D2469.

Table 6.14 Application and Allotment (November 1905, London)

Loan issuer	Applications (£)	Allotment (£)	Allotment (number)
Parr's Bank	77,000,660	2,878,500	28,789
Hongkong Bank	51,604,600	1,410,100	13,509
Yokohama Specie Bank	28,330,700	1,295,600	15,158
London Rothschilds	25,803,550	915,800	3,223
Total	182,739,510	6,500,000	60,679

Source: H.S.B.A., LOHI/47.

Table 6.15 4 Percent Loan Issue (November 1905, Paris)
(Fr; Fr1 = 9 1/2d.)

Loan issue bank	[Ferme]		[Placement]	
	Amount	Benefit (1.5664%)	Amount	Benefit (1.5%)
Crédit Lyonnais	40,000,000	626,560	97,565,000	1,463,475
Vernes & Cie	30,000,000	469,920	18,309,000	274,635
Comptoir d'Escompte	20,000,000	313,280	32,282,500	484,237.5
Société Générale de Crédit Industriel et Commercial	20,000,000	313,280	32,282,500	484,237.5
Banque Française	10,000,000	156,640	6,631,000	99,465
Banque de Paris	7,000,000	109,648	4,000,000	60,000
Syndicat des Agents Participants	56,500,000	885,016	24,430,000	366,450
M.M. Rothschilds	21,000,000	328,944	21,000,000	315,000
	12,000,000	187,968		
	83,500,000	1,307,944	63,500,000	952,500
Total	300,000,000	4,699,200	300,000,000	4,500,000

Source: A.N., 132/AQ/69, B-13-1/8, Syndicat Emprunt Japonais 4% (1905).

Table 6.16 Syndicate Account of 4 Percent Loan Issue
(November 1905, Paris)

	(%)	Amount (Fr)
Payment to the Japanese government (deducting the interest)	88.5	265,584,000
Commission to Panmure Gordon	(0.5)	1,509,000
Various charges	(0.2)	709,539.90
Commission (placement)	(1.5)	4,500,000
Syndicate profit (ferme)	(1.6)	4,699,200
<hr/>		
(Commissions total)	(3.8)	
Total	92.3	277,001,739.90
Proceeds of the bonds (Fr300,000,000)	89.9	269,700,000
Half yearly interest from 1 January 1906	2.0	6,036,000
Other interests	0.4	1,265,739.90
<hr/>		
Total	92.3	277,001,739.90

Note: Fr1=9 1/2d.

Source: A.N., 132/AQ/70, B-14-1/4.

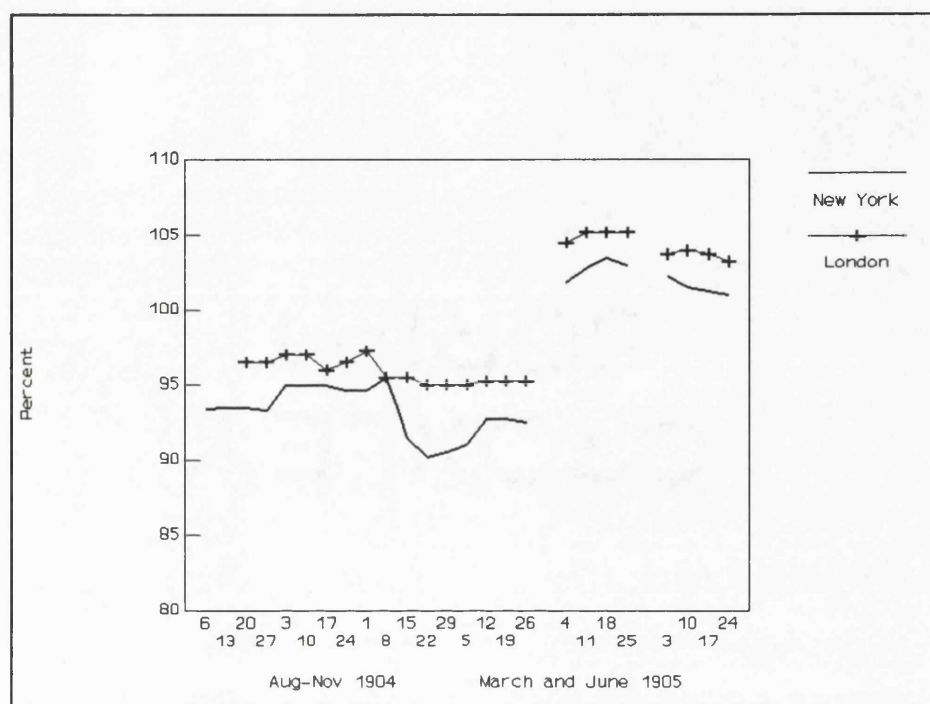
Table 6.17 Amounts of 4 Percent Loan Issue (November 1905, Germany)
(£)

Loan issue bank	Amount
Bank für Handel und Industrie	315,900
Bayerische Hypotheken und Wechsel Bank	111,150
Born und Busse	111,150
Delbrück, Leo & Co.	182,975
Deutsch-Asiatische Bank	315,900
Deutsche Bank	473,850
Dresdner Bank	315,900
National Bank für Deutschland	236,925
Norddeutsche Bank	276,250
Sal Oppenheim Jr. & Co.	111,150
A. Schaaffhausenscher Bankverein	236,925
Jacob S.H. Stern	236,925
M.M. Warburg & Co.	325,000
<hr/>	
Total	3,250,000

Note: £1=DM20.45.

Source: P.B.A., D6804, Agreement, 24 November 1905.

Chart 6.1 Highest Prices of First 6 Percent Bond in London and New York
(August-November 1904, and March and June 1905)



Sources: London Stock Exchange Daily Official List; Commercial & Financial Chronicle.

6.5 Conclusion

In the 4 percent loan issue of 1905, the loan issue markets for the Japanese government eventually covered not only London, New York and Germany but also Paris. Now the Japanese government could move freely in pursuing the most favourable loan issue terms on the international capital markets. For this market expansion, the banks with Far Eastern and Japanese connections, such as the Hongkong Bank, Parr's Bank and the Yokohama Specie Bank, did not take the initiative in linking the main world's capital markets. Their operations did not cover such a far-reaching area and their power of access to the international capital markets was, at this time, limited. The merchant banks

managed the expansion of the markets mainly on their own business relations.

The main motive, for the part of the Japanese government, in its expansion of the loan issue markets obviously lay in the desire to improve the unfavourable loan issue terms resulting mainly from the over-dependence on the Anglo-American markets. The Japanese government attempted to gain access to other financiers and markets in Germany and France. This background of competition led to the reduction in London's primacy in Japanese government loan operations.

The expansion of the loan issue markets, however, produced critical discord among the loan issue banks in fixing loan issue prices, which reflected different market conditions in countries. In addition, the Japanese government had to take diplomatic situations into consideration when it launched a loan issue in France where the government invariably regarded foreign loan issues as a kind of a diplomatic implement. The expansion of the loan issue market necessarily made the Japanese government pay more attention to diplomatic matters which it had not fully experienced so far in the loan issues on the Anglo-American markets.

CHAPTER 7

LOAN ISSUES

AFTER THE RUSSO-JAPANESE WAR

The Japanese economy after the Russo-Japanese War maintained a marked growth in the formation of fixed capital. The First Saionji Cabinet (1906-1908) increased national expenditure on several governmental undertakings: the expansion of armaments; the nationalisation and the new construction of railways; the extension of steelworks and the telephone. In contrast with the First Katsura Cabinet (1901-1906), which made an effort to redeem the national debt, this First Saionji Cabinet financed these undertakings hurriedly by both domestic loans and increased taxation.¹ As a result, the Japanese government came to pay an immense sum on the national debt. As shown in Table 7.1, the expenditure related to the national debts in the government general account rose rapidly from 1906.

The increase of government expenditure led to the increased imports and caused severe trade deficits. In fact, S. Matsuo, the Governor of the Bank of Japan, warned that the Bank's gold reserves would probably be depleted within a few years.² It was imperative, therefore, that the Japanese government should secure gold, in any way, for settling the trade deficits. The imposition of a newly revised tariff of 1906 attempted to conserve gold by restricting rising imports.³ However, the Japanese government came to consider the reduction of interest payments on foreign debts by the conversion of outstanding issues to new issues bearing smaller coupons.

Japan, now on the verge of becoming a heavy-debtor country, was encouraged to follow this course. From the standpoint of debt burden by country, represented by public

¹. M.T.Z., vol.1, pp.259-72; T. Nakamura, Meiji-Taishōki no Keizai (Japanese Economy 1867-1925) (Tokyo, 1985), pp.89-91.

². N.G.H.S., vol.2, p.194.

³. F.O.371/271, H. Lowther to Lord Grey, 22 January 1907.

debt per head of population, the rate at which Japan's debt burden multiplied from £1.2 in 1900 to £5.2 in 1910 was remarkable.⁴ British diplomats closely monitored this financial difficulty in Japan: in 1906 F. Lindley's report distinctly raised the question of whether Japan was able to maintain its financial equilibrium without further foreign loan issues.⁵

This chapter will examine two Japanese government conversion loan issues in London and Paris after the Russo-Japanese War. As a consequence of the rise of the Paris capital market, London's unchallenged lead in Japanese government loan issue business was being undermined and the loan issue markets were decentralised. Now the Japanese government was in the position of being able to find the most favourable loan issue terms by moving between the London and Paris capital markets. However, both diplomatic affairs in France and the different market conditions often hindered Japan's financial operation there.

7.1 5 Percent Loan Issue in 1907

According to the agreement of November 1905 with the loan issue banks: i.e. Parr's Bank, the Hongkong Bank, the Yokohama Specie Bank, Kuhn, Loeb & Co., the London Rothschilds and the Paris Rothschilds, the Japanese government was obliged to fulfill immediately another 4 percent loan issue for the remaining amount (£25,000,000). In August 1906 the Japanese government instructed K. Takahashi, the Government Loan Commissioner, to arrange it. The purpose of this loan issue was to convert the high interest rate (6 percent) war bonds (£22,000,000) of 1904, issued in London and New York, to lower ones (4 percent). Takahashi and the government agreed on the following outlines of the new loan issue:⁶

⁴. S.E.O.I. (1912), p.xciii.

⁵. F.O.371/87, C.M. MacDonald to Lord Grey, 5 June 1906.

⁶. Secret (secretariat) no.2344, Y. Sakatani to T. Hayashi, 22 August 1906 (N.G.B., vol.39-1, pp.387-88); M.T.Z., vol.12, p.240.

- (i) to issue £25,000,000 4 percent sterling bonds in Britain, the United States, France and Germany for conversion or redemption of the £22,000,000 6 percent loan of 1904.
- (ii) the loan issue should be based on the loan issue terms of the 4 percent loan in November 1905.
- (iii) a new syndicate for this loan issue should be formed, should the loan issue banks refuse to take up the loan issue.
- (iv) Treasury bills should be issued temporarily if market conditions were unfavourable, and afterwards these should be converted into bonds.

The enthusiasm for Japanese government bonds which had surged during the Russo-Japanese War now ebbed everywhere, and many foreign investors became apprehensive about the predicament of Japan's finances after the Russo-Japanese War.⁷ In 1906, especially the closing quarter, the conditions of the London money market became very tight: in the early part of the year the withdrawal of gold from London to the United States, stemming from the San Francisco Earthquake and a boom on the New York Stock Exchange, gradually narrowed the market; in November the Bank of England raised Bank Rate to 6 percent; in December there was a danger of an unprecedented 7 percent. Most of the central banks on the Continent followed a similar high interest rate policy to maintain their gold reserves.⁸ Bond prices fell sharply.

The extraordinarily high interest rate had a dampening effect upon new loan issues.⁹ In fact, on the London capital market there were new loan issues for £167,187,400 during 1905, but during 1906 these rapidly decreased to £120,173,200.¹⁰

Under these adverse circumstances Japan's efforts to reorganise the national finance did not, of course, receive favourable attention from foreign financiers. The

⁷. The Statist, 3 February 1906, pp. 193-94.

⁸. The Economist, 16 February 1907, pp.6-7 ('Commercial History & Review').

⁹. J.M.F.A., K. Mizumachi Papers, 5-8, 7th Report, K. Takahashi to K. Saionji and Y. Sakatani, 20 November 1906.

¹⁰. The Economist, op. cit., p.5. According to Simon, £128,900,000 (calls total) of Colonial and foreign loan issues in 1905 decreased to £85,000,000 in 1906 (M. Simon, 'The Pattern of New British Portfolio Foreign Investment, 1865-1914' in A.R. Hall [ed.], The Export of Capital from Britain 1870-1914 [1968], p.39).

London Rothschilds and the Paris Rothschilds considered it quite out of question to issue any Japanese government conversion loan for the moment.¹¹ Therefore, Takahashi had to wait for a recovery of the loan issue markets. Taking into full consideration the different quotation prices of the Japanese government 4 percent bonds of 1905 in New York, London, Germany and Paris, Takahashi prepared for the following three loan issue alternatives:¹²

- (i) a 4 percent simultaneous loan issue in London and Paris.
- (ii) a 4 percent loan issue in Paris alone.
- (iii) a 4 percent loan issue in Paris and 5 percent in London separately.

Takahashi had formulated the definite intention of floating a simultaneous loan equally in London and Paris. Because of the low quotation prices in New York and Germany, he cast doubts on arranging the simultaneous loan issue there.¹³ The high interest rate, as mentioned previously, hampered his immediate negotiations with the London issue banks. The banks took a wait-and-see policy as the London Rothschilds had noted that there was no chance of placing a Japanese government loan then.¹⁴

In Paris Takahashi found that it was the French government's diplomatic policy, rather than financial matters,¹⁵ which entangled the loan issue negotiations. In the middle of November 1906 Takahashi and S. Kurino, the Japanese Ambassador in Paris, had an interview with S. Pichon, the French Minister of Foreign Affairs, and J. Caillaux, the French Minister of Finance, on the Japanese government loan issue in Paris.¹⁶ Pichon, in return for the loan issue, demanded a certain *quid pro quo*, namely an entente for

¹¹. R.A.L., XI/130A/0, the London Rothschilds to the Paris Rothschilds, 8 May 1906.

¹². M.T.Z., vol.12, p.241.

¹³. J.M.F.A., Mizumachi Papers, 5-8, 10th Report, 27 November 1906.

¹⁴. R.A.L., XI/130A/0, the London Rothschilds to the Paris Rothschilds, 9 October 1906.

¹⁵. A. Gérard, Ma mission au Japon, 1907-1914 (Paris, 1919), p.13.

¹⁶. Secret no.35, S. Kurino to T. Hayashi, 5 December 1906 (N.G.B., vol.39-1, pp.515-21).

protection of their mutual interests in the Far East. Pichon made the following definite proposals:¹⁷ (i) Japan should co-operate with the Anglo-French group in the China Central Railways construction; (ii) Japan should guarantee the security of the French Indo-China Colonies. Caillaux was keen to take up the loan issue in Paris and promised Takahashi to introduce other eminent financiers in Paris should the Paris Rothschilds decline it.¹⁸ Perhaps Caillaux, who had particular interests with the Banque de l'Indo-Chine, intended to put the loan issue into the hands of the Banque.¹⁹

However, P. Cambon, the French Ambassador in London had a major impact on the negotiations between Pichon and Takahashi by warning that the Japanese government loan issue in Paris would probably upset diplomatic relations between France and Russia.²⁰ Pichon, who paid much attention to affiliations with Russia, confirmed the Russian government's posture towards the Japanese government loan issue in Paris.²¹ The Russian government, for its part, insisted that the matters should proceed in accordance with the Portsmouth Treaty, and desired the French government not to allow any Japanese government loan issue in Paris until a treaty of amity with Japan was to be concluded.²² Japan and Russia were, at that time, negotiating a commercial treaty and fishery convention.²³

On 10 January 1907 Pichon told Kurino that the French government was not able to disregard Russia's opinion.²⁴ After the Russo-Japanese War in which Russia had been the aggressor, Japan now conversely became a menace to Russia in the Far East. Likewise, the United States was nervous of Japan's foreign loan issues which might be

¹⁷. S. Pichon to P. Cambon, 16 and 22 November 1906 (D.D.F., 2^e série, vol.x, pp.435-37, 471-72).

¹⁸. No.94, Kurino to Hayashi, 16 November 1906 (N.G.B., vol.39-1, p.511).

¹⁹. J.M.F.A., Mizumachi Papers, 5-8, 7th Report, 20 November 1906.

²⁰. Cambon to Pichon, 24 November 1906 (D.D.F., vol.x, pp.486-90).

²¹. Pichon to M. Bompard, 17 November 1906 (ibid., vol.x, pp.446-47).

²². Bompard to Pichon, 10 December 1906 (ibid., vol.x, p.546).

²³. The Times, 28 December 1906.

²⁴. A.M.A.E., N.S.53, Note Verbale, 23 January 1907; no.3, Kurino to Hayashi, 10 January 1907 (N.G.B., vol.40-2, pp.46-47).

used to expand its armaments. M. Bompard, the French Ambassador in St Petersburg, gave assurance to the Russian government that the French government would never open the Paris capital market to Japan until the Russo-Japanese Amity Treaty was signed.²⁵

Meanwhile, there was serious diplomatic confrontation between France and Germany. The French government and financiers showed unanimous irritation towards Takahashi's visit to Germany in December 1906. They suspected that he attempted to draw some financial assistance from Germany.²⁶ The growing antagonism to Germany seriously deterred the smooth progress of Takahashi's loan issue negotiations in Paris.

As shown in Chapter 1, the Japanese government 4 percent bonds of 1905 (sterling bonds) were sustained artificially at a much higher price in Paris, in contrast with those in London and New York. There was a significant and continuous difference between London, New York and Paris in the quotation prices (Chart 7.1). On the 'Frenchman's watertight system'²⁷ the Paris Stock Exchange admitted quotation only of the securities issued in France. The restricted supply of securities on the Paris capital market accordingly pegged the quotation prices at higher levels than in London and New York. Hence, the Japanese government, at the outset, aimed to place the intended 4 percent loan on the Paris capital market.²⁸ Takahashi, in fact, considered that the 4 percent loan issue was feasible in Paris alone or in Paris and London simultaneously on the condition that the quotation of the London and New York tranche of the 4 percent bonds of 1905 was admitted on the Paris Stock Exchange.²⁹ However, as he set great store by the established relations with the London issue banks, he finally pursued the possibility of the 4 percent simultaneous loan issue in London and Paris rather than a franc loan in Paris alone. In order to do so, it was unavoidable for the Japanese government to level off the different quotation prices of these bonds in London and Paris.

²⁵. Bompard to Pichon, 17 January 1907 (D.D.F., vol.x, pp.620-23).

²⁶. J.M.F.A., Mizumachi Papers, 5-8, 13th Report, 15 January 1907.

²⁷. See chapter 1.

²⁸. Secret no.25, Kurino to Hayashi, 10 August 1906 (N.G.B., vol.39-1, pp.385-86).

²⁹. J.M.F.A., Mizumachi Papers, 5-8, 14th Report, 7 February 1907.

In June 1906 Kurino had desired the French government to admit the quotation of the tranche of the 4 percent bonds of 1905, issued outside France, on the Paris Stock Exchange.³⁰ The London Rothschilds considered that no large number of the 4 percent bonds would flow from London to Paris because of the high quotation price there.³¹ Yet M. de Verneuil, Syndic des Agents de Change, and the Paris Rothschilds disagreed on the quotation because of the probable damage to French public investors.³²

On 9 January 1907 Kurino made the following apologies to Pichon for the misapprehensions concerning Japan's intentions, explaining that: (i) the Japanese government had no intention of waging war on Russia or the United States, and the purpose of the loan was not for armaments but for the conversion of the 6 percent foreign loans of 1904; (ii) for a simultaneous loan issue in both Paris and London the French government should admit the quotation of the Japanese government 4 percent bonds of 1905, issued outside France, on the Paris Stock Exchange; (iii) in accordance with this the Bank of Japan could purchase £3,000,000 of the 4 percent bonds, issued in London.³³

On 16 January 1907 the 6 percent Bank Rate came down to 5 1/2 percent and the rates of 3 and 6 months bank bills also had a downward tendency.³⁴ The market conditions became more favourable to new loan issues. I. Motono, the Japanese Minister in St Petersburg, was attempting to persuade the Russian government to agree on Japan's loan issue in Paris,³⁵ but the Russian government insisted that the Japanese government should delay the present loan issue until the remainder of the Russian government's previous loan issue was fulfilled.³⁶ Takahashi, fearing to lose an opportunity, firmly

³⁰. No.42, Hayashi to Kurino, 21 June 1906 (*N.G.B.*, vol.39-1, p.379).

³¹. R.A.L., XI/130A/0, the London Rothschilds to the Paris Rothschilds, 20 June 1906.

³². J.M.F.A., Mizumachi Papers, 5-8, 13th Report, 15 January 1907.

³³. *Ibid.*.

³⁴. S. Nishimura, *The Decline of Inland Bills of Exchange in the London Money Market 1855-1913* (Cambridge, 1971), table 30.

³⁵. No.16, Hayashi to I. Motono, 9 February 1907 (*N.G.B.*, vol.40-2, pp.56-57).

³⁶. No.28, Motono to Hayashi, 13 February 1907 (*ibid.*, pp.59-60).

objected to this postponement.³⁷ On 15 February Pichon finally agreed to float an immediate issue of the Japanese government loan.³⁸ The matter was put into the hands of the French Minister of Finance (Caillaux) and Caillaux conceded the new 4 percent loan issue on the Paris capital market in March.³⁹

Caillaux authorised the new loan issue, but did not give permission to quote the tranche of the 4 percent bonds of 1905, issued outside France, on the Paris Stock Exchange. The French government feared that these low price bonds would flow into France so as to damage French investors' benefits.⁴⁰ Without such permission, in practice, it was impossible to average the different quotation prices and this would ultimately hinder the loan issue banks from fixing the issue price of the new 4 percent simultaneous loan, because the quotation prices of existing bonds on the market usually determine the issue price of a new loan. Takahashi was thus forced to abandon the new 4 percent loan issue in Paris.⁴¹

Takahashi immediately switched the intended 4 percent loan issue to a 5 percent loan issue in London and New York.⁴² It was impracticable for Takahashi, who intended to issue the new loan at as high a price as possible (nearly par),⁴³ to arrange a new 4 percent loan issue in London and New York, because the quotation prices of the Japanese government 4 percent bonds of 1905 were hovering around low levels in London (88 1/4 percent, yielding 4.5 percent at market)⁴⁴ and New York (84 percent, yielding 4.8 percent

³⁷. No.16, Kurino to Hayashi, 15 February 1907 (*ibid.*, p.61).

³⁸. No.17, Kurino to Hayashi, 15 February 1907 (*ibid.*, pp.61-62).

³⁹. No.18, Kurino to Hayashi, 18 February 1907 (*ibid.*, vol.42-2, pp.63-64).

⁴⁰. *Ibid.*.

⁴¹. A.M.A.E., N.S.53, Note verbale, 19 February 1907.

⁴². R.A.L., XI/130A/1, the London Rothschilds to the Paris Rothschilds, 20 February 1907. On 7 February 1907 Takahashi considered that he would issue a 5 percent loan in Britain, the United States and Germany unless the French government admitted the quotation within two weeks (J.M.F.A., Mizumachi Papers, 5-8, 14th Report, 7 February 1907).

⁴³. No.17, Takahashi to Japanese Government, 3 February 1907 (J.M.F.A., Mizumachi Papers, 5-8, 14th Report).

⁴⁴. *I.M.M.*, December 1906, p.686.

at market)⁴⁵ at that time.

At the beginning of 1907, the London Rothschilds and the Paris Rothschilds were fully aware of the awkward situations surrounding the Japanese government loan issue negotiations. The London Rothschilds pointed out that: the 6 percent Bank Rate did not allow any new loan issues on the market; the diplomatic conflicts between Japan, Russia and the United States had repercussion on the loan issue negotiations.⁴⁶ As for the quotation of the London tranche, the Paris Rothschilds were not agreeable to it,⁴⁷ despite the London Rothschilds' support for Takahashi.⁴⁸

This hesitancy on the part of the Paris Rothschilds seemingly coincided with the French government's policy. Had the French government exceptionally admitted the Japanese government's 4 percent bonds of 1905, it would, no doubt, have been forced to do the same for others.⁴⁹ On 15 February 1907 the Paris Rothschilds wrote to the London Rothschilds that the Japanese government should withdraw the proposal of quoting the London tranche of the 4 percent bonds of 1905 on the Paris Stock Exchange; the Paris Rothschilds suggested a 4 percent simultaneous loan issue in Paris and London, based on the quotation price of the London Stock Exchange, for £25,000,000.⁵⁰ It was obvious that French investors would gain a considerable advantage from such a low issue price.

In the middle of February 1907, after resolving the diplomatic discord between Japan and Russia, Caillaux proposed to Takahashi that he should put the Japanese government loan issue in Paris into the hands of the Banque de l'Indo-Chine. Yet

⁴⁵. The price was on 2 January 1907 (Commercial & Financial Chronicle [Bank & Quotation Section], vol.lxxxiv, no.2189 [8 June 1907], p.23).

⁴⁶. R.A.L., XI/130A/1, the London Rothschilds to the Paris Rothschilds, 8 January 1907.

⁴⁷. Ibid., 5 February 1907.

⁴⁸. Ibid., 6 February 1907.

⁴⁹. Ibid., 19 February 1907.

⁵⁰. R.A.L., XI/101/74, the Paris Rothschilds to the London Rothschilds, 15 February 1907; J.M.F.A., Mizumachi Papers, 5-8, 15th Report, 3 March 1907.

Takahashi placed more confidence by far in the Paris Rothschilds than the Banque de l'Indo-Chine, because the Paris Rothschilds were able to invite many eminent banks to loan issue operations. As the Paris Rothschilds could not agree to quoting even the London tranche (£6,500,000), Takahashi broke off the 4 percent loan issue negotiations, informing them that he intended to arrange a new 5 percent loan with the London issue banks.⁵¹

From 20 February 1907 Takahashi started the 5 percent loan issue negotiations with the London issue banks anew. Although the Paris Rothschilds were still committed to the 4 percent loan issue in Paris,⁵² the London Rothschilds advised Takahashi to invite the Paris Rothschilds to the 5 percent loan issue.⁵³ Takahashi, who considered the 5 percent loan issue for £18,000,000 mainly in London, agreed that the Paris Rothschilds could act as underwriters in this loan issue.⁵⁴ The London Rothschilds enquired of the Paris Rothschilds as to what extent they could involve themselves in the underwriting of the 5 percent loan issue,⁵⁵ and Takahashi also contacted the Paris Rothschilds on the loan issue in Paris through the London Rothschilds.⁵⁶ On 26 February 1907 the Paris Rothschilds agreed to participate in it as loan issuers in Paris.⁵⁷ Thus the Paris capital market showed interest in the Japanese government loan business again. The London Rothschilds told the Paris Rothschilds that 'no doubt when the time comes everyone will

⁵¹. Ibid.. The Paris Rothschilds were 'afraid of artificial markets' (R.A.L., XI/130A/1, 18 February 1907).

⁵². There was a legal debate on a 5 percent loan issue between the Japanese government and the Paris Rothschilds, because the Paris Rothschilds regarded this issue as the remaining part of the 4 percent loan of 1905 (ibid., XI/101/74, the Paris Rothschilds to the London Rothschilds, 20 February 1907).

⁵³. J.M.F.A., Mizumachi Papers, 5-8, 16th Report, 7 March 1907.

⁵⁴. Ibid..

⁵⁵. R.A.L., XI/130A/1, the London Rothschilds to the Paris Rothschilds, 20 February 1907.

⁵⁶. Ibid., 22 February 1907.

⁵⁷. R.A.L., XI/101/74, the Paris Rothschilds to the London Rothschilds, 26 February 1907; J.M.F.A., Mizumachi Papers, 5-8, 16th Report.

want to participate [in it]⁵⁸ and emphasised that the 5 percent loan would be very alluring, the underwriting commission should be 2 percent and the fact of its being a conversion loan would by no means hamper cash subscriptions.⁵⁹

After the rapprochement, the Paris Rothschilds and Takahashi started direct negotiations from 1 March 1907.⁶⁰ Both provisionally agreed to issue the 5 percent loan for £11,500,000 in Paris⁶¹ without mentioning the quotation of the London tranche of the 4 percent bonds of 1905 on the Paris Stock Exchange.⁶²

The Japanese government had to negotiate with Kuhn, Loeb & Co., the main issuer of the 6 percent loan of 1904 in New York, as well. Since Kuhn, Loeb & Co. appraised the proposed issue price (at par) as too high for the New York capital market,⁶³ it decided to accept subscriptions there in 6 percent bonds of 1904 only and gave up subscriptions in cash.⁶⁴ Kuhn, Loeb & Co. participated in the loan issue (underwriting) in London for £1,000,000 on the original issuer's terms.⁶⁵ The German banks: the Deutsch-Asiatische Bank and Warburg, refused to be involved in this operation in any form because the market conditions in Germany were not acceptable.⁶⁶

On 6 March 1907 the contract of the Japanese government 5 percent loan issue was made between Takahashi, Parr's Bank, the Hongkong Bank, the Yokohama Specie Bank, the London Rothschilds and the Paris Rothschilds. The outline of the loan issue

⁵⁸. R.A.L., XI/130A/1, the London Rothschilds to the Paris Rothschilds, 27 February 1907.

⁵⁹. Ibid., the London Rothschilds to the Paris Rothschilds, 28 February 1907.

⁶⁰. Ibid., XI/101/74, the Paris Rothschilds to the London Rothschilds, 1 March 1907.

⁶¹. Ibid., 4 March 1907; A.N., 132/AQ/69, B-13-2/3, Provisional Contract dated 4 March 1907.

⁶². This quotation would finally be realised in 1910 (A.M.F., F30-³⁷⁷, Gérard to Pichon, 27 February 1910).

⁶³. B.B.A., COF-05-2-9, Kuhn, Loeb & Co. to Parr's Bank, 22 February 1907.

⁶⁴. Ibid., Kuhn, Loeb & Co. to Baring Brothers, 27 February 1907; Parr's Bank to Kuhn Loeb & Co., 27 February 1907.

⁶⁵. Ibid., Kuhn, Loeb & Co. to Baring Brothers, 1 March 1907.

⁶⁶. F.O.371/271, A.M. Townsend to F. Campbell, 4 March 1907.

terms was as follows:⁶⁷

Issue amount	£23,000,000 (£11,500,000 in London and £11,500,000 in Paris)
Issue purpose	redemption of the Japanese government 6 percent sterling loans issued in 1904 for £10,000,000 and £12,000,000 in London and New York
Rate of interest (nominal)	5 percent
Issue price	99 1/2 percent (to the public) real issue price included interest should be 98 1/2 percent 95 1/2 percent (to the government)
Yield at issue	5.0 percent
Borrowing period	40 years
Rate of exchange	Fr25-25 per £1 and at the current rate of exchange on London in New York
Redemption	the Japanese government should reserve the right to redeem at par, all or any of the bonds, at any time after 1922, on giving 6 months' previous notice.

The London issue banks started organising the underwriting at a 1 1/2 percent commission.⁶⁸ The Hongkong Bank underwrote £200,000 of the bonds.⁶⁹ Parr's Bank underwrote £200,000;⁷⁰ J.S. Morgan & Co. £100,000;⁷¹ the London Joint Stock Bank £40,000 in the Yokohama Specie Bank's syndicate.⁷² Table 7.2 shows the London issue banks' shares in underwriting. The London Rothschilds completed their underwriting syndicate for £725,000 including South African connections, merchant houses and stockbrokers.⁷³

From 9 March 1907 the subscriptions were implemented in London and Paris simultaneously. In London, despite 'rather a poor opening',⁷⁴ the amount of the

⁶⁷. P.B.A., D6805, Agreement, 6 March 1907.

⁶⁸. R.A.L., XI/111/36, Japanese government 4 percent loan of 1907.

⁶⁹. H.S.B.A., Board Minutes, 5 March 1907.

⁷⁰. P.B.A., B11418, Board Minutes, 7 March 1907.

⁷¹. M.G.A., Ms.21,793, vol.3.

⁷². L.J.S.B.A., Q 12, Board Minutes, 7 March 1907.

⁷³. R.A.L., XI/111/36, op. cit.. The London Rothschilds were not always anxious to rely upon underwriting, complaining that 'it is astonishing how this form of speculation [underwriting] invariably appeals to our Public' (R.A.L., XI/130A/1, the London Rothschilds to the Paris Rothschilds, 7 March 1907).

⁷⁴. S.O.A.S.A., PP MS 14/25, Addis Diary, 9 March 1907.

applications was over £11,000,000 and the total numbers of the applicants and amount are indicated in Table 7.3. The total loan issue commission in London amounted to 4 percent, including a 1 1/2 percent underwriting and a 1 1/2 percent loan issue bank commission (Table 7.4). The loan issue in Paris also firmly secured the issue amount⁷⁵ and Table 7.5 calculates the French issue banks' shares in this operation. They formed a syndicate for taking 'firm' and placing the loan, and carried out the placement directly through their 'guichets (counters)' at a 1 1/2 percent commission.⁷⁶ In addition to the Paris Rothschilds, the Banque de Paris and the Crédit Lyonnais became main loan issuers and these three banks mainly placed the bonds. The total commission paid to the members of the Paris syndicate amounted to 3.5566 percent.⁷⁷ For the Japanese government, the total cost of this conversion amounted to about £1,104,923 (£920,000 for the commissions to financiers and £184,923 for other charges⁷⁸), but it could reduce the annual payment of interest for £220,000.

Initially the Japanese government aimed at Paris as the main market for this conversion loan issue. Because of the artificial price manipulation on the Paris capital market, the Japanese government 4 percent bonds of 1905 were being traded at a much higher price there than in London and New York. The Japanese government could not easily conclude the 4 percent loan issue negotiations with the French financiers in part because of the French government's diplomatic relations with Russia, and in part because of the difficulty in fixing the issue price resulting from the French government's refusal to quote on the Paris Stock Exchange the tranche of the 4 percent bonds of 1905, issued outside France. The French government finally agreed to float the 4 percent loan in Paris but never permitted the quotation of the London tranche and the Paris Rothschilds also paid little attention to it. Owing to this impediment, Takahashi made up his mind to

⁷⁵. R.A.L., XI/101/74, the Paris Rothschilds to the London Rothschilds, 12 March 1907.

⁷⁶. A.N., 132/AQ/69, B-13-2/1.

⁷⁷. Other costs were not revealed.

⁷⁸. M.T.Z., vol.12, p.226.

depart from Paris and counted upon largely the London issue banks for the new 5 percent loan issue. Finally the Paris Rothschilds, under the leadership of the London issue banks, agreed to be involved in this operation. For the Japanese government, this loan issue became the one in which the diplomatic situations intervened most.

Table 7.1 Proportion of Japanese Government's Debt Expenditure
(General Account), 1903-1913

Year	(1) Expenditure	(2) Debt expenditure	(3) (2)/(1) (%)
1903	250	36	14.4
1904	277	32	11.6
1905	421	49	11.6
1906	464	151	32.5
1907	602	174	28.9
1908	636	177	27.8
1909	533	153	28.7
1910	569	154	27.1
1911	585	147	25.1
1912	594	142	23.9
1913	574	143	24.9

Notes: ¥ million (¥1=2s. 1/2d.);
(3)=(2)/(1)×100.

Source: M.H.S.K.T., p.131.

Table 7.2 Underwriting of 5 Percent Loan Issue
(1907, London)
(£)

Underwriting syndicate	Underwriting amount	Underwriting commission (1 1/2 %)	Brokerage commission (1/2 %)*
Panmure Gordon	4,926,000	73,890	52,500
London Rothschilds	1,500,000	22,500	
Kuhn, Loeb & Co.	1,000,000	15,000	
Hongkong Bank	1,150,000	17,250	
Yokohama Specie Bank	1,000,000	15,000	
Parr's Bank	1,424,000	21,360	
Warburg	500,000	7,500	
British syndicate			5,000
Total	11,500,000	172,500	57,500

Note: * 1/2 percent of the issue amount in London (£11,500,000).
Source: W.B.A., D2469.

Table 7.3 Subscriptions of 5 Percent Loan Issue
(1907, London)
(£)

Loan issue bank	[Cash]		[Bond]		[Total]	
	Application	Allotment	Application (Allotment)	Application	Allotment	
Parr's Bank	2,815,340	1,985,300	2,480,700	5,296,040	4,466,000	
Hongkong Bank	1,176,900	841,700	1,534,400	2,711,300	2,376,100	
Yokohama Specie Bank	1,327,000	987,600	1,475,100	2,802,100	2,462,700	
London Rothschilds	354,480	243,900	793,300	1,147,780	1,037,200	
New York	91,400	64,000	385,000	476,400	449,000	
Switzerland	484,800	386,900	241,100	725,900	628,000	
Hamburg	90,600	70,400	10,600	101,200	81,000	
Total	6,340,520	4,579,800	6,920,200	13,260,720	11,500,000	

Notes: Allottees who paid in 6 percent bonds (converted ones) should receive the following for each £100 of 6 percent bonds: (i) £100 new 5 percent bonds; (ii) £1 (being equivalent to the advantage obtained by cash subscribers); (iii) 10 s. (the difference between the issue price of new 5 percent bonds [99 1/2] and the redemption of 6 percent bonds at par [100]). Allottees who paid in 6 percent bonds should have priority in the subscriptions.

Source: L.R.A., XI/111/36.

Table 7.4 Commission of 5 Percent Loan Issue
(1907, London)
(%)

Underwriting	1	1/2
Brokerage (placing underwriting)		1/2
Brokerage (application)		1/4
Advertising		1/4
Issue banks	1	1/2
Total	4	

Source: W.B.A., D2469.

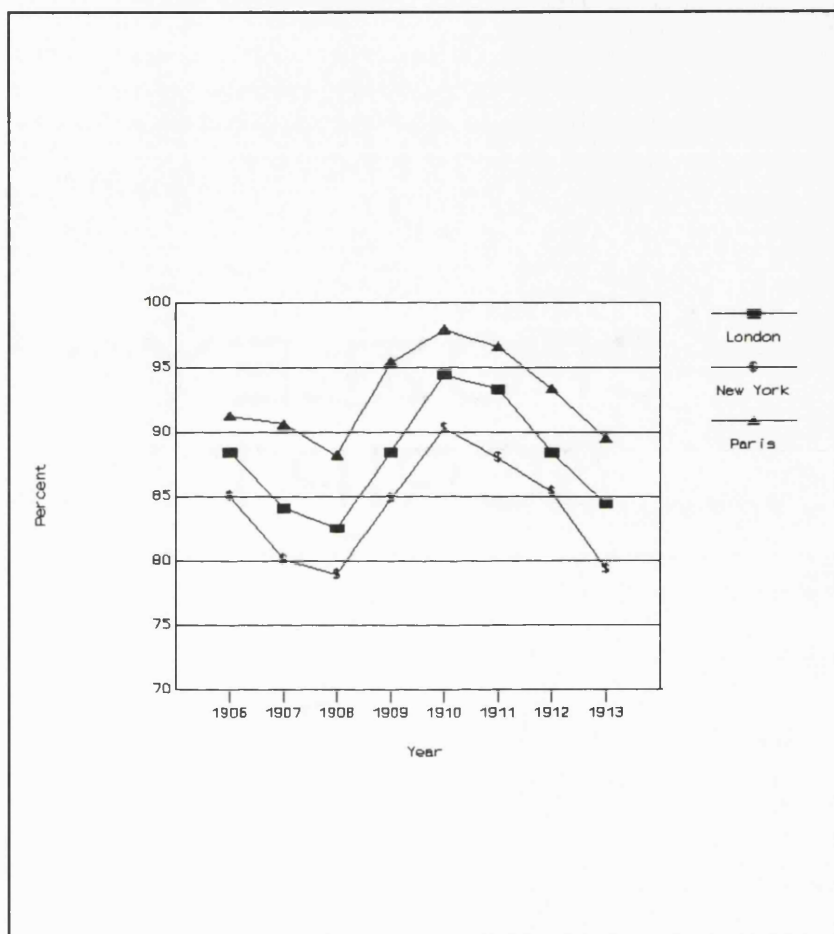
Table 7.5 5 Percent Loan Issue (1907, Paris)
(Fr)

Loan issue bank	Amount	Benefit (1 1/2 %)	[Ferme] Benefit (0.5566 %)	Amount	[Placement] Benefit (1 1/2 %)
Banque de Paris	71,623,645	1,074,354	398,657	45,030,850	675,462
Crédit Lyonnais	38,715,320	580,729	215,489	62,188,225	932,823
Hottinguer & Co.	29,036,490	435,547	161,617	13,782,460	206,736
Société Générale	19,357,660	290,364	107,744	31,094,365	466,415
Comptoir d'Escompte	19,357,660	290,364	107,744	31,094,365	466,415
Société Générale de Crédit Industriel et Commercial	9,679,335	145,190	53,875	6,387,240	95,808
Banque Française Rothschilds Syndicate	5,807,500	87,112	32,324	4,000,105	60,001
(Rothschilds)	86,297,390	1,294,460	480,331	61,447,390	921,710
(Others)	10,500,000	157,500	58,443	-	-
(Crédit Lyonnais)	-	-	-	35,350,000	530,250
Total	290,375,000	4,355,625	1,616,227	290,375,000	4,355,625

Notes: Fr1 = 9 1/2d.;
- implies no transactions.

Source: A.N., 132/AQ/69, B-13-2/1.

Chart 7.1 Quotation Prices of 4 Percent Bonds of 1905
in London, New York and Paris, 1906-1913



Note:
Sources:

The highest and lowest prices of the years were averaged.
I.M.M.; Compagnie des Agents de Change, Annuaire des valeurs admises à la cote officielle, années 1915-1917, vol.i (Paris, 1917), p.259;
Commercial & Financial Chronicle.

7.2 4 Percent Loan Issue in 1910

Apart from the ¥476,318,800 (£48,624,210) 5 percent domestic loans issued in 1908 and 1909 for the railway nationalisation,⁷⁹ there had been no significant increase in Japan's national debts in the period between 1906 and 1910. Yet the burden of these railway nationalisation debts placed a heavy load on the national finances because the government had to create 5 percent bonds in exchange for the nationalised railway companies' shares. In January 1910, the amount of the debts outstanding (long-term) reached approximately ¥2,650,355,000 (£270,557,070) and the annual government's debt expense ¥154,270,000 (£15,748,395) (also see Table 6.10 and Table 7.1).⁸⁰ In particular, the proportion of relatively higher rate of interest (5 percent) bonds to the total national debts occupied 63 percent.⁸¹

The Second Katsura Cabinet (1908-1911) tended to convert these higher interest rate bonds to lower ones, as had been done in 1907. Early in 1910 the Cabinet decided a huge financial reorganisation scheme, namely the conversion of ¥595,000,000 (£60,739,583) 5 percent domestic bonds to new ones bearing smaller coupons. The Japanese government estimated that approximately ¥160,000,000 (£16,333,333) of these bonds, including the ¥93,000,000 [£9,493,750] that had been re-sold by the Japanese government in 1897 and 1902, had been exported.⁸² It carried out the following separate financial programme in 1910: two 4 percent domestic loan issues for ¥200,000,000 (£20,416,666) and two 4 percent foreign loan issues in London and Paris.⁸³

In February 1910 T. Katsura, the Japanese Prime Minister, ordered K. Mizumachi, the Japanese Vice-Minister of Finance and Government Loan Commissioner, to issue a 4 percent loan in London and Paris either simultaneously or separately. After

⁷⁹. *M.T.Z.*, vol.11, pp.881-82.

⁸⁰. *M.H.S.K.T.*, pp.130 and 158.

⁸¹. *M.T.Z.*, vol.12, pp.270-71.

⁸². *Ibid.*

⁸³. *Ibid.*, vol.11, pp.885-86 and vol.12, pp.270-71.

the conversion loan issue in 1907, the Japanese government had little wish to arrange a loan issue on the New York capital market because it could raise the required funds in London and Paris more cheaply. Market conditions in London, however, became more and more sluggish and 'the financial deadlock' appeared: on 8 January 1910 Bank Rate declined to 4 percent and sank lower to 3 percent on 9 February.⁸⁴ At the beginning of the year, the financial deficits occurred at the British government's finance and the political confusion in Britain also affected the conditions of the loan issue market.⁸⁵ Under these circumstances, Mizumachi's proposal of a Japanese government 4 percent conversion loan issue was not readily accepted by the London issue banks.⁸⁶

In April 1910 Mizumachi and several London issue banks agreed on the following preliminary loan issue terms: (i) they, in coalition with Paris, should undertake the Japanese government loan issue; (ii) the probable lowest issue price should be fixed at 94 percent on the basis of the lowest quotation prices of the Japanese government 4 percent bonds of 1905 in London.⁸⁷ Mizumachi regarded the Paris capital market as playing a competitive role in the loan issue negotiations. The London Rothschilds informed the Paris Rothschilds that the Japanese government aimed to place a conversion loan in both London and Paris simultaneously for between £20,000,000 and £25,000,000.⁸⁸

From 18 April Mizumachi started the negotiations with the Paris Rothschilds. Their broad outline of the agreement was as follows:⁸⁹

- (i) to issue a 4 percent franc loan for less than Fr450,000,000 (£17,812,500) in Paris.

⁸⁴. The Economist, 12 February 1910, p.313.

⁸⁵. The Times, 14 January 1910.

⁸⁶. R.A.L., XI/130A/4, the London Rothschilds to the Paris Rothschilds, 7 March 1910.

⁸⁷. M.T.Z., vol.12, pp.271-72.

⁸⁸. R.A.L., XI/130A/4, the London Rothschilds to the Paris Rothschilds, 15 April 1910.

⁸⁹. M.T.Z., vol.12, pp.272-74.

- (ii) the issue price should be fixed at 95 percent to the public and at 91 percent to the government.
- (iii) the loan issue should be carried out at the beginning of May 1910.

The Paris Rothschilds strongly insisted on a franc loan issue in Paris, separated from London, although Mizumachi pursued the possibility of a simultaneous loan issue and tried to raise the issue price.

This time, however, he encountered no diplomatic conflicts with the French government in floating the loan on the Paris capital market,⁹⁰ because there were no German issuer in this loan issue and the Franco-Japanese Agreement and the Russo-Japanese Convention had been concluded in 1907. The Balkans, rather than the Far East, deserved diplomatic attention at that time. French manufacturers only requested the Japanese government to purchase their goods in return for the loan issue.⁹¹ The French Ministry of Finance admitted the quotation of the tranche of the Japanese government 4 percent loan of 1905, issued in London, on the Paris Stock Exchange, which the Japanese government had for long desired.⁹² On 25 April Mizumachi and the Paris Rothschilds agreed to the 4 percent franc loan issue on the following conditions:⁹³

Issue amount	Fr450,000,000 (£17,812,500)
Rate of interest (nominal)	4 percent
Yield at issue	4.18 percent
Borrowing period	60 years
Issue price (to the public)	95 1/2 percent
(to the government)	91 1/2 percent
Redemption	the Japanese government should reserve the right to redeem at par, all or any of the bonds, at any time after 1920, on giving 6 months' previous notice.

⁹⁰. A.M.A.E., N.S.56, Note, 23 April 1910; J.M.F.A.A., 3-4-4-45, no.30, Kurino to Komura, 22 April 1910.

⁹¹. J.M.F.A.A., 3-4-4-47, Secret no.24, Kurino to Komura, 25 July 1910.

⁹². A.M.F., F30-³⁷, G. Cochery to Ministère des Affaires Etrangères, 24 February 1910; A.M.A.E., NS.56, Ministre des Affaires Etrangères to Ministre des Finances, 12 February 1910.

⁹³. G.K.S., vol.1, pp.165-69.

Financiers in Paris were keen to take up this loan issue and the Paris Rothschilds successfully organised a syndicate: the Crédit Lyonnais, the Banque de Paris, the Société Générale, the Comptoir National d'Escompte, the Société Générale de Crédit Industriel et Commercial and Hottinguer participated in it (Table 7.6). The prospectus was published on 5 May when the loan issue negotiations in London had been concluded.⁹⁴ The seven banks, including banques de dépôts, banques d'affaires and haute banques, agreed to take up the loan at a 2.33 percent commission and to place it directly to their clients at a 1 1/2 percent commission (Table 7.7).⁹⁵ On 9 May this loan received authorisation to be quoted on the Paris Stock Exchange.⁹⁶

In London, it was anticipated that the London issue banks would probably take up the loan issue by the beginning of May. Yet their assessment of the loan issue market in general made it difficult to conclude the new loan issue,⁹⁷ and eventually the London Rothschilds withdrew from the business.⁹⁸

The London Rothschilds predicted in 1906 that the boom in Japanese bonds, especially during the Russo-Japanese War, would end.⁹⁹ The main reason for their withdrawal from the negotiations was perhaps to be ascribed to the unfavourable assessment of the Japanese government loans on the market and partly also to the separation of the loan issue in Paris from that in London, which freed the London Rothschilds from co-operating with the Paris Rothschilds in this business. Yet London Rothschilds' withdrawal from the loan issue negotiations startled the Japanese government.

⁹⁴. A.N., 132/AQ/70, B-14-1/2, Prospectus.

⁹⁵. Ibid., B-14-1/4.

⁹⁶. A.M.F., F30-³⁷⁷, Cochery to Syndic, 9 May 1910.

⁹⁷. R.A.L., XI/130A/4, the London Rothschilds to the Paris Rothschilds, 28 April 1910.

⁹⁸. Ibid., 2 May 1910.

⁹⁹. Ibid., 11 June 1906. They had said, 'the day [the end of the boom] will come, and is probably not far distant when the conversion of the sixes [6 percent loans of 1904] may take place'.

On 5 May Parr's Bank, the Hongkong Bank and the Yokohama Specie Bank arranged the 4 percent loan issue on almost similar terms as in Paris:¹⁰⁰

Issue amount	£11,000,000
Rate of interest (nominal)	4 percent
Yield at issue	4.21 percent
Borrowing period	60 years
Issue price (to the public)	95 percent
(to the government)	91 percent
Redemption	the Japanese government should reserve the right to redeem at par, all or any of the bonds, at any time after 1920, on giving 6 months' previous notice.

From 6 May the London issue banks invited subscriptions, but out of the £11,000,000 only £8,500,000 had been applied for by 18 May.¹⁰¹ Such an unexpected outcome had not been experienced in the Japanese government loan issues since 1899. The market conditions of that time were not appropriate for new loan issues: for instance, in February 1910 even the British government failed to float £4,000,000 British Treasury bills (2 1/8 percent interest).¹⁰² The dull market conditions did not improve markedly and the rate of interest was still dropping. The official history of the Yokohama Specie Bank explained the reasons for the unsatisfactory conditions thus:¹⁰³ King Edward VII's death had temporarily depressed the market; the loan issue in Paris attracted many British investors; most importantly, the issue terms themselves, especially the 95 percent issue price (yielding 4.21 percent at issue), were not sufficiently alluring to public investors, in comparison with the prices of the existing Japanese government 4 percent bonds of 1905 on the market (yielding 4.18 percent at market).¹⁰⁴

¹⁰⁰ . P.B.A., D6806, Agreement, 5 May 1910.

¹⁰¹ . S.O.A.S.A., PP MS 14/28, Addis Diary, 18 May 1910.

¹⁰² . The Economist, 26 February 1910, p.425; The Times, 24 February 1910.

¹⁰³ . Y.S.G.Z., vol.2, p.144.

¹⁰⁴ . The quotation price of the Japanese government 4 percent loan of 1905 at the end of May 1910 was about 95 3/4 (I.M.M.).

The London, City & Midland Bank agreed to underwrite the loan for £100,000;¹⁰⁵ the London Joint Stock Bank for £75,000;¹⁰⁶ the Imperial Bank of Persia for £10,000.¹⁰⁷ Table 7.9 and Table 7.10 show the commission and the underwriting amounts of the members of the loan issue banks. The Hongkong Bank organised an underwriting syndicate for £1,100,000.¹⁰⁸ The underwriters took the unsubscribed portion (£2,437,370, approximately 23 percent of the issue amount). The underwriters of the Hongkong Bank's syndicate took £253,000 (23 percent of its underwriting amount).¹⁰⁹ Table 7.8 indicates the subscriptions of the loan at the loan issue banks including underwriters'. As the quotation price of the bonds was 93 1/4 percent at the end of August 1910,¹¹⁰ 1 3/4 percent (the balance between the issue price to the public and the quotation price) became a paper loss of the underwriters in this loan issue.

Table 7.11 sets out the Hongkong Bank's broking list of this loan issue. It is no surprise to find that most kinds of financial institutions in Britain: London clearing banks; overseas banks; foreign banks; merchant banks; Scottish banks; stockbrokers, were involved in it, but it was impossible to trace further who finally bought these bonds.

The predominance of the London issue banks in Japanese government loan issue business had declined after 1905 because of the rise of Paris. The London and the Paris capital markets were no longer dependent upon each other. Now the Japanese government could have access to Paris directly, not just through the London issue banks. This competitive market structure enabled the Japanese government to arrange its loan issue on more favourable terms.

¹⁰⁵. L.C.M.B.A., ACC/26/8, Holden's Diary, 4 May 1910.

¹⁰⁶. L.J.S.B.A., Q 13, Board Minutes, 5 May 1910.

¹⁰⁷. I.B.P.A., W2/1, Investment Ledger.

¹⁰⁸. H.S.B.A., LOHI/54.

¹⁰⁹. Ibid., LOHI/2.

¹¹⁰. I.M.M., August 1910.

Table 7.6 4 Percent Loan Issue (1910, Paris)
(Fr)

Loan issue bank	Amount	[Ferme]		[Placement]	
		Benefit (2%)	Benefit (0.33%)	Amount	Benefit (1 1/2%)
Crédit Lyonnais	67,000,000	1,340,000	221,100	100,440,000	1,506,600
Banque de Paris	99,000,000	1,980,000	326,700	57,270,000	859,050
Société Générale	46,000,000	920,000	151,800	57,195,000	857,925
Comptoir d'Escompte	43,000,000	860,000	141,900	51,615,000	774,225
Société Générale de Crédit Industriel et Commercial	15,000,000	300,000	49,500	11,160,000	167,400
Hottinguer & Co. Rothschilds syndicate	30,000,000	600,000	99,000	22,320,000	334,800
(Rothschild)	139,500,000	2,790,000	460,350	100,000,000	1,500,000
(Others)	10,500,000	210,000	34,650	-	-
(Crédit Lyonnais)	-	-	-	50,000,000	750,000
Total	450,000,000	9,000,000	1,485,000	450,000,000	6,750,000

Notes: Fr1=9 1/2d.;
- implies no transaction.
Source: A.N., 132/AQ/70, B-14-1/4.

Table 7.7 Syndicate Account of 4 Percent
Loan Issue (1910, Paris)

	(%)	Amount (Fr)
Bonds (at 91 1/2)		411,750,000
Commission (placement)	1.5	6,750,000
Syndicate profit ('ferme')	2.33	10,485,000
Advertisement	0.17	802,732.91
Commission total	4	
Amount total		429,787,732.91

Note: Fr1=9 1/2d..
Source: A.N., 132/AQ/70.

Table 7.8 Subscriptions of 4 Percent Loan Issue (1910, London)
(£)

Hongkong Bank	2,437,370
Parr's Bank	5,465,690
Yokohama Specie Bank	3,096,940
<hr/>	
Total	11,000,000

Note: Underwriters took 23 percent of the issue amount.
Source: H.S.B.A., LOHI/2.

Table 7.9 Commission of 4 Percent Loan Issue (1910, London)
(percent)

Underwriting	1	1/2
Brokerage (placing underwriting)		1/2
Brokerage (application)		1/4
Advertising		1/4
Loan issue banks		1 1/2
<hr/>		
Total	4	

Source: W.B.A., D2469.

Table 7.10 Underwriting of 4 Percent Loan Issue
(1910, London)
(£)

Underwriting syndicate	Underwriting amount	Underwriting commission (1 1/2 %)	Brokerage commission (1/2 %)*
<hr/>			
Panmure Gordon	7,500,000	112,500	55,000
Hongkong Bank	1,100,000	16,500	
Yokohama Specie Bank	980,000	14,700	
Parr's Bank	1,420,000	21,300	
<hr/>			
Total	11,000,000	165,000	55,000

Note: * 1/2 percent of the issue amount in London (£11,000,000).
Source: W.B.A., D2469.

Table 7.11 Hongkong Bank's Broking List of
4 Percent Loan Issue (1910, London)
 (£)

Name	Occupation	Amount (£)
Anglo-Austrian Bank	foreign bank	14,650
Anglo-Foreign Banking Co.	overseas bank	1,400
Barclay & Co.	clearing bank	194,310
Clydesdale Bank	clearing bank	3,470
Coutts & Co.	clearing bank	108,360
Crédit Lyonnais	foreign bank	25,100
Deutsche Bank	foreign bank	11,100
Glasscock Wallance	stockbroker	43,930
Glyn Mills & Co.	clearing bank	98,070
R. & J. Henderson Co.	merchant	15,000
Keyser A. & Co.	merchant bank	13,890
Lamond, W.	-	10,000
Lawford G. & Co.	stockbroker	10,000
Lazard Bros.	merchant bank	20,000
Lloyds Bank	clearing bank	113,360
London County & Westminster Bank	clearing bank	624,650
London Joint Stock Bank	clearing bank	10,120
London & Provincial Bank	clearing bank	1,120
London & South Western Bank	clearing bank	124,670
Manchester & Liverpool District Bank	clearing bank	500
Martin Bank	clearing bank	24,180
W.N. Middleton & Co.	stockbroker	5,750
Mullens Marshall & Co.	stockbroker	10,720
National Bank of China	overseas bank	5,170
National Bank of Scotland	clearing bank	24,690
Panmure Gordon	stockbroker	100,750
Pawle H. & Co.	stockbroker	6,760
Roberts Lubbock & Co.	merchant bank	24,290
N.M. Rothschild	merchant bank	6,350
Royal Bank of Scotland	clearing bank	1,500
Spencer Thornton & Co.	stockbroker	10,000
Standard Bank of South Africa	overseas bank	2,140
Union of London & Smiths Bank	clearing bank	39,080
Union Bank of Scotland	clearing bank	6,050
William Deacons Bank	clearing bank	12,470
Hongkong Bank	overseas bank	124,960

Note: - implies no information.

Sources: H.S.B.A., LOHI/54; London Post Office Directory, 1911;
 S. Jones, Two Centuries of Overseas Trading (1986).

7.3 Conclusion

The rise of the Paris capital market after the Russo-Japanese War produced a flurry of activities among the financiers concerned with the Japanese government loan issues. London's unchallenged lead, which had been established since the first foreign loan issue in 1870, was lost. This decisively effected the loan issue markets for the Japanese government. The market linkages became relatively decentralised, although the markets were not really separate and had much possibility of co-operating in simultaneous loan issues. As the result of both the development of markets and the improvement of Japan's borrowing position abroad, Japan could have access to the world's main capital market directly, not through the main market (London). With the increased competition among the markets, the Japanese government could now pursue the most advantageous loan issue on the international capital market, and the patterns of loan issues for the Japanese government became more diversified. In this sense, the market linkages became closer for borrowers.

Until 1923 when the severe earthquake (Kantō Daishinsai) occurred, however, the Japanese government had no necessity of floating foreign loans, mainly because Japan enjoyed large trade surpluses during and after the First World War. Had not the continuous trade deficits improved remarkably, the Japanese government would probably have depended upon more foreign loan issues after 1914 and would have been thrown into a debt crisis.

CHAPTER 8

MUNICIPAL AND COMPANY LOAN ISSUES

After the Russo-Japanese War many British financiers paid heed to the Japanese economy as an attractive field of investment.¹ From the turn of the century British Diplomatic and Consular Reports began to mention foreign investments in Japan: in 1901 a scarcity of available capital in Japan was revealed and the question of seeking investment was raised;² in 1902 it was pointed out that many Japanese companies needed cheap foreign capital.³ The establishment of the Anglo-Japanese Corporation, an investment company for promoting enterprises in Japan with British capital, was projected in 1904.⁴

American investors also sought to invest in Japan. In August 1906 J.H. Schiff, a senior partner of Kuhn, Loeb & Co., who had played a prime part in the Japanese government foreign loan issues during the Russo-Japanese War, visited Japan with E.H. Harriman, who was at that time called the 'American Railway King'.⁵ Schiff emphasised that investment in Manchuria, where Japan was creating a new market after 1905, should be open to foreign capital.⁶ Paris financiers such as A. Kahn also encouraged Japanese investment by French capital after the conclusion of the Franco-Japanese Agreement in 1907.

As a consequence of the enthusiasm for the Japanese government war bonds on the foreign capital markets, investment in Japanese industries and enterprises received

¹. For instance, E.H. Holden, the Managing Director of the London City & Midland Bank (L.C.M.B.A., ACC/150/2, Mr. Holden's Report on his Visit to America, 10 September to 5 November 1904).

². Annual Series Diplomatic and Consular Reports (Japan) for 1901, no.2789 (1902), p.22.

³. Ibid., for 1902, no.3009 (1903), p.35.

⁴. B.B.A. PF297, C.V. Sale to Lord Revelstoke, 15 January 1904.

⁵. S.I.D., vol.5, pp.109-13.

⁶. J.H. Schiff, 'Japan after the War', North American Review, vol.183-no.dxcvii (August, 1906), p.166; C. Adler, Jacob H. Schiff: His Life and Letters, vol.1 (New York, 1928), p.236.

more attention among foreign investors. Obviously government foreign loan issues paved the way for company ones. A series of articles written by Henry Dyer, the First Principal of the Imperial College of Engineering in Tokyo, advocated industrial investment in Japan, saying that the opportunities for it were numerous and highly remunerative.⁷

Foreign investment in Japan peaked after the Russo-Japanese War. From 1906 several British financiers started an intensive investigation of Japanese investments. They even considered the possibility of direct investments which were regarded as having 'a higher yield for their money than debentures would offer'.⁸

The contemporary Japanese economy needed much capital for its rapid industrialisation. Several Japanese chambers of commerce welcomed low interest rate foreign capital.⁹ Meanwhile, the Japanese government itself regarded municipal and company foreign loans, as well as the government foreign loans, as an important source of funds for paying trade deficits.¹⁰ In fact, K. Takahashi, the Japanese Government Loan Commissioner, admitted in 1906 that the Japanese government had no intention of raising a further foreign loan because of its heavy borrowing abroad, but that there would be the possibility of municipal and company foreign loan issues.¹¹

This chapter will examine municipal and company foreign loan issues in the period from 1902 to 1913. It also includes the intention of comparing them with the government foreign loan issues, especially with respect to the investment channels between Japanese borrowers and the London capital market.¹²

⁷. H. Dyer, 'Japanese Industries and Foreign Investments', Financial Review of Reviews, no.4 (February 1906); 'Commercial Morality of Japan', ibid., no.7 (May 1906); 'Legal Aspects of Foreign Investments in Japan', ibid., no.10 (August 1906).

⁸. Annual Series Diplomatic and Consular Reports (Japan) for 1905, no.3377 (1906), p.3.

⁹. Y. Horie, Gaishi Yunyū no Kaiko to Tenbō (Recollection and Prospect of the Import of Foreign Capital to Japan) (Tokyo, 1950), pp.60-62.

¹⁰. R. Wakatsuki, Kofūan Kaikoroku (My Retrospect) (Tokyo, 1950), pp.146-47.

¹¹. 'The Japanese Loan Conversion: Interview with Mr. K. Takahashi, the Government Commissioner', Financial Review of Reviews, no.13 (1906), p.333.

¹². Reubens dealt largely with the Japanese government foreign loans and only limited consideration was given to the investment in private sectors (E.P. Reubens, 'Foreign (continued...)

8.1 Industrial Bank and Foreign Loan Issues

The Japanese government took a strictly defensive posture towards foreign capital on the 'Prinzip der Erziehung der Nation zur Selbständigkeit (principle of bringing up a nation for independence)'.¹³ On 21 August 1906 the Cabinet Meeting decided the following policy for the import of foreign capital:¹⁴

- (i) municipalities and companies which intended to import foreign capital (or to issue debentures abroad) should consult the government.
- (ii) the Industrial Bank, the most eligible financial institution for importing foreign capital to Japan, should invariably mediate it.

The Japanese government intended to control fully the import of foreign capital to municipalities and private sectors.¹⁵ For this purpose it immediately reorganised the Industrial Bank as an intermediary of capital imports.

In March 1902 the Industrial Bank was founded with ¥10,000,000 (£1,020,833) authorised capital (¥2,500,000 [£255,208] paid up capital) under a special act of Parliament. The Governor and directors were all appointed by the Japanese government. The Bank also retained several privileges: a 5 percent annual dividend upon the share capital was guaranteed by the government for 6 years from the foundation; the Bank was empowered to create debentures to the extent of 5 times of its paid up capital.¹⁶ At

¹²(...continued)

Capital and Domestic Development in Japan' in S. Kuznets, W.E. Moore & J.J. Spengler [eds.], Economic Growth [Durham [N.C.], 1955], chapter 6).

¹³ F. List, Schriften, Reden, Briefe, vol.vi (Das nationale System der politischen Ökonomie) (Berlin, 1930), p.42.

¹⁴ M.T.Z., vol.12, p.237. This idea stemmed from T. Megata's proposal in 1902 (J.M.F.A.A., T. Megata Papers, 9-5, 9 May 1902).

¹⁵ Mark Mason, 'With Reservations: Prewar Japan as Host to Western Electric and ITT' in T. Yuzawa & M. Udagawa (eds.), Foreign Business in Japan before World War II (Tokyo, 1990), p.175.

¹⁶ N.K.G.G.S., pp.22-28. According to a letter from M. Nunome (the former Chief of the Research Department of the Industrial Bank) dated 20 August 1986, no Bank record covering this period survives.

the outset, the ambiguously stipulated business object was that the Bank should long-term capital to borrowers.¹⁷ Therefore, its character was regarded simply as a Japanese 'Crédit Mobilier'. Yet it was also understood that in the near future the Bank would begin the business of importing capital to Japan.¹⁸

Although a channel for government foreign loan issues in London: i.e. the Yokohama Specie Bank, Parr's Bank and the Hongkong Bank, had been established during the Russo-Japanese War, the Japanese government created another for municipal and company ones. K. Inoue, a senior statesman, turned more of his attention to the Industrial Bank.¹⁹ In February 1905 K. Sone, the Japanese Minister of Finance, directed Takahashi in London to promote the Industrial Bank to the City as a new joint venture for Japanese investment.²⁰ For this purpose, the Japanese government intended to invite eminent foreign financiers to the Industrial Bank's directors.

Baring Brothers, which had been examining the possibility of Japanese private railway investments since 1902, were informed by Sale & Frazer Co., their correspondent in Yokohama, of the reorganisation of the Industrial Bank.²¹ C.V. Sale had set up Sale & Co. in London for Anglo-Japanese trade in 1882 and afterwards Sale & Frazer Co. was established in Yokohama as a sister firm.²² Sale & Frazer Co. acted as

¹⁷. *Ibid.*, pp.30-31.

¹⁸. B.B.A., PF295, Nippon Kogyoginko (a pamphlet). In 1903 the Industrial Bank applied to the Bank of England for making advances to the Industrial Bank, but the Bank of England refused this (B.E.A., G23/88, S.H. Morley to J. Soyeda, 30 November 1903).

¹⁹. *S.I.D.*, vol.5, pp.96-97.

²⁰. Secret (Secretariat), no.295, Sone to Takahashi, 9 February 1905 (*N.K.G.G.S.*, p.57).

²¹. B.B.A., PF298, Sale to Baring Brothers, 11 February 1905.

²². J. Tsushima, *Hōtō Zuisō (My Essay)*, vol.12 (on K. Mori) (Tokyo, 1964), pp.251-54. Sale & Frazer Co.'s business was to import steam-locomotives, rail and other manufactured goods into Japan and to export Japanese government and municipal bonds to London (*T.K.Z.*, vol.53-1339, 2 June 1906, p.920).

Baring Brothers' correspondent in Japan from 1903.²³

In April 1905 Takahashi approached Baring Brothers and explained that the Industrial Bank was the most eligible financial institution to mediate between borrowing Japanese municipalities and companies and the City. He invited Baring Brothers to nominate a foreign director for the Industrial Bank.²⁴ Yet Baring Brothers considered that such an financial intermediary (the Industrial Bank) would impede direct transactions between Japanese companies and foreign investors and have an ill effect on foreigners' investment.²⁵ They refused even Sale's participation in the Industrial Bank.²⁶ Perhaps Baring Brothers were anxious to deal with the Japanese private railway investments by themselves.²⁷

Subsequently, Takahashi invited Panmure Gordon & Co., a stockbroker, to this reorganisation project, but W. Koch, a partner of Panmure Gordon & Co., proposed the following conditions for its participation:²⁸

- (i) The unpaid capital (¥7,500,000 [£765,625]) of the Industrial Bank, out of the ¥10,000,000 (£1,020,833) authorised capital, should be paid up immediately and the paid up capital should be increased to ¥20,000,000 (£2,041,666).
- (ii) Panmure Gordon & Co. should undertake the issue of the newly increased stock (¥10,000,000 [£1,020,833]).
- (iii) The Industrial Bank should engage Panmure Gordon & Co. exclusively as the Bank's sole stockbroker, and Panmure Gordon & Co. should take up security issues in London at a 1/2 percent commission.

²³. B.B.A., PF297, MacDonald to Lord Revelstoke, 9 October 1903. Sale & Frazer Co. was regarded as 'eine respectable Firma (a respectable firm)' (K.A., Ms.22,025, Information Book).

²⁴. B.B.A., PF298, Memorandum from K. Takahashi, 6 April 1905.

²⁵. Ibid., Sale to Baring Brothers, 11 February 1905; Farrer to Sale, 11 April 1905.

²⁶. J.N.D.L., Inoue Papers, 686-5, Takahashi to Inoue, 16 May 1905.

²⁷. T.K.J., vol.2, pp. 269-70.

²⁸. J.N.D.L., Inoue Papers, 687-15, no.119, 3 October 1905. In December 1905 ¥2,500,000 (£255,208) capital was paid up and the Bank's paid up capital increased to ¥5,000,000 (£510,416).

Koch obviously aimed to reform the Industrial Bank into an Anglo-Japanese joint venture to share the stock equally. But Takahashi and the Japanese government responded that: the payment of the unpaid capital was to be fulfilled by June 1906; Panmure Gordon & Co. had only a priority of the security issues; out of the newly increased stock, only ¥7,000,000 (£714,583) should be sold abroad.²⁹ They were firm in minimising foreign influences on the Industrial Bank's management.

On 23 October 1905 the provisional contract was made between them, and the Industrial Bank appointed Panmure Gordon & Co. as its London agent.³⁰ Similar agent contracts would be placed with Günzbourg et Cie (Paris) and Warburg (Hamburg) in 1907.³¹ Yet the Japanese government was not entirely successful in transforming the Industrial Bank into joint venture because the contract omitted a stipulation that the Bank should have foreign directors. However, these agent contracts played an important role in placing abroad at a very low commission the foreign loans which the Industrial Bank undertook.

In February 1906 an amendment of the Industrial Bank Act was brought into effect: the Bank's paid up capital increased to ¥6,250,000 (£638,020) out of the ¥10,000,000 (£1,020,833) authorised capital; then the Bank increased the authorised capital to ¥17,500,000 (£1,786,458); the ¥7,500,000 (£765,625) newly increased stock was all placed abroad and paid up fully. As a result, the Bank's paid up capital now became ¥13,750,000 (£1,403,645) and the proportion of the capital, held by foreigners, reached 43 percent.³²

The Industrial Bank was formidable for foreign financiers in Japanese loan issue

²⁹. Matsuo to Takahashi, 25 August 1905 in T.K.J., vol.2, pp.270-71.

³⁰. N.K.G.G.S., pp.59 and 98.

³¹. Industrial Bank of Japan, Honkoku ni okeru Gaishi Dōnyū Shōshi (Short History of Capital Imports in Japan) (Tokyo, 1948), p.5.

³². N.K.G.G.S., pp.60 and 83. The Japanese government increased the Industrial Bank's capital by ¥7,500,000 (£765,625) only, in spite of the Panmure Gordon & Co.'s previous proposal. J.S. Morgan & Co. bought 2,000 shares (M.G.A., Ms.21,793, vol.3).

business. After 1906 the Bank was deeply concerned with many municipal and company foreign loan issues, so much so that foreign financiers were very wary of its advantageous position. Foreign financiers often blamed the Japanese government's unfair intervention, through the Industrial Bank, in private transactions. In fact, foreign merchants in Japan complained that Japanese municipal foreign loan issues were almost unavailable except through the Industrial Bank.³³ C.M. MacDonald, the British Ambassador in Tokyo, commented that the Japanese government gave too much favour to the Industrial Bank 'at the expense of its [foreign] rivals'.³⁴

8.2 Municipal Loan Issues

After the Russo-Japanese War Japan entered a new era of foreign loan issues for municipalities and companies. The loan issues concentrated on 1908 and 1909 in particular (Table 8.1 and 8.8). Municipalities were willing to introduce low interest rate foreign capital into their infrastructure establishments. Owing to the low capital accumulation, interest rates in Japan were much higher than those in Western developed countries. Table 8.2 shows that the interest rate differentials between Japan and Britain.

At that time there were the following three common channels of municipal foreign loan issues:

- (i) by foreign financiers directly (through correspondents in Japan).
- (ii) by foreign financiers through the Industrial Bank.
- (iii) by foreign financiers through other Japanese banks.

Before July 1902 the Japanese government had not yet followed any definite guideline for municipal foreign loan issues. In July 1899 the City of Kobe negotiated on

³³. F.O.371/86, C.M. MacDonald to Lord Grey (Memorandum of the Industrial Bank of Japan), 29 May 1906.

³⁴. Ibid., 26 September 1906.

an issue of ¥1,000,000 (£102,083) 6 percent bonds with J.M. Morse, the President of the American Trading Co. in Yokohama and Kobe.³⁵ They agreed to issue ¥500,000 (£51,042) of the 6 percent bonds. Morse purchased ¥250,000 (£25,521)³⁶ in sterling. This was the first municipal foreign loan issue in Japan, although the character was very different from public loans placed through subscriptions on the market. In 1902 the 6 percent City of Yokohama waterworks foreign loan for £90,000 was arranged by S. Samuel & Co. in Yokohama and M. Samuel & Co. placed it in London.³⁷

Thereafter, in July 1902 the Japanese Ministry of Home Affairs gave notification that municipalities should invariably inform both the Ministry of Home Affairs and the Ministry of Finance of loan issues before commencing negotiations with foreign financiers.³⁸ This aim was obvious. The Japanese government intended to control the import of foreign capital to municipalities. Although foreign financiers were never shut out wholly, there was only a little room for them to vie effectively with the Industrial Bank in municipal loan issue business. In order to escape censure of its unfair trade interventions, the sagacious Japanese government reserved a limited number of municipal foreign loan issues for foreign financiers. For instance, it was under the Japanese government's administrative guidance that Sale & Frazer Co. took the City of Nagoya 5 percent loan issue in 1909.³⁹

The municipal foreign loan issues before the Russo-Japanese War period were arranged mainly by British merchants in Japan. They did not always offer favourable loan issue terms. The City of Osaka 6 percent harbour loan contract in 1902 between the Daisan Bank, the Yasuda Bank and S. Samuel & Co. exemplifies one of the early

³⁵. The City of Kobe, Kobe Shishi (History of Kobe), vol. Honpen Kakusetsu Ge (Kobe, 1924), p.258; T.K.Z., vol.40-988, 22 July 1899, p.202.

³⁶. M.T.Z., vol. 12, p.714.

³⁷. B.B.A., PF295, Bisset to Lord Revelstoke, 26 July 1902.

³⁸. Ministry of Home Affairs Circular, dated 4 July 1902 (M.T.Z., vol.12, p.715).

³⁹. The City of Nagoya, Taishō Shōwa Nagoyashishi (History of the City of Nagoya from 1917), vol. 7 (Nagoya, 1955), p.236.

unfavourable municipal foreign loan issues.⁴⁰

- (i) The Daisan Bank should purchase ¥3,500,000 (£357,292) of the bonds from the municipality.
- (ii) S. Samuel & Co. should sell them in London through M. Samuel & Co. at a 7 1/2 percent commission including all the charges.
- (iii) The Yasuda Bank should underwrite half the issue amount (¥1,750,000 [£178,646]) and S. Samuel & Co. the other half.
- (iv) S. Samuel & Co. should pay a 2 1/2 percent underwriting commission to Yasuda Bank.

It must be noted that the municipality paid a large loan issue commission, 7 1/2 percent. S. Samuel & Co.'s real commission amounted to nearly 8 percent including the balance between the issue price (99 percent) and the purchase price from the municipality (about 97 3/4 percent). The reason for the 6 percent rate of interest was ascribed to the character of a domestic loan. ¥3,500,000 [£357,292], out of the ¥17,038,000 [£1,739,296] bonds issued, was offered to the subscriptions abroad.⁴¹ S. Samuel & Co. agreed to underwrite only half the amount (¥1,750,000) and the Yasuda Bank was to sell the other half in the domestic market should the subscriptions in London fail. S. Samuel & Co. also obtained a 10 percent commission in the City of Yokohama 6 percent waterworks loan of 1902.⁴² These show that the Japanese municipalities did not enjoy favourable foreign loan issues before the Russo-Japanese War.

In view of these unfavourable loan issue circumstances, in August 1906 the Ministry of Finance gave notification that small municipal loans (less than ¥1,000,000 [£102,083]) should either be floated on the domestic market or aggregated to the form of Industrial Bank foreign debentures; municipal foreign loan issues should be made

⁴⁰. Contract dated 11 October 1902 in G.K.S., vol.2, pp.308-16.

⁴¹. J.M.F.A.A., 3-4-4-5, vol.1, Daisan Bank to Komura, 22 October 1902; S.E.O.I. (1906).

⁴². T.K.Z., vol.45-1134, 31 May 1902, p.1010; S.E.O.I. (1909).

through the Industrial Bank.⁴³ Although the Japanese government announced that it had no intention of interfering in transactions, it was obvious that this was the virtually inevitable result for municipalities.⁴⁴

How could British merchants in Japan find a loan issue market for municipalities? In other words, how could they mediate between municipalities and the City? Correspondence between Sale & Frazer Co., Baring Brothers and Antony Gibbs⁴⁵ in the City of Tokyo loan issue negotiations of 1906 provides a rich source of information on this matter. This reveals their practice in contemporary foreign loan business.

In July 1905 Sale & Frazer Co. (Yokohama), through its sister firm Sale & Co. (London), offered the City of Tokyo harbour loan issue to Baring Brothers. Yet Baring Brothers showed little interest in it because their Japanese investment business was confined strictly to government or first class private railway company loan issues. Baring Brothers, therefore, exhorted Sale & Co. to take this business to Antony Gibbs. Brien Cokayne, a partner of Antony Gibbs, and Lord Revelstoke met to discuss it and Lord Revelstoke assured him that this would be as sound as a government loan issue. Cokayne was afraid of locking up capital in a loan issue and hesitated to launch such a risky venture without full knowledge of its character. Vicary Gibbs, another partner of Antony Gibbs, was, however, rather keen to seize the proposed loan issue⁴⁶ and consulted Panmure Gordon & Co. on the possibility.⁴⁷ Despite the information supplied being very

⁴³. M.T.Z., vol.12, pp.717-18. This was in accordance with the decision of the Cabinet Meeting on 21 August 1906 which has been mentioned previously.

⁴⁴. Ibid., p.718. However, in the City of Yokohama harbour work loan of 1907 S. Samuel & Co. received only a 2 1/2 percent commission including the British stamp duty. This low level of the commission was very favourable to the municipality (Contract dated 14 September 1906 in G.K.S., vol.2, pp.351-54; T.K.Z., vol.54-1350, 18 August 1906, p.284). This reason may have lain in the condition that the payment of the proceeds be made in yen.

⁴⁵. For Antony Gibbs's brief history, see M.J. Daunton, 'Inheritance and Succession in the City of London in the Nineteenth Century', Business History, vol.xxx-no.3 (1988), pp.276-82.

⁴⁶. A.G.A., Ms.11,040, Brien Cokayne to Herbert Gibbs, 28 July 1905.

⁴⁷. Ibid., 29 July 1905.

imprecise and no statistics being available on the City of Tokyo, by the end of July Gibbs had decided on the following tentative loan issue terms:⁴⁸

	(%)	
Rate of interest	6	
Issue price	97 (to the public)	
	90 (to the municipality)	
Commission	7	
	<hr/>	
	2	to Antony Gibbs
	1	to Sale & Frazer Co.
	2	to underwriters
	1/2	brokerage
	1	printing and advertising
	1/2	the stamp duty.

The loan issue commission amounted to 7 percent and there was a 1 percent intermediary commission to Sale & Frazer Co..

It seems likely that Sale & Frazer Co. had not yet firmly grasped the business opportunity. Antony Gibbs became sceptical about the progress of the negotiations in Japan, and in September it proposed either a 6 percent loan at 95 1/2 percent or a 5 1/2 percent one at between 90 percent and 88 percent.⁴⁹

Ultimately Antony Gibbs' bid ended up unfulfilled. In June 1906 the Industrial Bank and the City of Tokyo agreed to issue a 5 percent loan for £1,500,000 through Parr's Bank, the Hongkong Bank and the Yokohama Specie Bank. The 5 percent rate of interest and 3 1/2 percent commission were much better than Antony Gibbs' offer.⁵⁰ Sale & Frazer Co. reported to Baring Brothers that 'it is a triumph for the Industrial Bank of Japan, and for those Japanese who insisted that their credit has now reached such a standard that foreign intermediaries are no longer required'.⁵¹ Foreign financiers,

⁴⁸. Ibid., Vicary Gibbs to Herbert Gibbs, 31 July 1905 and Henry Gibbs to Herbert Gibbs, 1 August 1905.

⁴⁹. Ibid., Brien Cokayne to Herbert Gibbs, 25 September 1905.

⁵⁰. Provisional Contract between the City of Tokyo and the Industrial Bank dated 30 June 1906 in *G.K.S.*, vol.2, pp.7-8.

⁵¹. B.B.A., PF301, Sale & Frazer to Baring Brothers, 20 July 1906.

however, were dissatisfied with this outcome. In particular, S. Samuel & Co. complained that the City of Tokyo had an obvious motive for putting the loan issue into the hands of the Industrial Bank, disregarding many foreign financiers' more advantageous offers.⁵²

The Industrial Bank took the initiative in underwriting the loan issue through Panmure Gordon & Co..⁵³ The result of this loan issue was undersubscribed and the underwriters took £283,840 of the bonds, 18.9 percent of the issue amount (Table 8.3).

Sale & Frazer Co. often mediated loan issues between Japanese borrowers and the City. Lazard Brothers placed the loans Sale & Frazer Co. undertook in Japan, on the London capital market. Through these business connections, both the City of Nagoya 5 percent loan of 1909 and the City of Yokohama 5 percent one of 1912 were floated. The City of Nagoya 5 percent loan was issued at a 5 1/2 percent commission.⁵⁴ In comparison with the loan issues undertaken by the Industrial Bank, the terms were slightly less favourable to the municipality.

Table 8.1 shows that in the period from 1906 to 1913 there were four municipal foreign loan issues which the Industrial Bank undertook. Their cumulative amount in that period comprised nearly 80 percent of the total municipal foreign loan issues. As shown, the Bank ensured a firm business channel with Panmure Gordon & Co. through its agent contract, and the usual Japanese government loan takers in London: i.e. Parr's Bank, the Hongkong Bank and the Yokohama Specie Bank, invariably placed all of them.

In 1909 the City of Osaka issued a 5 percent loan for £3,084,940 in London through the Industrial Bank. £1,250,000 of the bonds had been purchased in advance and the balance of £1,834,940 was subscribed on the market (Table 8.4).⁵⁵ The 5 percent loan issue commission excluding miscellaneous charges⁵⁶ was more expensive to the

⁵². Ibid..

⁵³. H.S.B.A., Board Minutes, 17 July 1906.

⁵⁴. L. A., W.94/5, Memorandum of Provisional Contract, 8 May 1909.

⁵⁵. P.B.A., B11418, Board Minutes, 29 April 1909.

⁵⁶. H.S.B.A., LOHI/2; Contract between the City of Osaka and the Industrial Bank dated 22 May 1909 in G.K.S., vol.2, pp.319-22.

municipality than the 3 1/2 percent in the City of Tokyo loan issue of 1906. In the same year the Industrial Bank also took the City of Yokohama 5 percent waterworks loan issue for £716,500. Parr's Bank, the Hongkong Bank and the Yokohama Specie Bank floated it at a 4 percent commission through Panmure Gordon & Co.. It was oversubscribed fivefold (Table 8.5).⁵⁷

In February 1912 the City of Tokyo raised a £9,175,000 foreign loan for purchasing private electric tramway companies. Despite many foreign financiers' vigorous offers, the Industrial Bank finally took it. The loan was placed on the three major capital markets: London, New York and Paris, simultaneously. The Industrial Bank completed these operations through Panmure Gordon & Co. and Günzbourg et Cie.⁵⁸ Parr's Bank, the Hongkong Bank and the Yokohama Specie Bank undertook the issue in London, Kuhn, Loeb & Co. in New York, and the Société Générale, the Banque de Paris and the Comptoir National d'Escompte in Paris. K. Mori, the Japanese Government Financial Commissioner, conducted all these negotiations on behalf of the Industrial Bank.⁵⁹ He assessed the capacity of the Anglo-American markets at £6,000,000 at most and included Paris in this operation.⁶⁰ According to the different market conditions, the following separate loan issue terms were prepared:⁶¹

Loan issue amount	£9,175,000
London	£3,175,000
Paris	£4,000,000
New York	£2,000,000
Rate of interest (nominal)	5 percent

⁵⁷. H.S.B.A., LOHI/2 and 51; London Stock Exchange (Guildhall Library), Loan and Company Prospectuses.

⁵⁸. Contract between the City of Tokyo and the Industrial Bank dated 6 February 1912 in G.K.S., vol.2, pp.40-43; N.K.G.G.S., pp.94-95.

⁵⁹. Contract (B) between K. Mori and Panmure Gordon & Co. dated 16 February 1912 in G.K.S., vol.2, pp.51-53; A.M.E.A., N.S.57, French Chargé d'Affaires in Tokyo to Poincaré, 3 February 1912.

⁶⁰. J.M.F.A., K. Shōda Papers, 28-7, K. Mori to K. Shōda, 5 December 1911.

⁶¹. G.K.S., vol.2, pp.41-53.

Loan issue price\$	(to municipality)	(to the public)
London	93 percent	98 percent
Paris	92 percent	96 3/4 percent
New York	93 1/2 percent	98 percent
Yields at issue		
London	5.1 percent	
Paris	5.2 percent	
New York	5.1 percent.	

The outcome of the subscriptions in London was very poor and only £1,523,600, 48 percent of the London issue amount, was taken by the public (Table 8.6).

French investors also paid much attention to investments in Japan after the conclusion of the Franco-Japanese Agreement in 1907. In the very same year the Banque de Paris sent H. Finally, Sous-directeur (Sub-director), to Japan to look into the possibility of Japanese investments.⁶² Japanese businessmen were also willing to build up commercial relations with French financiers. In 1907, J. Soyeda, the Governor of the Industrial Bank, on a business trip, approached several financiers in Paris through J. de Günzbourg⁶³ and T. Masuda, a Director of the Mitsui Zaibatsu, contacted the Paris Rothschilds and Vernes et Cie.⁶⁴

In 1909 and 1912 the City of Kyoto floated 5 percent loans on the Paris capital market through the Mitsui Bank. The main figure of these loan issues was A. Kahn, an influential French financier, who had established close connections with the Mitsui Zaibatsu.⁶⁵ In 1906 the City of Kyoto decided to construct waterworks, roads and an electric tramway on borrowing. Initially the City brought this business to the Industrial Bank, but the Bank failed to float the loan in Europe because of adverse market conditions. K. Saigō, the Mayor, approached the Mitsui Bank, instead of the Industrial Bank, and in 1908 made temporary borrowings of ¥2,700,000 (£275,625) from the Mitsui Bank. The Mitsui Bank, which was at that time considering redirecting its business

⁶². A.M.E.A., N.S. 54, French Ambassador in Tokyo to Pichon, 3 September 1907.

⁶³. Ibid., N.S.59, French Ambassador in Tokyo to Pichon, 3 April 1907.

⁶⁴. M.A., Ikō-182, Masuda's Interview in France, no date.

⁶⁵. A.M.E.A., N.S.55, French Ambassador in Tokyo to Pichon, 20 January 1909.

from deposit to investment banking,⁶⁶ intended to raise further necessary funds abroad.⁶⁷

In March 1909 the City of Kyoto agreed with the Mitsui Bank to issue a 5 percent loan in France for ¥17,000,000 (£1,735,417).⁶⁸ S. Watanabe, the Manager of Mitsui Bussan Kaisha in London, became a prime negotiator.⁶⁹ Kahn mediated between Watanabe and the loan issue banks in Paris: the Banque de l'Union Parisienne and the Société Marseillaise de Crédit Industriel et Commercial et de Dépôts.⁷⁰ On 28 June 1909 Watanabe concluded the following loan issue terms:⁷¹

Issue amount	Fr45,000,000 (£1,781,250)
Rate of interest (nominal)	5 percent
Issue price	99 percent (to the public) 93 percent (to the municipality)
Yield at issue	5.4 percent
Borrowing period	30 years.

The total issue amount was purchased by the syndicate.⁷² The contract stated that the syndicate could re-purchase 20 percent of the issue amount from the market to manipulate the market price of the bonds properly.⁷³ The 6 percent loan issue commission, including miscellaneous charges, was not particularly advantageous to the municipality. The

⁶⁶. MT.B.A., 4-2, Shitenchōkai Ssokiroku (Stenographic Notes of Branch Managers' Meeting) held on 21 September 1907, p.7.

⁶⁷. Mitsui Bank, Mitsui Ginkō Hachijūnenshi (Eightieth Year Anniversary History of the Mitsui Bank) (Tokyo, 1958), pp.184-85.

⁶⁸. MT.B.A., 12-10, Telegram, Manager at the Kyoto Branch to S. Hayakawa (Managing Director of the Mitsui Zaibatsu), 21 March 1909.

⁶⁹. At that time Watanabe was in charge of the Bank's affairs in Europe (ibid., 2-1, Board Minutes, vol.1, 2 November 1909).

⁷⁰. A.M.F., F30³⁷⁷, Watanabe to Kahn (Copy), 3 August 1909.

⁷¹. M.A., Ginkō 13-6, T. Toyama, Mitsui Ginkō Ōbei Shucchoin Hōkokusho (Report of an officer dispatched by the Mitsui Bank to Europe and America) (1909), pp.106-18.

⁷². According to the syndicate contract, the main members of the syndicate were as follows: Banque de l'Union Parisienne; Société Marseillaise; Banque de Paris; Société Générale; Comptoir National d'Escompte; Crédit Algérien; Hottinguer; Mallet Frères; Mirabaud; Mitsui Bussan Kaisha (London Branch); Lazard Frères; Vernes; Kahn; the Paris Rothschilds; Kleinworts (London); Warburg (Hamburg) (Toyama, op. cit., pp.122-23).

⁷³. Ibid., pp.118-21.

distribution of the commission among the concerned financial institutions is indicated in Table 8.7.

The syndicate successfully secured the issue amount⁷⁴ and the French government immediately admitted the quotation of the loan on the Paris Stock Exchange.⁷⁵ The syndicate desired the City of Kyoto to use French manufactured goods for the works which the loan financed.⁷⁶ In 1912 an additional 5 percent loan for Fr5,000,000 (£197,917) was issued at a 5 percent commission through the same channel.⁷⁷

Perhaps it was in these two financial operations that French financiers gained a firm foothold in Japanese loan issue business and fully eliminated Britain's strong sway over their activities.⁷⁸ Meanwhile, the Mitsui Bank was proud of accomplishing these issues without any British intermediary.⁷⁹

⁷⁴. MT.B.A., 5-7, Hōchi (Announcement), dated 6 July 1909.

⁷⁵. A.M.F., F30³⁷⁷, Order 38, Ministère des Finances to Syndic, 8 July 1909.

⁷⁶. J.M.F.A.A., 3-4-4-42, Secret no.24, S. Kurino to Komura, 26 August 1909.

⁷⁷. MT.B.A., 2-1, Board Minutes, 12 and 26 August 1909.

⁷⁸. A.M.F., F30³⁷⁷, no.643, Ministère des Affaires Etrangères to Ministère des Finances, 18 June 1909.

⁷⁹. MT.B.A., 4-2, *op. cit.* ~~Ref~~ on 13 September 1909, p.5.

Table 8.1 Japanese Municipal Foreign Loan Issues, 1899-1913

Year	Municipality (Object)	Issue amount (nominal) (¥000)	Interest rate [yield at issue] (%)	Issue price (to the public) (%)	Intermediary	Issuers (issue place)
1899	Kobe (Waterworks)	250	6 [6.5]	92	Morles (Yokohama)	Morles (Yokohama) (possibly in London)
1902	Yokohama (Waterworks)	900	6 [6.1]	98	S. Samuel	M. Samuel Capital & Counties Bank (London)
1902	Osaka* (Harbourworks)	3,085	6 [6.1]	99	Daisan Bank Yasuda Bank S. Samuel	M. Samuel Capital & Counties Bank (London)
1906	Tokyo** (Harbourworks, Street Improvements)	14,580	5 [5.0]	100	Industrial Bank	Hongkong Bank Parr's Bank Yokohama Specie Bank (London)
1907	Yokohama*** (Harbourworks)	3,108	6 [6.1]	99	S. Samuel	M. Samuel (London)
1909	Yokohama (Gasworks)	648	5 [5.1]	97 1/2	Hongkong Bank	Hongkong Bank (London)
1909	Osaka+ (Waterworks, Electric Tramway)	30,220	5 [5.2]	97	Industrial Bank	Hongkong Bank Parr's Bank Yokohama Specie Bank (London)
1909	Nagoya++ (Waterworks)	7,816	5 [5.2]	95 1/2	Sale & Frazer Co.	Lazard Bros (London)
1909	Kyoto+++ (Waterworks, Electricity and others)	17,550	5 [5.1]	99	Mitsui Bank (Kahn)	Banque de l' Union Parisienne (Paris)

Table 8.1 Japanese Municipal Foreign Loan Issues, 1899-1913 (cont.)

Year	Municipality (Object)	Issue amount (nominal) (¥000)	Interest rate [yield at issue] (%)	Issue price (to the public) (%)	Intermediary	Issuers (issue place)
1909	Yokohama*+ (Waterworks)	7,000	5 [5.1]	98	Industrial Bank	Hongkong Bank Parr's Bank Yokohama Specie Bank (London)
1912	Kyoto*++ (Waterworks, Electricity and others)	1,950	5 [5.1]	98 1/2	Mitsui Bank (Kahn)	Banque de l' Union Parisienne (Paris)
1912	Tokyo**+ (Electricity)	89,564	5 [5.1]	98	Industrial Bank	Hongkong Bank Parr's Bank Yokohama Specie Bank (London)
			5 [5.1]	97 3/4		Kuhn, Loeb (New York)
			5 [5.1]	96 3/4		Société Générale (Paris)
1912	Yokohama (Gasworks)	1,200	5 [5.1]	97 1/2	Sale & Frazer	Law Debenture Corp. (London)

Notes: The issue amounts were based on Japanese records and not converted at the fixed rate of exchange (for instance, ¥1=2s. 1/2d. and ¥1=Fr2 11/19);

* according to the contract, the amount was ¥3,500,000;

** the original amount was £1,500,000;

*** the original amount was £317,000;

+ the original amount was £3,084,940;

++ the original amount was £800,000;

+++ the original amount was Fr45,000,000;

*+ the original amount was £716,500;

*++ the original amount was Fr5,000,000;

**+ the original amounts were £9,175,000 (London), £5,175,000 (New York) and Fr100,880,000 (Paris).

Sources: M.T.Z., vol.12, p.721; The Finance Bureau of the Japanese Ministry of Finance, Kin-yū Jikō Sankōsho (Annual Reference Bulletin on Financial Matters), for the year of 1920 (1920, Tokyo), p.27; Industrial Bank of Japan, Nippon Gaisai Shōshi (Short History of Japanese Foreign Loans) (Tokyo, 1948); G.K.S., vol.2; S.E.O.I., annually; London Stock Exchange (Guildhall Library), Loan and Company Prospectuses.

Table 8.2 Interest Rate Differentials (Bank Rates and Official Discount Rates), 1900-1910
(percent)

Year	Bank Rate (Britain)	Official Discount Rate (Japan)
1900	4.0	8.8
1901	4.0	8.8
1902	4.0	6.2
1903	4.0	5.8
1904	3.0	7.3
1905	4.0	8.0
1906	6.0	6.6
1907	7.0	7.3
1908	2.5	7.3
1909	4.5	5.8
1910	4.5	4.8

Note: End of December.

Sources: J. Clapham, The Bank of England, vol.ii (Cambridge, 1944), appendix b; N.G.H.S., vol.data, p.426.

Table 8.3 Subscriptions of the City of Tokyo
5 Percent Loan Issue in 1906
(£)

Public Subscriptions	
Hongkong Bank	258,140
Yokohama Specie Bank	512,700
Parr's Bank	445,320
Underwriters (19 percent)	283,840
Total	1,500,000

Note: The quotation price at the end of February 1907 was 99 percent (I.M.M.); the paper loss of the underwriters was 1 percent.

Source: H.S.B.A., LOHI/2.

Table 8.4 Subscriptions of the City of Osaka 5 Percent Loan Issue in 1909
(£)

Loan issue bank	Allotment	Subscriptions
Hongkong Bank	511,660	5,562,000
Parr's Bank	2,177,280	
Yokohama Specie Bank	396,000	
Total	3,084,940	5,562,000

Source: H.S.B.A., LOHI/2.

Table 8.5 Subscriptions of the City of Yokohama 5 Percent Loan Issue in 1909
(£)

Loan issue bank	Application	Allotment
Hongkong Bank	853,400	137,900
Parr's Bank	1,910,740	465,200
Yokohama Specie Bank	899,900	113,400
Total	3,664,040	716,500

Source: H.S.B.A., LOHI/2.

Table 8.6 Subscriptions of the City of Tokyo 5 Percent Loan Issue in 1912
(£)

Public Subscriptions	
Parr's Bank	1,103,700
Hongkong Bank	255,700
Yokohama Specie Bank	164,200
Underwriters (52 percent)	1,651,400
Total	3,175,000

Note: the quotation price at the end of April 1912 was 98 1/4 percent (I.M.M.); there was no paper loss for the underwriters.

Source: H.S.B.A., LOHI/48.

Table 8.7 Distribution of Loan Issue Commissions in the City of Kyoto 5 Percent Loan Issue in 1909
(percent)

Mitsui Bank (intermediary)	1/2
Kahn (intermediary)	1/2
Banque de l'Union Parisienne (loan issue bank)	1/2
Société Marseillaise (loan issue bank)	1/2
Syndicate profit	4
Total	6

Note: Syndicate profit included miscellaneous charges.
Source: M.A., Ginkō 13-6, Toyama, op. cit., pp.121-22.

8.3 Company Loan Issues

Japanese industries and enterprises needed cheap foreign capital. For instance, the Osaka Merchant Shipping Co. intended to issue low interest rate foreign debentures in 1900.⁸⁰ In 1902 Baring Brothers' experimental operations to scrutinise the possibility of Japanese private railway investments started. But both defects in the Japanese mortgage law and the outbreak of the Russo-Japanese War frustrated the business. Like the municipal foreign loan issues, it was after the Russo-Japanese War period that company foreign loan issues reached their peak. It is obvious from Table 8.8 that the proportion of the railway company foreign debenture issues to the total foreign ones from 1905 to 1913 was well over 35 percent, and would probably have been higher, had not railway nationalisation taken place. Table 8.9 also shows the total number and amount of company debenture issues, domestic and foreign, from 1902 to 1913.

The attitude of the Japanese government towards company foreign loan issues was almost the same as that towards municipal ones. The previous announcement of 1906 was also applicable to company foreign loan issues. In addition to this, the Japanese Secured Debentures Trust Law stipulated that a company which intended to enter a trust agreement with foreigners should file an application with the Ministry of Finance.⁸¹ On these grounds the Japanese government could legally intervene in private transactions.

Several foreign merchants resident in Japan, such as Kirby & Birch Co., S. Samuel & Co. and Sale & Frazer Co., played a leading role in placing company loans, especially the earlier ones, abroad as agents or correspondents of London merchant banks. These merchant houses dispatched useful business information directly to the City.

⁸⁰. Osaka Merchant Shipping Co., Osaka Shōsen Kabushiki Kaisha Gojyūnenshi (Fiftieth Anniversary History of the Osaka Merchant Shipping Co.) (Osaka, 1934), p.507.

⁸¹. F.O. 371/87, MacDonald to Lord Grey, 9 June 1906.

Apart from the large-scale government, municipal and company domestic loan issues, merchant houses were able to take part effectively in company foreign issues. In particular, S. Samuel & Co. was most deeply involved in company foreign loan business. It undertook the Kansai Railway Co. debenture issue in 1905 and in 1908 made a private borrowing for ¥3,000,000 (£306,250) for the Keihan Railway Co. on the Daiichi Bank's guarantee.⁸² These transactions resulted in many concomitant orders for British manufactured railway goods. In 1910 Sale & Frazer Co. arranged the ¥5,000,000 (£510,416) Hokkaidō Colonial Bank 5 percent foreign debentures, the purpose of which was conversion of high interest rate domestic debentures to lower foreign ones.⁸³

Overseas banks also became involved in Japanese company foreign loan issues. The Hongkong Bank, since the re-sale of the Japanese government domestic bonds in 1902, collaborated with Baring Brothers in Japanese investment business. Its Yokohama Branch often supported Sale & Frazer Co., the Baring Brothers' agent in Japan, in several Japanese private railway debenture issues. The Hongkong Bank, however, switched the partner of its Japanese investment business from Baring Brothers to the Industrial Bank, because the Industrial Bank made an agent contract with Panmure Gordon & Co., as mentioned previously. In 1905 the Chartered Bank issued the 5 percent Hokkaidō Colliery & Coal Railway Co. debentures through Faber & Pigot Co..⁸⁴

French financiers had stakes in several Japanese company loan issues. In 1908 Kahn mediated the Kanegafuchi Cotton Spinning Co. 7 1/2 percent debenture issue between the Mitsui Bank and the banks in Paris.⁸⁵ In 1909 Gysin Frères in Paris mediated the 6 1/2 percent debenture issue in Paris for the Matsui Muslin Spinning Co..⁸⁶ In 1913 the newly established Banque Franco-Japonaise placed the first Oriental Colonial Corp.

⁸². F.O. 371/475, MacDonald to Lord Grey, 9 April 1908.

⁸³. Hokkaidō Colonial Bank, Hokkaidō Takushoku Ginkōshi (History of the Hokkaidō Colonial Bank) (Sapporo, 1971), pp.62-63.

⁸⁴. Hokkaidō Collier & Coal Railway Co., Nanajūnenshi (Seventieth Anniversary History) (Tokyo, 1958), pp.76-77.

⁸⁵. A.M.F., F30³⁷⁷, Charpentier to Pichon, 13 February 1909.

⁸⁶. Ibid., 14 May 1909.

5 percent debentures, guaranteed by the Japanese government, on the Paris capital market.⁸⁷

It seems likely that British investors were reluctant to channel money through a financial intermediary specialised in Japanese investment. Merchant banks invariably took the initiative in Japanese investment, as the Anglo-Japanese Bank had not gained a high reputation in the City. By contrast, French financiers, much behind the British in Japanese investment business, set up a specific intermediary for Japanese investments. In 1913 the Société Générale, together with the Industrial Bank, founded the Banque Franco-Japonaise, the purpose of which was to establish direct financial linkages between France and Japan, not through British intermediaries.⁸⁸

The Industrial Bank played a key role in mediating most of the large scale company foreign loan issues. Its business network, covering London (Panmure Gordon & Co.), Paris (Günzbourg et Cie) and Hamburg (Warburg), enabled the Bank to issue more favourable foreign loans than any foreign merchants in Japan could arrange. During the period from 1906 to 1913 the Industrial Bank made eight out of the eleven company foreign loan issues.

In following sections, several Japanese company foreign debenture issues, by both foreign financiers and the Industrial Bank, will be discussed as case studies.

8.3.1 Baring Brothers and railway investments

Gordon's Report on the Japanese railway system pointed out that a number of railway companies in Japan urgently needed cheap foreign capital because of the high interest rates there.⁸⁹ The first attempt at raising foreign loans for Japanese private railway

⁸⁷. A.M.E.A., N.S. 57, French Ambassador in Tokyo to Ministère des Affaires Etrangères, 8 March 1913.

⁸⁸. A.M.F., F30³⁷⁷, Note pour Ministre, 4 April 1912.

⁸⁹. F.O. 46/561, Mr. Gordon's Report and Account of the Japanese Railway System in 1902.

companies took place in 1901. In June 1901 R. Kirby, a Director of John Birch & Co. (London), informed MacDonald (the British Minister in Tokyo at that time) that his company was looking for British banks which could look after Japanese private railway company foreign debenture issues. John Birch & Co. supplied railway instruments to many railway companies. The Kyūshū Railway Co. required borrowings for extending and improving the lines. The Hokuetsu Railway Co. mainly for paying off the high interest rate (10 percent) domestic bonds.⁹⁰

The Kyūshū Railway Co. was set up in June 1888 and amalgamated many small local railway companies in a coal mining area of the Kyūshū district. E. Shibusawa, the Governor of the Dai-ichi Bank, became a major influence in the Company.⁹¹ The Hokuetsu Railway Co. was established in December 1895 and Shibusawa retained large stakes.

British diplomats were deeply concerned with Japanese private railway investments. MacDonald introduced this business to Baring Brothers through Lord Lansdowne, the British Secretary for Foreign Affairs.⁹² However, the most crucial obstacle to this business was that foreigners were not able to secure their investments in railway companies, that is to say, railway companies were not able to mortgage lands and railway properties to foreigners.⁹³ MacDonald, therefore, warned T. Hayashi, the Japanese Minister in London, that no one could put money into Japanese railway companies, unless the Japanese government immediately altered the law so as to provide security for foreign investors.⁹⁴

In September 1901 Baring Brothers entered into negotiations with John Birch & Co. on the proposed Japanese private railway debenture issues. J.S. Horner, a Director

⁹⁰. F.O. 800/134, Kirby to MacDonald, 3 June 1901.

⁹¹. K. Nakanishi, Nippon Shiyū Tetsudōshi Kenkyū (Study on the History of Japanese Private Railways) (Kyoto, 1979), p.80.

⁹². B.B.A., PF295, MacDonald to Lord Revelstoke, 4 May 1901.

⁹³. Ibid., Copy of Letter from M. Sengoku to J.S. Horner, 28 June 1901.

⁹⁴. F.O. 800/134, MacDonald to Lord Lansdowne, 18 July 1901.

of John Birch & Co., listed the following three major difficulties of Japanese private railway investments:⁹⁵ firstly, Japanese law stipulated that foreigners should not be entitled to become a mortgagee; secondly, under the Japanese law railway companies should not mortgage their properties; thirdly, the Japanese government retained the power to purchase private railways after twenty five years from the authorisation of the construction. Baring Brothers, therefore, saw reasons to scrutinise both the Japanese law and the management of these railway companies.⁹⁶

In the middle of December 1901, Baring Brothers and J. Birch & Co. agreed to send W. Bisset, the former Chief Officer at the Indian Railway Bureau, to Japan.⁹⁷ British financiers often used such a direct approach for assessing an investment object. For instance, in 1909 the London, City & Midland Bank dispatched S.B. Murray, the Joint General Manager, to examine Russian government finances and railway investments.⁹⁸

Baring Brothers and Bisset agreed to the following guidelines on the Japanese railway investments:⁹⁹ an issue amount should not exceed 50 percent of company paid up capital; the annual payment of interest should be less than the average of a company's net earnings over the previous three years; Bisset should avoid direct negotiations with the railway companies and only examine their management and properties. Baring Brothers considered a 5 percent loan, despite Horner's suggestion that the companies could afford even a 7 1/2 percent interest rate. Foreign loan issues for Japanese companies became very lucrative to foreign financiers when they took advantage of the vast interest rate differentials between Britain and Japan.

Horner received loan issue applications from the Hankaku Railway Co. and the

⁹⁵. B.B.A., PF295, Birch to Baring Brothers, 30 September 1901.

⁹⁶. Ibid., Hayashi to Horner, 10 December 1901.

⁹⁷. Ibid., Memorandum of Conversation between Lord Revelstoke, Bisset, Horner and Farrer, 18 December 1901.

⁹⁸. L.C.M.B.A., ACC/26/14, S.B. Murray's Diary, 2 September 1909; also see A.R. Holmes and E. Green, *Midland* (1986), p.136.

⁹⁹. B.B.A., PF295, Baring Brothers to Bisset, 16 January 1902.

Sanyō Railway Co. as well.¹⁰⁰ Both the Hokuetsu Railway Co. and the Hankaku Railway Co. were experiencing difficulties with the high interest rate payments of domestic debentures.¹⁰¹ Perhaps these railway companies intended to convert them to lower interest rate foreign debentures.

In April 1902 Bisset arrived in Japan¹⁰² and met Shibusawa with Kirby at the British Legation in Tokyo.¹⁰³ Bisset soon discerned that the Japanese law did not make sufficient provision for mortgaging of properties for trustees, even if the Japanese government could permit railway companies to mortgage railway properties to foreign investors.¹⁰⁴ So far a mortgage law had not been enacted in Japan and the feasibility of Japanese private railway investments to foreigners depended entirely upon this legislation. Shibusawa brought this matter to T. Katsura, the Japanese Prime Minister, and they agreed to ask Baring Brothers to draft a mortgage law immediately for their review.¹⁰⁵

Bisset returned to London in July 1902 and reported to Baring Brothers that the Kyūshū Railway Co. and the Sanyō Railway Co. were to have 'a first call' of the Japanese private railway investments. Baring Brothers did not want to undertake more than two Japanese company debenture issues in a year.¹⁰⁶ Bisset also confirmed that Japanese private railways were a promising investment object for foreigners if an appropriate mortgage law were duly enacted. In 1902 Shibusawa made a business trip to the United States and Europe, and negotiated directly with Baring Brothers on the railway

¹⁰⁰. Ibid., Horner to Lord Revelstoke, 6 March 1902.

¹⁰¹. Japanese Ministry of Communications, Tetsudōkyoku Nenpō (Annual Report of the Railway Department) (for 1907) (Tokyo, 1909 [reprinted 1981]), appendix, pp.30-32.

¹⁰². B.B.A., PF295, Bisset to Lord Revelstoke, 10 April 1902.

¹⁰³. Shibusawa's Diary in Shibusawa Eiichi Denki Shiryō (Shibusawa Eiichi's Biographical Records), appendix 1 (Diary 1) (Tokyo, 1966), p.231; T.K.Z., vol.45-1128, 19 April 1902, pp.696-97.

¹⁰⁴. B.B.A., PF295, Bisset to Lord Revelstoke, 12 and 17 April 1902.

¹⁰⁵. Ibid., Bisset to Lord Revelstoke, 14 May 1902; Shibusawa's Diary, 15 February 1902 (*op. cit.*, p.222).

¹⁰⁶. B.B.A., PF295, Bisset to Lord Revelstoke, 26 July 1902; Bisset to Kirby, 7 August 1902.

investments.¹⁰⁷ Baring Brothers only confirmed that a conclusion of the business relied fundamentally upon the legislation of a mortgage law.¹⁰⁸

Once it was found that there was a legal difficulty in the Japanese law for borrowing money abroad, the Industrial Bank promptly proposed an alternative: Baring Brothers should purchase Industrial Bank's debentures guaranteed by the Japanese government and the Industrial Bank should make loans to railway companies with the funds so procured from Baring Brothers.¹⁰⁹ Baring Brothers, however, refused to accept such an indirect way of foreign investment.¹¹⁰

The railway companies were no longer able to wait for the long-hoped-for foreign capital. Many of them issued debentures and made temporary borrowings on the domestic market, when the Bank of Japan brought down Official Discount Rate at the end of 1902. The Hokuetsu Railway Co., for instance, issued a 7 1/2 percent loan for ¥3,000,000 (£306,250).¹¹¹

In September 1902 the draft of the railway mortgage law, drawn up by Norton Rose, Norton & Co., was sent to Japan through Baring Brothers, and the Katsura Cabinet promised to place it before the Diet.¹¹² In December 1902, however, the Diet was abruptly dissolved¹¹³ and the outbreak of the Russo-Japanese War in 1904 also hampered the passage of the legislation.

The Japanese railway mortgage law was enacted on 26 February 1905.¹¹⁴ Baring

¹⁰⁷. F.O. 46/560, Horner to E. Brrington, 31 July 1902; Shibusawa's Diary, 29 July 1902 (*op. cit.*, p.256).

¹⁰⁸. B.B.A., PF295, Bisset to Kirby, 7 August 1902; Shibusawa's Diary, 5 September 1902 (*op. cit.*, p.272).

¹⁰⁹. B.B.A., PF295, Kirby to Horner, 15 October 1902.

¹¹⁰. *Ibid.*, Bisset to Farrer, 3 November 1902.

¹¹¹. *Ibid.*, PF296, Kirby to Horner, 27 February 1903.

¹¹². *Ibid.*, PF295, Kirby to J. Birch & Co., 19 September 1902.

¹¹³. M. Shimizu, 'Zaidan Teitōhō (Foundation of the Japanese Mortgage Laws)' in N. Ukai and others (eds.), *Nippon Kindaihō Hattatsushi (History of the Progress of the Japanese Modern Law)*, vol.4 (Tokyo, 1958), pp.111-12.

¹¹⁴. *Shūgiin Giji Sokkiroku (Stenographic Journal of the Japanese Lower House)*, vol.20 (Tokyo, 1905 [reprinted 1980]), p.345.

Brothers and Sale & Frazer Co. re-opened the loan issue negotiations with the railway companies.¹¹⁵ They confined their investment target to the following three railway companies:¹¹⁶ the Kyūshū Railway Co., the Sanyō Railway Co. and the Nippon Railway Co.. Characteristically these companies were not only ranked extremely high on business performance but also owed a large amount of domestic debentures. In January 1906, however, it was abruptly decided that the Railway Nationalisation Bill was to be introduced to the Diet during the session.¹¹⁷ This would probably put an end to all opportunities for Japanese private railway investments.¹¹⁸ It had been the original policy of the Japanese government to construct all railways in state-ownership, but national finances had not permitted it. In consequence, the government had authorised private railways, provided that in the future the government was able to purchase them.¹¹⁹ During the Russo-Japanese War (1904-1905) the Katsura Cabinet had decided to nationalise most of the private railways for military purposes. In 1906 the Saionji Cabinet finally implemented this.¹²⁰

This Bill provoked much controversy in the Diet but passed in the Upper House (Kizokuin) on the last day of the Session, 31 March 1906.¹²¹ The cost of this operation was to be financed by newly created 5 percent government bonds in exchange for the railway companies' shares. In this way, by 1906, all the efforts to introduce foreign capital into the Japanese private railway companies were wasted. It is fair to say, however, that foreign investments in Japanese private railways could have been more successful had not the railway nationalisation occurred.

¹¹⁵. B.B.A., PF298, Farrer to Sale, 5 January 1905.

¹¹⁶. Ibid., 2 March 1905.

¹¹⁷. Ibid., PF301, Sale & Frazer Co. to Baring Brothers, 22 January 1906.

¹¹⁸. Ibid., Sale & Frazer Co. to Baring Brothers, 12 February 1906.

¹¹⁹. S.I.D., vol.5, pp.156-57.

¹²⁰. Ibid., pp.161-65.

¹²¹. Kizokuin Giji Sokkiroku (Stenographic Journal of the Japanese Upper House), vol.22 (Tokyo, 1906 [reprinted 1980]), p.420.

8.3.2 South Manchurian Railway Co. debenture issues

After the Russo-Japanese War the Japanese government guaranteed payment of the principal and interest of several companies' loans. The South Manchurian Railway Co. and the Oriental Colonial Corp. were set up under the patronage of the Japanese government and were those which obviously reflected the policy of colonising Korea and Manchuria. The Industrial Bank and the Banque Franco-Japonaise, under the government's rigid protection, dealt exclusively with these loan issues. Unlike the private railway investments, other financiers, domestic or foreign, found no way to compete with the Industrial Bank and the Banque Franco-Japonaise in these businesses.

After cancellation of the preliminary agreement with C.H. Harriman made in October 1905 for joint-management of the South Manchurian Railways,¹²² the South Manchurian Railway Co. was set up in November 1906 by Japan's own effort for managing the railways, coal mines and harbours in Manchuria.¹²³ Of ¥200,000,000 (£20,416,667) authorised capital, the Japanese government invested half the amount (¥100,000,000 [£10,208,333]) in kind; ¥20,000,000 (£2,041,667) of shares out of the other half of authorised capital were publicly issued in Japan in 1906. However, as the total required funds for running the company were estimated at approximately ¥100,000,000, the rest (¥80,000,000 [£8,166,666]) was to be raised abroad in the form of debentures.¹²⁴ The Industrial Bank arranged these vital funds for the South Manchurian Railway Co. by depending upon low interest rate foreign capital.¹²⁵ The South Manchurian Co. drew the guarantee for payment of the principal and interest of these

¹²². Memorandum of Preliminary Understanding between T. Katsura and Harriman dated 12 October 1905 in G. Kennan, E.H. Harriman's Far Eastern Plan (New York, 1917), pp. 23-25; Japanese Ministry of Foreign Affairs, Komura Gaikōshi (History of the Diplomat Komura Jutarō) (Tokyo, 1966), pp.662-69.

¹²³. Kanpō (Gazette) dated 7 June 1906 (N.G.B., vol.39-1, pp.632-33).

¹²⁴. Secret no.57, Hayashi to Hayashi (in Peking), 24 August 1906 (ibid., pp.639-40); M.T.Z., vol.12, p.408.

¹²⁵. Order, K. Saionji to S. Gotō, 13 November 1906 (N.G.B., p.650).

(vol.39-1,

debentures from the Japanese government.¹²⁶ In April 1907 the Japanese Minister of Finance ordered J. Soyeda, the Governor of the Industrial Bank, to issue South Manchurian Railway Co. foreign debentures for £8,000,000 on the following conditions that:¹²⁷ (i) Soyeda should negotiate first with Schiff on this issue because Schiff had agreed to offer ¥50,000,000 (£5,104,167) to the South Manchurian Railway Co. in Harriman's abortive project of 1905;¹²⁸ (ii) then Soyeda should move on to Britain and France if Schiff declined; (iii) the debenture issue negotiations should be based on the terms of the Japanese government 5 percent loan issue of 1907 and the rate of interest (nominal) should be less than 4 1/2 percent; (iv) Soyeda should not offer the railway properties as the security for the debentures.

Tight market conditions frustrated Soyeda's access to the United States market. He shifted the loan issue market to Europe but found many of the financiers there indifferent to such a risky project. Finally, in July the usual Japanese government loan takers in London: i.e. Parr's Bank, the Hongkong Bank and the Yokohama Specie Bank, agreed to take half the intended issue amount on the following terms:¹²⁹

Issue amount	£4,000,000
Rate of interest (nominal)	5 percent
Issue price	97 percent (to the public) 92 1/2 percent (to the company)
Yield at issue	5.2 percent
Borrowing period	25 years
Others	the government should guarantee a payment of the principal and interest.

¹²⁶. Secret no.12, Gotō to K. Saionji, 7 December 1906 (*ibid.*, pp.655-57).

¹²⁷. Secret (secretariat) no.750, Y. Sakatani to J. Soyeda dated 1 April 1907 (in *N.K.G.G.S.*, pp.102-3).

¹²⁸. F.O. 371/36, MacDonald to Lord Grey, 30 August 1906.

¹²⁹. Contracts between the South Manchurian Railway Co. and the Industrial Bank dated 13 July 1907, and between the Industrial Bank and the Associated Banks, dated 18 July 1907 in *G.K.S.*, vol.1, pp.349-54; H.S.B.A., LOHI/34.

Panmure Gordon & Co. arranged most of the underwriting¹²⁹ but the outcome of the subscriptions was unsatisfactory (Table 8.10). Out of £4,000,000, only £2,087,080 of the bonds (52 percent) were taken by the public and the price of the debentures on the unofficial market sank immediately by 1 1/2 percent.¹³⁰ Perhaps this was in part due to Japan's attempt to raise the loan too quickly after the government's conversion loan issue, made in March 1907, in the tight condition of the money market,¹³¹ and in part to antagonism against the South Manchurian Railway Co. because it had ordered all railway materials from the United States.¹³² The London Rothschilds refused to be involved in the issue even as underwriters.¹³³ They also advised the Paris Rothschilds to decline it in Paris.¹³⁴ Out of the remaining amount (£4,000,000), £2,000,000 was raised in the form of a short-term loan in May 1908 (the second issue) and Panmure Gordon & Co. placed it privately.¹³⁵ The third debenture issue for £2,000,000 was made in December 1908 (Table 8.11). In 1911 the Company issued £6,000,000 of fourth debentures for the redemption of the second debentures (£2,000,000) and the further expenditure of £4,000,000 (Table 8.12).¹³⁶

Table 8.14 comprises the terms of the four South Manchurian Railway Co. debenture issues. Only the third loan issue (1908) was oversubscribed by 11.3 times and the fourth (1911) nearly secured the issue amount. Throughout these operations many British financiers had misgivings over this diplomatically delicate project in Manchuria.¹³⁷

¹²⁹. P.B.A., B11418, Board Minutes, 18 July 1907. Parr's Bank agreed to underwrite the loan to the extent of £100,000.

¹³⁰. No.93, S. Sakata to Hayashi, 24 July 1907 (N.G.B., vol.40-2, pp.313-14).

¹³¹. The Economist, 20 July 1907, p.1212.

¹³². F.O.371/475, Trade Report, 16 April 1908.

¹³³. R.A.L., XI/130A/1, the London Rothschilds to the Paris Rothschilds, 16 July 1907.

¹³⁴. *Ibid.*, 12 August 1907.

¹³⁵. N.K.G.G.S., p.104.

¹³⁶. M.T.Z., vol.12, p.411.

¹³⁷. At that time the United States Government strongly demanded a principle of equality for commercial opportunities in Manchuria (F.O.371/636, Memorandum by W. Reid, 9 November 1909).

In fact, E.H. Holden, the Chairman and Managing Director London City & Midland Bank, refused Panmure Gordon & Co's proposal of the underwriting of the fourth debenture issue.¹³⁸

8.3.3 Industrial Bank debenture issue

In November 1908 the Industrial Bank floated its debentures (thirteenth), guaranteed by the Japanese government, the purpose of which was to finance the Korean government. This operation was carried out simultaneously by Panmure Gordon & Co., Parr's Bank, the Hongkong Bank and the Yokohama Specie Bank in London and by the Société Générale in Paris. The loan issue terms in London were as follows:¹³⁹

Issue amount	£1,000,000 (other £1,000,000 in Paris)
Rate of interest (nominal)	5 percent
Issue price	97 percent (to the public) 93 percent (to the Bank)
Yield at issue	5.2 percent
Loan issue commission	4 percent
Borrowing period	25 years.

The loan issue in London was about 10 times oversubscribed.¹⁴⁰ The loan issue in Paris was arranged through the channel between the Industrial Bank, Panmure Gordon & Co. and Günzbourg et Cie. W.M. Koch, a partner of Panmure Gordon & Co., preferred the Société Générale to the Paris Rothschilds as a partner in this business. He told Takahashi that the 'co-operation [with the Société Générale] will in future for business of the

¹³⁸. L.C.M.B.A., ACC/26/8, E.H. Holden's Diary, 23 December 1910.

¹³⁹. Contracts between the Société Générale and the Industrial Bank dated 3 November 1908, and between Panmure Gordon & Co. and the Industrial Bank dated 12 November 1908 in G.K.S., vol.2, pp.3-27.

¹⁴⁰. R.A.L., XI/130A/2, the London Rothschilds to the Paris Rothschilds, 19 November 1908.

Industrial Bank be most useful for getting French capital into Japanese industries'.¹⁴¹

Koch obviously aimed to exploit a new Japanese investment channel for the Paris capital market through the Société Générale. This idea, as shown, finally bore fruit in the foundation of the Banque Franco-Japonaise in 1911.

In return for this loan issue, the French government desired the Japanese government to place orders for goods to French industries.¹⁴² Diplomatically, it also demanded a quid pro quo, that is to say, the Japanese government should assist in the China Central Railway construction project in which the Anglo-French group was engaged.¹⁴³

¹⁴¹. J.M.F.A.A., 3-4-4-38, secret no.2915, Takahashi to Komura, 1 December 1908.

¹⁴². A.M.F., F30³⁷⁷, Ministère des Affaires Etrangères to Ministère des Finances, 24 October 1908.

¹⁴³. No.64, J. Komura to M. Terauchi, 25 July 1908 (in N.G.B., vol.41-1, pp.859-60).

Table 8.8 Company Foreign Loan (Debenture) Issues, 1905-1913

Year	Company	Issue amount (¥000)	Interest rate (nominal) [yield at issue] (%)	Issue price (to the public) (%)	Kind of loan	Intermediary	Loan issuer (issue place)
1905	Kansai Railway	9,763*	4 1/2 [4.6]	97 1/2	debenture	S. Samuel (trustee: Debenture Corp.)	M. Samuel (London)
1906	Hokkaidō Colliery & Coal Railway	9,763*	5 [5.1]	98 1/2	debenture (trustee: Industrial Bank)	Chartered Bank	Chartered Bank (London)
1907	South Manchurian Railway	39,052**	5 [5.2]	97	government guaranteed debenture (1st)	Industrial Bank	Hongkong Bank Parr's Bank Yokohama Specie Bank (London)
1908	South Manchurian Railway	19,526+	5 [5.1]	98	government guaranteed debenture (2nd)	Panmure Gordon	Privately placed (London)
1908	Kanega-fuchi Cotton Spinning Co.	2,000	7 1/2	-	debenture	Mitsui Bank	Banque française pour le commerce et l'Industrie [A. Gysin] (Paris)
1908	South Manchurian Railway	19,526+	5 [5.1]	97 1/2	government guaranteed debenture (3rd)	Industrial Bank	Hongkong Bank Parr's Bank Yokohama Specie Bank (London)

Table 8.8 Company Foreign Loan (Debenture) Issues, 1905-1913 (cont.)

Year	Company	Issue amount (¥000)	Interest rate (nominal) [yield at issue] (%)	Issue price (to the public) (%)	Kind of loan	Intermediary	Loan issuer (issue place)
1908	Industrial Bank	19,526+	5 [5.2]	97	government guaranteed debenture (13th)	Industrial Bank	Panmure Gordon Hongkong Bank Parr's Bank Yokohama Specie Bank (London) Société Générale (Paris)
1909	Matsui Muslin Spinning Co.	250	6 1/2 [6.5]	100	debenture	Daihyaku Bank	A. Gysin (Paris)
1909	Keihin Electric Railway	200	5 1/2 (to company)	92	debenture	-	Sale & Frazer Co. (London)
1910	Hokkaidō Colonial Bank	5,000	5 [5.1]	97 7/8	debenture (8th)	Koike Gōshi	Sale & Frazer Co. (possibly London and Paris)
1911	South Manchurian Railway	58,578++	4 1/2 [4.6]	98	government guaranteed debenture (4th)	Industrial Bank	Hongkong Bank Parr's Bank Yokohama Specie Bank (London)
1913	Oriental Colonial Corp.	19,350+*	5 [5.2]	96 3/4	government guaranteed debenture (1st)	Industrial Bank	Banque Franco-Japonaise (Paris)

Table 8.8 Company Foreign Loan (Debenture) Issues, 1905-1913 (cont.)

Notes: - implies no information;
 The issue amounts were based on Japanese records and not converted at the fixed rate of exchange (for instance, ¥1 = 2 s. 1/2d. and ¥1 = Fr2 11/19);
 * the original amount was £1,000,000;
 ** the original amount was £4,000,000;
 + the original amount was £2,000,000;
 ++ the original amount was £6,000,000;
 +* the original amount was Fr50,000,000.

Sources: N.K.G.G.S. pp.94-95; The Industrial Bank of Japan, Nippon Gaisai, op. cit.; The Finance Bureau of the Japanese Ministry of Finance, Kin-yū Jikō Sankōsho, op. cit., pp.27-28; Jitsugyō no Sekai [ed.], Zaikai Sanjiyūnenpu (Thirty-year Chronology of Japanese Business Circles), vol.1 (Tokyo, 1938); London Stock Exchange (Guildhall Library), Loan and Company Prospectuses.

Table 8.9 Company Debenture Issues, 1902-1913

	(1)	(2)	(3)	(4)	(5)
Year	Total number	Total amount (¥000)	Issue number abroad	Amount abroad (¥000)	(4)/(2) (%)
1902	16	7,695	-	-	-
1903	33	17,151	-	-	-
1904	4	561	-	-	-
1905	4	1,565	-	-	-
1906	16	33,136	2	19,526	58.9
1907	14	50,492	1	39,052	77.3
1908	18	44,985	3	41,052	91.2
1909	31	10,563	1	250	2.3
1910	31	37,125	-	-	-
1911	22	73,325	1	58,578	79.8
1912	23	15,650	-	-	-
1913	22	38,504	1	19,350	50.2

Notes: ¥1 = 2s. 1/2d.;
 - implies no issue;
 (5) = (4)/(2) × 100.

Source: N.K.G.G.S., p.88.

Table 8.10 First South Manchurian Railway Co. Debenture Issue, 1907
(£)

Underwriting syndicate Loan issue bank	Underwriting amount	Subscriptions (Public)	Subscriptions (Underwriters)
Panmure Gordon	2,650,000	-	-
Parr's Bank	600,000	1,333,580	1,566,240
Hongkong Bank	500,000	349,000	236,460
Yokohama Specie Bank	250,000	404,500	110,220
Total	4,000,000	2,087,080	1,912,920

Note: - implies no subscriptions.

Source: H.S.B.A., LOHI/2.

Table 8.11 Third South Manchurian Railway Co. Debenture Issue, 1908
(£)

Underwriting syndicate Loan issue bank	Underwriting	Subscriptions	Allotment
Panmure Gordon	1,325,000	-	-
Parr's Bank	300,000	10,993,000	931,700
Hongkong Bank	250,000	6,640,000	584,400
Yokohama Specie Bank	125,000	4,982,000	483,900
Total	2,000,000	22,615,000	2,000,000

Note: - implies no subscription and allotment.

Source: H.S.B.A., LOHI/2 and 34.

Table 8.12 Fourth South Manchurian Railway Co. Debenture Issue, 1911
(£)

Underwriting syndicate Loan issue bank	Underwriting	Subscriptions
Panmure Gordon	4,490,000	-
Parr's Bank	610,000	5,076,800
Hongkong Bank	500,000	1,038,000
Yokohama Specie Bank	400,000	858,200
Total	6,000,000	6,973,000

Note: - implies no subscription.

Source: H.S.B.A., LOHI/2.

Table 8.13 Commissions of First and Fourth South Manchurian Railway Co. Debenture Issues
(percent)

Commission	First		Fourth	
Underwriting	2		1	1/2
Loan issue bank	1		1	
Panmure Gordon (brokerage - placing underwriting)		1/2		1/2
Industrial Bank (intermediary)		1/2		1/2
Brokerage (application)		1/4		1/4
Expenses		1/4		1/4
Total	4	1/2	4	

Source: H.S.B.A., LOHI/2 and 34.

Table 8.14 South Manchurian Railway Co. Debenture Issues, 1907-1911

	First 19 July 1907	Second May 1908	Third 16 December 1908	Fourth 4 January 1911
Loan issue amount	£4,000,000	£2,000,000	£2,000,000	£6,000,000
Rate of interest (nominal) (%)	5	5	5	4 1/2
Loan issue prices (%)				
to the public	97	98	97 1/2	98
to the company	92 1/2	-	93	94
Yield at issue (%)	5.2	5.1	5.1	4.6
Loan issue commission (%)	4 1/2	-	4 1/2	4
Borrowing period (year)	25	3	24	25
Loan issuer	Parr's Bank - Hongkong Bank Yokohama Specie Bank	-	Parr's Bank Hongkong Bank Yokohama Specie Bank	Parr's Bank Hongkong Bank Yokohama Specie Bank
Intermediary	Industrial Bank	Panmure Gordon	Industrial Bank	Industrial Bank

Note: the second issue was placed privately.

Source: M.T.Z., vol.12, pp.405-13; H.S.B.A., LOHI/2.

8.4 Conclusion

It is fair to say that with the strong support of the Japanese government, the Industrial Bank had a much firmer footing in many of the municipal and company foreign loan issue business than any of the foreign financiers, even though its near monopolistic position often received much criticism within Japan and abroad.¹⁴⁴ Apart from what the government's policy and guidance effected, did the Industrial Bank have anything of an economic advantage in these loan issue transactions?

The Japanese municipal and company foreign loan issues during the period from 1903 to 1912 can be divided, at the risk of over-simplification, into the two following categories.¹⁴⁵

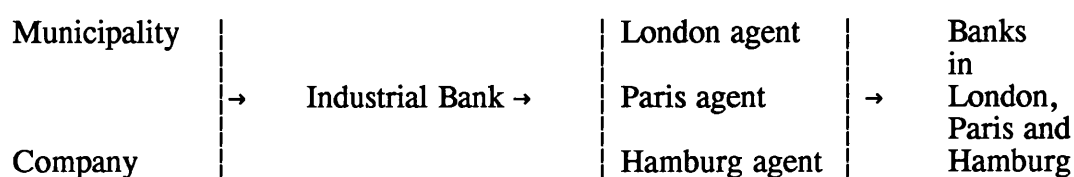
First Pattern - Foreign Financiers

Municipality Company		→ Agent or branch → in Japan	Banks in London and Paris
Year	Loan	Issuer	Commission (%)
1902	Yokohama	S. Samuel	10
1903	Osaka	S. Samuel	8
1905	Hokkaidō Colliery & Coal Railway Co.	Chartered Bank	5 3/4
1905	Kansai Railway Co.	S. Samuel	5 1/2
1907	Yokohama	S. Samuel	2
1909	Nagoya	Sale & Frazer	5 1/2
1909	Kyoto	Union Parisienne	6
1910	Hokkaidō Colonial Bank	Sale & Frazer	6

¹⁴⁴. T.K.Z., no.54-1350, 18 August 1906, pp.283-84.

¹⁴⁵. The calculated commissions excluded the British stamp duty. Most of these sources have been mentioned in this chapter; otherwise they were extracted from S.E.O.I., M.T.Z., vol.12 and H.S.B.A., LOHI/2.

Second Pattern - Industrial Bank



Year	Loan	Issuer	Commission (%)
1906	Tokyo	Industrial Bank	3
1907	South Manchurian Railway Co.	Industrial Bank	4 1/2
1908	Industrial Bank	Industrial Bank	4
1909	Osaka	Industrial Bank	5
	Yokohama	Industrial Bank	3 1/2
1911	South Manchurian Railway Co.	Industrial Bank	4
1912	Yokohama	Industrial Bank	4
1912	Tokyo	Industrial Bank	4 1/2

In the first pattern, the relationships between banks in London and Paris and their agents in Japan were not always firm, except for branch-head office relations in overseas banks. The banks in London and Paris, experts in loan issue business, secured a strong position on the loan issue markets but an intermediary commission (1 percent in practice), paid to agents in Japan, inevitably raised loan issue costs. The loan issues undertaken by overseas banks, not experts in loan issue business, had to be placed into the hands of banks in London and Paris, and this also necessarily required additional costs for the loan issues.

The Industrial Bank made the agency contracts for placing loans with the financial institutions in London, Paris and Hamburg. Through these channels the Industrial Bank was able to ensure that foreign loan issue markets worked effectively for arranging loan issues. In addition, the intermediary commission of the Industrial Bank (usually between 1/4 percent and 1/2 percent) was much lower than that of foreign agents in Japan. The Industrial Bank was, thus, successful in minimising loan issue costs in many of the

municipal and company foreign loan issues. In fact, Soyeda (the First Governor of the Industrial Bank) admitted that he made great efforts to carry on direct transactions with foreign financiers so as to avoid additional intermediary commissions.¹⁴⁶

¹⁴⁶. M.A., Ikō-W-4-689, Stenographic Notes of J. Soyeda's Speech (20 April 1929).

CHAPTER 9

EFFECTS OF JAPANESE GOVERNMENT LOAN ISSUES

Chapters 3 to 8 dealt with the development of Japanese government (including municipal and company) borrowing abroad, mainly, but not exclusively, in London. This chapter throws light upon two other facets of Japanese foreign loan issues: firstly, the role of the loan proceeds of the Japanese government in the working of the gold standard system before the First World War; secondly, the repercussion of the loan issues on Japan's trade structure with Britain. Although the perspective of this chapter is limited, it is hoped that it will supplement the argument in the previous chapters, especially from the viewpoint of Japan's relations with the world economy of that period.

9.1 Japanese Government's Foreign Funds¹

After the Sino-Japanese War the Japanese government obtained large indemnity money (£38,083,000) from China and temporarily held it in London.² The City feared the

¹. There are several Japanese studies on specie holdings abroad: S. Kitsukawa, Meiji Zaisei Keizaishi Kenkyū (Study on the Financial and Economic Histories in the Meiji Era) (Tokyo, 1969), chapter 4; H. Kojima, Nippon no Kinhon-isei Jidai, 1897-1917 (The Gold Standard Era in Japan) (Tokyo, 1981), chapter 2; K. Noji, 'Nisshin Nichiro Sengo Keiei to Taigai Zaisei, 1896-1913 (The Japanese Government's Administration after the Sino-Japanese War and the Russo-Japanese War, and its External Finance, 1896-1913)', Tochiseido Shigaku ([Japanese] Journal of Agrarian History), vol.92, (1981); H. Saitō, Kinhon-iseika no Zaigai Seika (Specie Holdings abroad under the Gold Standard) (Tokyo, 1981); M. Yokouchi, 'Nijusseiki Shotō ni okeru Zaigai Seika to London Kin-yū Shijyō (Specie Holdings abroad and the London Money Market at the Beginning of the Twentieth Century)', (Niigata University Junior College of Commerce) Niigata Daigaku Shōgaku Ronshū (Journal of Commerce), no.19 (Niigata, 1987); T. Kamiyama, 'Nichiro Sengo no Seika Seisaku to Zaisei (Specie Control Policy and Finances after the Russo-Japanese War)', Shigaku Zasshi ([Japanese] Historical Journal), vol.98-no.1 (Tokyo, 1989). These studies, however, do not give sufficient explanations, from the viewpoint of the London money market, of the relationships between foreign loans and trade balance under the gold standard.

². M. Matsukata, Report on the Post-Bellum Financial Administration in Japan 1896-1900 (Tokyo, 1900), pp.218-21.

sudden withdrawal of the indemnity from London to Japan might seriously diminish reserves at the Bank of England and cause sharp fluctuations in the London money market,³ although the great Franco-Prussian indemnity loan issues in 1872 passed without serious reaction.⁴

The Court of the Bank of England paid much attention to Japanese government deposits in London. B.B. Greene, a Director of the Bank (the Deputy-Governor from 1870 to 1871 and the Governor from 1873 to 1875), warned that 'we must consider the Japanese Deposit as quite abnormal'⁵ and 'I am concerned to see what is to happen to the Japanese Money, no doubt we shall lose control of the greater part of it'.⁶ In the period before the Russo-Japanese War (1904-1905), the Japanese government had not yet established the practice of leaving funds abroad as zaigai seika (specie holdings abroad or specie reserves abroad).⁷ Until March 1903 most of the deposit was paid out in London or transferred to Japan in gold and silver bullion. Only £1,132,864 was retained for further payment of various claims on the Japanese government.⁸

Some countries would hold money in the world's financial centres - London, Paris, Berlin and New York. It was an established practice for British Dominions to keep loan proceeds in London and managed them from there.⁹ Keynes addressed this practice

³. R.S. Sayers, The Bank of England 1891-1944, vol.1 (Cambridge, 1976), p.31 (note 2).

⁴. Bankers' Magazine, vol. 32 (1872), p.630.

⁵. B.E.A., Museum 903, B.B. Greene to M.W. Collet, 20 October 1896.

⁶. Ibid., 18 November 1895.

⁷. The term 'specie' included gold and gold standard foreign currencies (E. Fukai, Shintei Tsūka Chōsetsuron (On Regulation of Currency, Newly Revised) [Tokyo, 1938], p.263).

⁸. M.Z., vol.2, pp.570-71.

⁹. J. Viner, Canada's Balance of International Indebtedness 1900-1913 (Cambridge[Mass.], 1924), pp.182-83; J.D. Bailey, 'Australian Company Borrowing, 1870-1893: A Study in British Overseas Investment', Unpublished D. Phil. Thesis, Oxford University, 1958, p.212 and appendix iii (xiv-xxiv). Kindleberger understood the character of these funds in terms of 'old-fashioned principles of lending long and borrowing short' (C.P. Kindleberger, International Capital Movements [Cambridge, 1987], pp.53-54).

in his famous writing on the Indian currency and finance: a peripheral country's government or central bank kept gold or other resources abroad for regulating the value of their domestic currency in terms of the gold exchange standard system.¹⁰ Whale gave further explanations on how this system worked with reference to borrowing countries' domestic currencies:

There is, however, another way in which these monetary transfers may be brought about: that is, by creating additional money in the borrowing country on the basis of money held in the lending country. There is evidence, I think, that this was commonly done by the banks in many of the countries in which Britain invested - the Dominions and British colonies, the South American countries, and Japan. The lending country is in this way spared the loss of gold, yet the borrowing country gets increased supplies of money. If the banks in the borrowing country treat their foreign (or overseas) balances as being exactly equivalent to gold reserves, and proceed to make them the basis for a multiple expansion of their notes or deposits,.....¹¹

Lindert pointed out that before the First World War several central banks, in Austria-Hungary, Greece, Japan, Romania, Czarist Russia, Switzerland, the Scandinavian countries and Chile, tended to prefer foreign exchange to gold in their official reserves.¹² It was a well-known fact that Czarist Russia held large funds in Paris, Berlin and London which was transferred from its loan proceeds, and managed them on the international money markets.¹³ The Chilean government, from 1906, also kept deposits mainly in

¹⁰. The Collected Writings of John Maynard Keynes, vol.1 (Indian Currency and Finance) (1971), pp.19-20. G.C. Allen regarded Japan's currency system before 1914 as 'a considerable resemblance to the gold exchange standard' (G.C. Allen, 'The Recent Currency and Exchange Policy of Japan', Economic Journal, vol.xxxv [1925], p.69). Yet, even internally, the gold standard act still provided the metallic basis (conversion of gold), although there was no circulation of gold coin.

¹¹. P.B. Whale, 'The Working of the Pre-War Gold Standard' in T.S. Ashton & R.S. Sayers (eds.), Papers in English Monetary History (Oxford, 1953), pp.161-62.

¹². P.H. Lindert, 'Key Currencies and the Gold Exchange Standard, 1900-1913', Unpublished Ph. D. Thesis, Cornell University, 1967, chapter 2.

¹³. A.Z. Arnold, Banks, Credit and Money in Soviet Russia (New York, 1937), p.16; R.G. Hawtrey, The Gold Standard in Theory and Practice (1939), pp.72-73.

Berlin and London under the name of the 'Conversion Fund'.¹⁴ Lindert further revealed that not only British Colonies but also the two foreign countries, Greece and Japan, held more reserves in foreign exchange than in gold.¹⁵ Obviously these funds (London balances) facilitated for borrowing countries the direct settlement of trade balances in London, the world's trade centre, without the trouble of actual gold movements. This practice also spared Britain a loss of gold.¹⁶

The cumulative issues of the foreign loans during the Russo-Japanese War brought large foreign funds to Japan. It was imperative under the gold standard that the Japanese government should secure funds abroad for settling the trade balances which were substantially in deficit almost every year from 1896 to 1913. Because of the extraordinarily increased military imports, in 1903 the Japanese government established a new rule for managing foreign loan proceeds: for the convenience of its payments abroad the government chose to hold most of these proceeds permanently in the world's financial centres, such as London, Paris, Berlin and New York, instead of transferring the proceeds to Japan in bullion.¹⁷

Chart 9.1 indicates the distribution of loan proceeds among the Japanese government, the Bank of Japan, the Yokohama Specie Bank and foreign exchange banks. Japan's specie holdings rose rapidly from 1905 (Table 9.1) and its main source obviously lay in foreign loan proceeds. In the years of 1904, 1905, 1906, 1907 and 1910 the Japanese government obtained large loan proceeds, as shown in Chart 9.3. Out of the specie holdings abroad, the government paid the principal and interest on the foreign loans; after 1906 all the payments connected with the foreign loans amounted to well

¹⁴. The Chilean Government Central Statistics Bureau, Statistical Abstract of the Republic of Chile (Santiago, 1917), p.65.

¹⁵. P.H. Lindert, Key Currencies and Gold, 1900-1913 (New Jersey, 1969), pp.10-11 and p.16.

¹⁶. A.G. Ford, 'Notes on the Working of the Gold Standard before 1914', Oxford Economic Papers, new series, vol.12-no.1 (1960), pp.60-61; Gold Standard 1880-1914 (Oxford, 1962), pp.19-20.

¹⁷. Fukai, Shintei Tsūka, *op. cit.*, pp. 313-14.

over 30 percent of the government's total annual payments abroad; the government also paid from the specie holdings abroad its various import charges, mainly armaments for the Navy. Some of the specie holdings abroad were sold to the Bank of Japan for settling trade balances in the form of foreign exchange. The remains were invested in deposits with financial institutions in the world's financial centres or in short-term securities (usually Treasury bills).¹⁸ The Japanese government's investments of 31 January 1908 are shown in Table 9.3. From the standpoint of liquidity, most of the investments were retained in deposits at the Bank of England and London clearing banks. The government also kept accounts in New York, Paris and Berlin but London was the nucleus, 55.3 percent of the total government's foreign funds (31 January 1908) (Table 9.3), because the government transferred funds from New York, Berlin and Paris to London.¹⁹

There were transactions in specie holdings abroad between the Japanese government, the Bank of Japan, the Yokohama Specie Bank and other foreign exchange banks. The Bank of Japan bought loan proceeds from the Japanese government, municipalities and companies which issued foreign loans. Payment was made in yen. The Bank of Japan re-sold most of its specie holdings abroad to foreign exchange banks which needed to make payments abroad, in the form of foreign exchange. Chart 9.4 shows the Bank of Japan's receipts and payments of the specie in the period from 1903 to 1913. The Bank of Japan usually invested the specie holdings abroad in deposits at the Bank of England and the Yokohama Specie Bank's London Branch or in British Treasury bills, dividing them into the reserves and non-reserves accounts (Table 9.2).²⁰

In terms of transferring money from one country to another, Japan's practice of holding specie abroad was analogous to India's, although rupee notes no longer had silver convertibility and the value of one rupee was rigidly fixed at 1s. 4d. from 1893. The

¹⁸. *Ibid.*, pp.287-88.

¹⁹. E. Fukai, *Kaiko Shichijūnen (Recollection for Seventy Years)* (Tokyo, 1941), p.83.

²⁰. *N.G.H.S.*, vol.2, pp.168-71.

Indian Council in London established the Gold Standard Reserve (sterling) on the proceeds of Council Bills and profits of the Indian Mint. From these funds the Indian government paid Home Charges and interest on its sterling debts. Council Bills played a role in transferring money from Britain to India; those who needed to make payments in India, purchased Council Bills (denominated in rupees) for sterling and sent them to India; the Indian government and others who needed to make payment in sterling purchased these Bills with rupees. Conversely, those who transferred money from India to London, bought bills (on London) with rupees in India and sent them to London; the Indian Council in London purchased these bills with sterling.²¹ The close economic relations between Britain and India caused the development of such a bilateral money payment system. Japan also needed payments in London because its trade balances with Britain were always in deficit. For this purpose, the Japanese government and the Bank of Japan held large specie reserves there, which were obtained from foreign loan proceeds.

With the spread of the gold standard to many countries, however, British bankers feared an efflux of gold from the London money market.²² Financial institutions in London became more and more nervous about possible ill effects of foreign loan issues on the market. From the viewpoint of defending the gold reserves at the Bank of England, Japan's practice of keeping most of the loan proceeds in London was very desirable, because these proceeds were still under control of the London money market. There was no loss of gold.

Japan's specie holdings in London (both the government's and the Bank of Japan's) were of great assistance to the Bank of England in adjusting constant fluctuations on the money market. Until the turn of the century, the London balances held by the

²¹. Keynes, *op. cit.*, chapter 5-6; B.R. Tomlinson, The Political Economy of the Raj, 1914-1947 (1979), pp.17-18.

²². For instance, F. Schuster, 'Our Gold Reserves' in J.I.B., vol. xxviii (1907), pp.1-22.

Council of India had produced a similar effect to the market. As the Council kept large sums in London (the Gold Standard Reserve), the Bank of England often borrowed from them from the 1890s.²³ In the following twenty years, however, the Bank of England regarded the Japanese government's funds, rather than the Council of India's London balances, as a more stable and reliable source for regulating money demand in the market and often counted upon them on a large-scale. According to Sayers, there were at least five occasions during 1905 that the Bank of England borrowed between £500,000 and £1,600,000 from the Bank of Japan.²⁴

After the Russo-Japanese War Japan continued to maintain substantial funds in London. But British banks feared that Japan would seek control or influence over the London money market more directly.²⁵ The City enquired of the British Foreign Office about Japan's credit balance in London.²⁶ Now British financiers became worried about further Japanese foreign loan issues because it already retained large funds in London.

The London Rothschilds considered that it would be easy for Japan to provide money for Korea and Manchuria out of its funds abroad, when the Japanese government embarked upon the South Manchurian Railway Co. debenture issue in 1908.²⁷ More strongly, the British Foreign Office questioned Japan's practice of maintaining huge funds in London, saying that it seemed to be more economical to buy foreign drafts on London than to pay interest on foreign bonds when the Japanese government needed to pay abroad.²⁸ Although it was difficult for foreign financiers to understand Japan's

²³. Sayers, *op. cit.*, vol.1, pp.39-40; Keynes, *op. cit.*, pp.88-91. *The Economist* depicted this operation as 'it is stated that the India Council has been co-operating in this [taking money off the market] by calling in loans and lending the money to the Bank' (14 June 1890, p.749).

²⁴. Sayers, *op. cit.*, vol.1, pp.40-41.

²⁵. B.B.A., COF-05-2-8, Sale & Frazer Co. to Farrer, 26 March 1907.

²⁶. F.O. 371/1667, Currie to Law, 25 March 1913; W.C. Greene to Foreign Office, 12 April 1913.

²⁷. R.A.L., XI/130A/3, the London Rothschilds to the Paris Rothschilds, 13 May 1908.

²⁸. F.O. 371/1387, D.C. dated 28 February 1912.

strenuous attempts to keep such large funds in London, the Japanese government always had misgivings about the constant shortage of gold for making up the trade deficits. Therefore, the specie control was always a crucial and inevitable problem for the government in the period from 1896 to 1913.

The practice of holding specie abroad provided easily-obtained means for a borrowing country to settle its trade balances directly without causing serious fluctuations in the rate of foreign exchange.²⁹ In a lending country, like Britain, a Bank Rate policy could regulate the outflow and inflow of gold through small interest changes but a borrowing country, like Japan, had to follow a more direct policy of regulating the value of the domestic currency by selling specie holdings abroad in the form of foreign exchange or purchasing foreign exchange.³⁰

There were relationships between specie holdings abroad and the domestic money supply.³¹ Chart 9.2 portrays their relations. Under the gold standard the Bank of Japan could influence the volume of the domestic currency through the operation of selling and purchasing specie holding abroad, even when the rate of foreign exchange did not reach a gold shipment point. The Bank of Japan could regulate the volume of the domestic currency by the rate (price) and extent to which it re-sold foreign exchange (specie holdings abroad) to exchange banks for yen notes. The Bank of Japan obviously regarded this method as one of the policies, as well as the Official Discount Rate policy, for regulating the value of the domestic currency. It was revealed that the Bank of Japan would re-sell foreign exchange at about the gold shipment point (export) - ¥1=2s. 1/4d..³²

However, the Japanese government kept large specie holdings abroad which were replenished from the foreign loan proceeds and were not linked directly with the domestic

²⁹. Fukai, Shintei Tsūka, *op. cit.*, p.281.

³⁰. Keynes, *op.cit.*, pp.18-19.

³¹. Fukai, Shintei Tsūka, *op. cit.*, pp.289-93.

³². Fukai, Kaiko, *op. cit.*, pp.85-86.

money supply. In order to meet the financial deficits the Japanese government often sold these specie holdings abroad to the Bank of Japan and received yen notes in Japan.³³ These operations necessarily increased the money supply in Japan, but the settlement of the trade deficits would soon, through the decrease of specie reserves at the Bank of Japan, return the domestic money supply.

While the benefit of the practice of holding specie abroad to the British economy has been pointed out, it is also true that the Japanese government, for its part, also benefited from this. The practice of holding specie abroad avoided the cost of gold movements from the world's financial centres to Japan when the specie was used for settling the trade balances there. In addition, this form of investment earned income for Japan.³⁴ The Anglo-Japanese Alliance played a pivotal role in ensuring the safety of these funds in London.

Furthermore, as Table 9.5 suggests, the balance of trade did not directly and immediately reflect the Bank of Japan's note issues to such an extent as the classical gold standard model implied. Japan's practice of holding specie abroad played a role in softening the immediate influence of large foreign borrowings on the domestic economy and in absorbing them indirectly. Keynes once depicted the gold exchange standard (including the practice of holding specie abroad) as one of the national systems which 'develop devices and maintain large liquid reserves with the express object of having the power to maintain internal equilibrium over the short period, without too sensitive a regard for external events'.³⁵

³³. T.K.Z., vol.66-1667, 5 October 1912, pp.616-17.

³⁴. Fukai, Shintei Tsūka, op. cit., pp.280-81.

³⁵. The Collected Writings of John Maynard Keynes, vol.v (A Treatise on Money) (1971), p.320.

9.2 Foreign Loans and Trade Balances

From the end of the nineteenth century there was a serious argument about how capital exports influenced the British economy.³⁶ However, these still continuing and important debates - the merits and demerits of the capital exports to the British economy before 1914 - are beyond the scope of this study.³⁷ Here the consideration is strictly limited to the effects of Japan's foreign borrowings on its trade balances.

Generally the repercussions of foreign borrowings on borrowing countries' economies flowed through two main channels.³⁸ Firstly, direct use of loan proceeds for purchasing goods from lending countries, as in the case of tied loans, increased imports in the borrowing countries. Secondly, funds transferred from loan proceeds generated consumption and related expenditures in the borrowing countries' economies and, through this process, imports were boosted indirectly. In the latter case, however, the lending countries could not always increase exports to the borrowing countries, because multilateral trade structures³⁹ with the borrowing countries would finally decide whose exports were increased.⁴⁰

³⁶. B.L.P.E.S.A., R(S.R.) 1016, R. Giffen Correspondence, vol.ii, 101, Edgar Crammond to R. Giffen, 12 June 1907. [Crammond] was the author of an article entitled 'British Investments Abroad' (*Quarterly Review*, vol.ccvii-no.412 [1907], pp.245-72) and suggested a statistical estimate of British foreign investment to examine Britain's balance of payments.

³⁷. The most important argument on the potential growth of the contemporary British economy was addressed by W.P. Kennedy ('Foreign Investment, Trade, and Growth in the United Kingdom, 1870-1913', *Explorations in Economic History*, vol.11-no.4 [1974], pp.415-44, especially pp.436-39). Also see, S. Pollard, 'Capital Exports, 1870-1914: Harmful or Beneficial?', *Economic History Review*, second series, vol.xxxviii-no.4 (1985), pp.489-514; M. Wilkins, *The History of Foreign Investment in the United States to 1914* (Cambridge[Mass.], 1989), pp.612-15. Also see introduction of this thesis.

³⁸. S.B. Saul, *Studies in British Overseas Trade, 1870-1914* (Liverpool, 1960), p.69.

³⁹. 'The multilateral settlement of world trade: i.e. payments involving a third party or even more, had been for centuries a major feature of world economic relations' (*ibid.*, p.43).

⁴⁰. Also there was a time lag between the time of loan issues and the increase of imports.

It is of importance to analyse the repercussions of Japan's large foreign borrowings during 1904 and 1905. This unique experience provides a typical example of a relationship between foreign loans and trade balances in a borrowing country. In fact, S.B. Saul, formulating the patterns of multilateral trade in the world economy, described the reaction of Japan's trade balances to the foreign loans as 'most interesting' but 'without making any pretence at an exact calculation'.⁴¹ It is useful to extend his analysis with further calculations.

Japan's trade balance from 1896 to 1913 was in deficit almost every year with a peak in 1905 (Table 9.4). The Japanese government was always forced to obtain gold or foreign currency to cover these trade deficits. The main purpose of the Japanese government foreign loans, therefore, lay in the settlement of these trade deficits. Table 9.6 shows Japan's international payments in the period from 1904 to 1913. In terms of the absolute value, the total of long-term capital movements (mostly foreign borrowings) is equivalent to the total of the trade and invisible balances (including the large foreign loan interest payments and repayments), short-term capital movements, gold (specie) movements and changes of specie holdings abroad.⁴² It is sufficient here to confirm that the basic trade structure in the Japanese economy of the time was to obtain the funds from foreign loans to meet trade deficits and to pay the principal and interest of these loans; the rest of the funds was kept in store in the form of specie holdings abroad. The practice of holding specie abroad, however, complicated the relationship between the loan proceeds and trade balances to a considerable extent. Demand for imports was created indirectly through an expansion of credit and fulfilled itself in a later period, because the Bank of Japan purchased specie holdings abroad from the government and used them for

⁴¹. Saul, *op. cit.*, p.87.

⁴². Short-term capital movements were a residual item, the net balance calculated from other items and includes errors and omissions (I. Yamazawa & Y. Yamamoto, Chōki Keizai Tōkei 14, Bōeki to Kokusai Shūshi [Estimates of Long-term Economic Statistics of Japan], vol.14 [Foreign Trade and Balance of Payments] [Tokyo, 1979], pp.223-224).

reserves for issuing bank notes.

Japan had trade deficits with Britain, India and Germany; surpluses with the United States, China, France and Italy (Table 9.7). Japan exported food and textiles to China, and substantial quantities of raw silk to the United States, Italy and France, the United States being the largest importer from Japan over all. Japan imported raw cotton from India, oil from the United States, and manufactured goods from Britain and Germany.

During the Russo-Japanese War Japan's inherent trade structure: i.e. the constant and large deficit in foreign trade financed by foreign loan proceeds, was exaggerated. In this period Britain acted as the largest exporter, of both goods and capital, to Japan, and its share in Japan's total annual imports, at almost one-third, was very noticeable. Britain increased its exports to Japan to a much higher degree than any of the other countries (the United States, Germany and France) which were involved in the simultaneous issues of the Japanese government loans. In particular, imports of war-related goods from Britain increased greatly,⁴³ and British exporters of iron, steel, coal, steamships, boilers and railway equipment occupied the largest shares of the Japanese import markets in this period.⁴⁴ In these cases, British loans increased further the demand for those British exports that already enjoyed substantial market penetration. It may also be noted that these were Britain's 'well-established industries', which retained competitiveness in exports markets.⁴⁵

The total net (to the government) amount of the foreign loan issues during 1904 and 1905 amounted to £36,925,000 in Britain, £34,065,000 in the United States, £11,535,000 in Germany and £10,560,000 in France (see chapter 5 and chapter 6). Japan's trade balances, loan proceeds, repayments of loan principal, and payments of

⁴³. Report on the Trade of Japan for the Year 1905, no.3675 (1906), pp.8-9.

⁴⁴. Japanese Bureau of Statistics, Nippon Teikoku 26 Tōkei Nenkan (Statistics of the Imperial Japan, No.26) (Tokyo, 1907), pp.460-72.

⁴⁵. Kennedy, op. cit., p.437 and Industrial Structure, Capital Markets and the Origins of British Economic Decline (Cambridge, 1987), p.154.

interest need to be tabulated by country, in order to compare the relationship between loan issues and trade balances.⁴⁶ Table 9.8 shows Britain's trade balances (merchandise and bullion) with Japan, Japan's proceeds from loans floated in London, Japan's repayments of loan principal and payments of interest, and their changes (the base year is 1903).⁴⁷ It is noted that the amounts of the loan issues during 1904 and 1905 were extremely large; after 1906 these became much smaller. Except for 1904 and 1905 the sum of the trade balance, loan proceeds, repayments of loan principal and payments of interest showed a surplus to Britain. The most fundamental character of these trade relations was that Britain's loans, to a considerable degree, unilaterally settled the trade balances with Japan. The interlocking settlement structure of trade between Britain and Japan of this time was direct, although India slightly increased exports to Japan. Given the advantageous trade structure, Britain's loans significantly contributed to the increase of its exports to Japan. Britain's overall trade balance showed a deficit and was made up by invisible trade items, but its trade balance with Japan was still kept in surplus. In this respect, Britain's capital exports to Japan paid returns.

On the other hand, the trade structure of the United States with Japan in this period was an extreme contrast. As indicated in Table 9.9, the Japanese government loans of 1904 and 1905 issued in New York improved the position of the United States in trade with Japan remarkably, being the largest importer from Japan, but after 1906 the effects of the loan issues ceased. The United States' exports to Japan tended to fall, increasing Japan's trade surpluses with the United States. Every year the balance between the trade balance, loan proceeds and loan repayments showed a large deficit for the United States. The United States' loans to Japan were settled multilaterally. Indeed, some

⁴⁶. The Japanese data did not reveal movements of gold and silver by country (Yamazawa & Yamamoto, *op. cit.*). Japan's capital movements in this period are still uncertain.

⁴⁷. It must also be noted that the amounts of increase and decrease in trade balance did not rigidly correspond with calendar years when the amounts of the loan issues and the payments of principal and interest were calculated by the direct method.

of the funds supplied from the United States, Germany and France in 1904 and 1905 were used to buy British exports. This was perhaps due to the fact that Japan could not find any other import channel of military goods than the British one.⁴⁸ Germany feared, in fact, that Japan would not purchase enough manufactured goods from it to cover the loan issue amount.⁴⁹

9.3 Conclusion

Externally, Japan's practice of holding specie abroad contributed to the working of the gold standard. Firstly, it left much of the loan proceeds still under the control of the London money market and the Bank of England often utilised these Japan's funds in adjusting fluctuations on the money market. Secondly, it spared Britain a loss of gold when foreign loans were issued in London. The practice of holding specie abroad, enabled Japan to settle its trade balances directly through its sterling balances in London, the world's trade centre, and firmly linked the Japanese economy with the international economic community. Internally, the practice of holding specie abroad played a role of reducing the influence of the foreign loan issues on the domestic economy.

Given the multilateral trade settlement system, Britain, the largest lender to Japan, significantly increased its exports to Japan because of its overwhelming competitiveness in some Japanese import markets, particularly those for military equipment.

Britain's loans to Japan finally brought surpluses to Britain without a loss of gold.

⁴⁸. Several British arms firms, such as Armstrong and Vickers, supplied warships and guns to the Imperial Japanese Navy. There were strong ties existing between them, and in 1907 Armstrong and Vickers agreed to create the Nihon Seikō Sho, gun-making and turret-engineering plant in Japan (C. Trebilcock, 'British Multinationals in Japan, 1900-1941: Vickers, Armstrong, Nobel, and the Defense Sector' in T. Yuzawa & M. Udagawa [eds.], Foreign Business in Japan before World War II [The International Conference on Business History 16 Proceedings of the Fuji Conference] [Tokyo, 1990], pp.89-92); In 1886 Jardine, Matheson & Co. became the agent of Armstrong in Japan (K. Ishii, Kindai Nihon to Igrisu Shihon [Modern Japan and British Capital] [Tokyo, 1984], p.404).

⁴⁹. The Economist, 15 July 1905, p.1162.

Table 9.1 Japan's Specie Holdings, 1900-1913
(¥ million; ¥1=2s. 1/2d.)

Year	(1) Total	(2) [By owners]	(3) Bank of Japan	(4) [By location]	(5) Abroad
		Government		Domestic	
1900	68	-	68	-	-
1901	72	-	72	-	-
1902	110	-	110	-	-
1903	139	6	133	120	19
1904	97	1	96	26	71
1905	479	363	116	37	442
1906	495	292	203	54	441
1907	445	237	208	44	401
1908	392	166	226	62	330
1909	446	144	302	117	329
1910	472	202	270	135	337
1911	364	113	251	133	231
1912	351	82	269	136	215
1913	376	91	285	130	246

Notes: - implies no information or the amount was less than one million;
End of year;
(1)=(2)+(3)=(4)+(5).

Sources: N.G.K.H.S., vol. Data, pp.332-33.

Table 9.2 Investments of the Bank of Japan (Specie Holdings Abroad)
(31 January 1908)
(£000)

Item	Amount
<u>Reserves</u>	
Bank of England	1,719
Yokohama Specie Bank (London)	1,000
Securities	8,252
Total	10,971
<u>Non-reserves</u>	
Bank of England	701
Yokohama Specie Bank (London)	2,051
Total	2,752
Grand-total	13,723

Source: J.M.F.A., Mizumachi Papers, 5-26.

Table 9.3 Investments of the Japanese Government (Specie Holdings Abroad)
(31 January 1908)

		(1)	(2)	
Britain		(£000)	(£000)	(Percent)
Deposition				
	Bank of England	362		
Sub-total		362		
Investment				
	Bank of England	5,000		
	Other London banks	7,525		
	Securities	1,307		
Sub-total		13,832		
Total		14,194	14,194	(55)
U.S.A.		(U.S.\$000)	(£000)	
Deposition				
	Banks in New York	4,661		
Total		4,661	961	(4)
France		(Fr000)	(£000)	
Deposition				
	Banks in Paris	148,073		
Total		148,073	5,861	(23)
Germany		(DM000)	(£000)	
Deposition				
	Banks in Germany	84,554		
	Securities	9,769		
Total		94,323	4,638	(18)
Grand total			25,654	(100)

Notes: U.S.\$1=4s. 1 1/2d.; Fr1= 9 1/2d.; DM1=11 4/5d.;
 There was foreign exchange for £1,496, U.S.\$110,266, Fr709,278 and
 DM1,253,169;
 (2) means sterling conversion of (1);
 Deposition means the placing of funds as repositories in short-term.

Source: J.M.F.A., Mizumachi Papers, 5-26.

Table 9.4 Japan's Balance of Trade, 1890-1913
(¥000; ¥1=2s. 1/2d.)

Year	[Trade]			[Gold & Silver]			Total balance
	(1) Export	(2) Import	(3) Balance	(4) Export	(5) Import	(6) Balance	
1890	56,604	81,729	-25,125	1,687	360	1,327	-23,798
1891	79,527	62,927	16,600	230	283	-53	16,547
1892	91,103	71,326	19,777	8,544	395	8,149	27,926
1893	89,713	88,257	1,456	2,302	496	1,806	3,262
1894	113,246	117,482	-4,236	3,547	555	2,992	-1,244
1895	136,112	129,261	6,851	2,791	1,029	1,762	8,613
1896	117,843	171,674	-53,831	1,996	10,217	-8,221	-62,052
1897	166,859	221,406	-54,547	8,863	64,313	-55,450	-109,997
1898	170,021	281,645	-111,624	46,281	37,083	9,198	-102,426
1899	222,942	224,052	-1,110	8,768	20,216	-11,448	-12,558
1900	212,869	291,664	-78,795	51,761	9,246	42,515	-36,280
1901	261,132	263,163	-2,031	11,477	11,846	-369	-2,400
1902	267,538	279,138	-11,600	453	31,871	-31,418	-43,018
1903	300,697	326,865	-26,168	16,798	26,715	-9,917	-36,085
1904	329,417	381,792	-52,375	107,128	7,241	99,887	47,512
1905	335,018	502,200	-167,182	17,210	22,256	-5,046	-172,228
1906	439,389	437,044	2,345	23,079	38,896	-15,817	-13,472
1907	452,163	512,102	-59,939	19,374	8,591	10,783	-49,156
1908	399,173	460,680	-61,507	3,833	18,290	-14,457	-75,964
1909	437,120	430,509	6,611	6,447	79,818	-73,371	-66,760
1910	501,914	520,483	-18,569	23,577	21,773	1,804	-16,765
1911	522,861	581,116	-58,255	23,713	17,058	6,655	-51,600
1912	618,245	684,104	-65,859	21,399	20,416	983	-64,876
1913	716,494	794,885	-78,391	21,110	11,792	9,318	-69,073

Notes: Excluded special exports and imports (mainly for embassies abroad);
Included import and export from Taiwan and Korea;
(3)=(1)-(2); (6)=(4)-(5); (7)=(3)+(6).

Source: M.H.S.K.T., pp.278-79 and 298-99.

Table 9.5 Changes of Trade Balances, Specie and Note Issues in Japan, 1903-1913
(¥ million; ¥1 = 2s. 1/2d.)

	1903	1904	1905	1906	1907	1908	1909	1910	1911	1912	1913
(1) Balance of Trade	-14	-26	-115	165	-62	-2	68	-25	-39	-8	-12
(2) Specie total	29	-42	382	16	-50	-53	54	26	-108	-13	26
(3) Government	6	-5	362	-71	-55	-71	-22	58	-89	-31	9
(4) Bank of Japan	23	-37	20	87	5	18	76	-32	-19	18	17
(5) Bank of Japan Notes issued	1	54	26	29	28	-17	0	49	32	16	-23
(6) Specie Reserve issue	7	-33	32	31	15	8	48	5	7	18	-23
(7) Securities for Fiduciary issue	-6	87	-6	-2	13	-25	-48	44	25	-2	0

Notes: (2)=(3)+(4); (5)=(6)+(7).

Sources: (1) Table 9.4, column (3);
 (2) Table 9.1, column (1);
 (3) Table 9.1, column (2);
 (4) Table 9.1, column (3);
 (5), (6) and (7) M.H.S.K.T., pp.170-71.

Table 9.6 Japan's Balance of Payments, 1904-1913
(¥ million; ¥1=2 s. 1/2d.)

Year	(1) Trade balance	(2) Invisible balance	(3) Long-term capital movements	(4) short-term capital movements	(5) Total	(6) Gold (specie) movements	(7) Specie holdings abroad changed
1904	-52.4	-77.2	97.2	10.5	-21.9	-73.6	51.7
1905	-167.1	-157.3	591.0	119.7	386.3	14.4	371.9
1906	4.0	-27.9	119.9	-74.4	21.6	23.1	-1.5
1907	-60.1	67.1	25.6	-82.7	-50.1	-9.8	-40.3
1908	-61.6	-1.3	64.2	-57.0	-55.7	15.2	-70.9
1909	6.5	-2.8	128.9	-58.8	73.8	74.3	-0.5
1910	-18.8	-66.5	102.1	-14.2	2.6	-5.0	7.6
1911	-58.4	-45.6	-4.4	-6.5	-114.9	-9.3	-105.6
1912	-66.1	-41.9	34.4	49.4	-24.2	-7.7	-16.5
1913	-78.6	-17.1	95.6	16.8	16.7	-14.8	31.5
Total	-552.6	-370.5	1254.5	-97.2	234.2	6.8	227.4

Notes: Invisible balance includes nonmonetary gold, travel, freights, insurance, investment income (interest and dividends on securities and income on undertakings), government receipts and payments, other services and transfer (government and private);
Long-term capital movements include portfolio investments and their repayments, and direct investments and their collections;
Long-term capital movements show an aggregated item and cannot be broken down by portfolio and direct investments;
Short-term capital movements are a residual item, the net balance calculated from all other items, and includes errors and omissions;
Specie (gold) movements mean the movements of gold for monetary use;
(1) + (2) + (3) + (4) = (5) = (6) + (7).

Sources: Calculated from Yamazawa & Yamamoto, Chōki Keizai Tōkei 14, Bōeki to Kokusai Shūshi (Estimates of Long-term Economic Statistics of Japan), op.cit., table 16 (pp.223-224).
M.S. Gordon, 'Japan's Balance of International Payments, 1904-1931' (E.B. Schumpeter [ed.], The Industrialization of Japan and Manchukuo [New York, 1940], appendix) calculated the 'balance of payments of all Japan, including Korea and Formosa' (end table 1) but the invisible items which this pioneering work used are incomplete, because the details of Japan's invisible items in the period from 1902-1945 were published in 1950 (Japanese Ministry of Finance, Zaisei Kin-yū Tōkei Geppō [Monthly Report of Financial and Monetary Statistics], no.5 [Tokyo, 1950]) (Yamazawa & Yamamoto, op. cit., pp.125-26).

Table 9.7 Japan's Exports and Imports, 1900-1910 (By Main Country)
(¥ million; ¥1=2s. 1/2d.)

		1900	1901	1902	1903	1904	1905	1906	1907	1908	1909	1910
Britain	Export	42.7	59.9	66.9	70.1	72.3	54.1	86.1	94.2	83.9	96.0	108.4
	Import	126.3	96.7	93.9	96.1	120.4	183.2	170.1	195.0	175.8	148.0	163.7
	Balance	-83.6	-36.8	-27.0	-26.0	-48.1	-129.1	-84.0	-100.8	-91.9	-52.0	-55.3
France	Export	19.1	27.2	27.2	34.2	36.3	27.2	40.2	42.5	33.7	41.5	44.9
	Import	8.0	3.7	4.7	5.1	3.3	5.1	4.9	7.0	5.2	5.5	5.4
	Balance	11.1	23.5	22.5	29.1	33.0	22.1	35.3	35.5	28.5	36.0	39.5
Germany	Export	3.5	5.2	4.7	5.1	4.1	4.3	8.3	11.2	7.9	7.9	11.1
	Import	29.2	38.3	25.8	26.9	28.6	42.5	42.5	47.6	46.2	40.2	43.9
	Balance	-25.7	-33.1	-21.1	-21.8	-24.5	-38.2	-34.2	-36.4	-38.3	-32.3	-32.8
Italy	Export	7.1	12.5	13.2	11.0	12.0	8.0	11.8	13.7	11.3	12.0	16.8
	Import	0.5	0.2	0.2	0.3	0.7	0.5	0.6	0.9	0.7	0.5	0.6
	Balance	6.6	12.3	13.0	10.7	11.3	7.5	11.2	12.8	10.6	11.5	16.2
India	Export	8.7	9.6	5.0	8.0	9.4	7.9	10.3	13.0	13.6	14.4	18.7
	Import	23.5	42.7	49.3	69.8	68.0	90.2	60.3	74.5	49.3	65.1	106.3
	Balance	-14.8	-33.1	-44.3	-61.8	-58.6	-82.3	-50.0	-61.5	-35.7	-50.7	-87.6
China	Export	31.8	42.9	46.8	64.9	67.9	98.6	117.7	106.0	77.7	89.2	109.1
	Import	29.9	27.2	40.5	45.4	54.8	52.6	57.3	67.9	63.7	65.0	78.3
	Balance	1.9	15.7	6.3	19.5	13.1	46.0	60.4	38.1	14.0	24.2	30.8
United States	Export	52.5	72.3	80.2	82.7	101.2	94.0	125.9	131.1	121.9	131.5	143.7
	Import	62.7	42.7	48.6	46.2	58.1	104.2	69.9	80.6	77.6	54.0	54.6
	Balance	-10.2	29.6	31.6	36.5	43.1	-10.2	56.0	50.5	44.3	77.5	89.1

Notes: Excluding gold and silver movements;
There are serious differences in the figures between these Japanese exports-imports data, and the British and the United States' ones which will be used in Table 9.8 and 9.9. The Japanese data neither include re-exports nor show the boundaries of Britain and the United States.

Source: M.H.S.K.T., pp.290-95.

Table 9.8 Britain's Trade Balances, Loan Issues and
Loan Payments with Japan, 1903-1911
(£ million)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Year	Trade balance	Gold & silver movement	Total Change		Loan proceeds	Change payment	Loan	Change	Total change
1903	2.4	-2.5	-0.1	-	0.3	-	0.9	-	-
1904	2.7	0	2.7	2.8	9.6	9.3	1.6	0.7	-5.8
1905	7.9	0.1	8.0	8.1	28.1	27.8	3.0	2.1	-17.6
1906	10.2	-1.7	8.5	8.6	2.3	2.0	3.2	2.3	8.9
1907	9.0	-0.1	8.9	9.0	*4.0	3.7	4.0	3.1	8.4
1908	7.2	-	7.2	7.3	4.8	4.5	4.7	3.8	6.6
1909	4.4	-	4.4	4.5	4.3	4.0	5.0	4.1	4.6
1910	5.6	0.7	6.3	6.4	*6.7	6.4	5.0	4.1	4.1
1911	8.8	0.6	9.4	9.5	5.3	5.3	5.3	4.4	8.6
Total			55.3	56.2	65.4	63.0	32.7	24.6	17.8

Notes:

Included re-exports;
Japan included Formosa;
Base year for changes is 1903;
* The balances, deducting the redemption amounts from the issue amounts,
were divided according to London's shares;
Loan proceeds and repayments were calculated from their issue prices (to
government, municipalities and companies) and nominal interest rates;
Repayments of principal and payments of interest were assumed to make
uniformly, starting in the first years of the loan;
(3)=(1)+(2); (9)=(4)+(8)-(6);
The British exports-imports data are used here because the Japanese data
which have been mentioned in Table 9.7 do not show gold and bullion
movements by country.

Sources:

(1) and (2) Statistical Abstract for the United Kingdom in Each of the
Latest Fifteen Years from 1896 to 1910, pp.72-73, 248-49 and 254-55;
(5) and (7) Table 3.1 and Table 8.1 and Table 8.8.

Table 9.9 The United States' Trade Balances, Loan Issues
and Loan Payments with Japan, 1903-1911
(\$ million; \$1=4 s. 1 1/2d.)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Year	Trade balance	Gold & silver movement	Total	Change	Loan proceeds	Change payment	Loan	Change	Total change
1902	-16.5	-0.6	-17.1	-	-	-	3.2	-	-
1903	-23.3	3.0	-20.3	-3.2	-	0	9.3	3.2	0
1904	-21.8	0.5	-21.3	-4.2	46.7	46.7	9.3	6.1	-44.8
1905	-0.6	5.8	5.2	22.3	118.1	118.1	9.3	6.1	-89.7
1906	-14.6	5.3	-9.3	7.8	-	0	9.3	6.1	13.9
1907	-30.4	0	-30.4	-13.3	-	0	9.3	6.1	-7.2
1908	-26.8	0	-26.8	-9.7	-	0	9.3	6.1	-3.6
1908	-43.9	2.8	-41.1	-24.0	-	0	9.3	6.1	-17.9
1910	-44.6	26.6	-18.0	-0.9	-	0	9.3	6.1	5.2
1911	-42.0	-0.3	-41.7	-24.6	-	0	9.3	6.1	-18.5
Total			-199.5	-49.8	164.8	164.8	86.9	52.0	-162.6

Notes: Included re-exports;
Base year for changes is 1903;
Japan included Formosa;
Loan proceeds and repayments were calculated from their issue prices (to government, municipalities and companies) and nominal interest rates;
Repayments of principal and payments of interest were assumed to make uniformly, starting in the first years of the loan;
(3)=(1)+(2); (9)=(4)+(8)-(6);
The United States' exports-imports data are used here because the Japanese data which have been mentioned in Table 9.7 do not show gold and bullion movements by country.

Sources: (1) and (2) Statistical Abstract of the United States, 1911 (Washington, 1912), pp.384, 494 and 497;
(5) and (7) Table 3.1; Table 8.1 and Table 8.8.

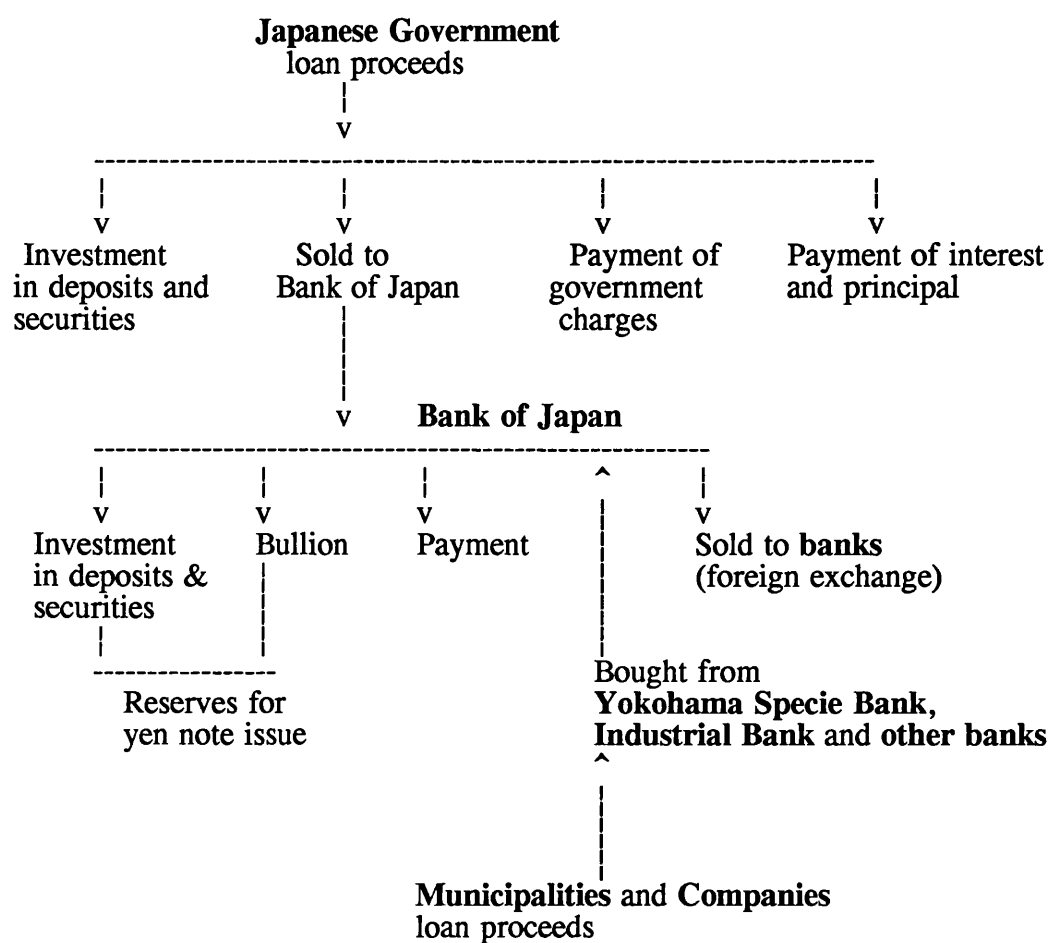
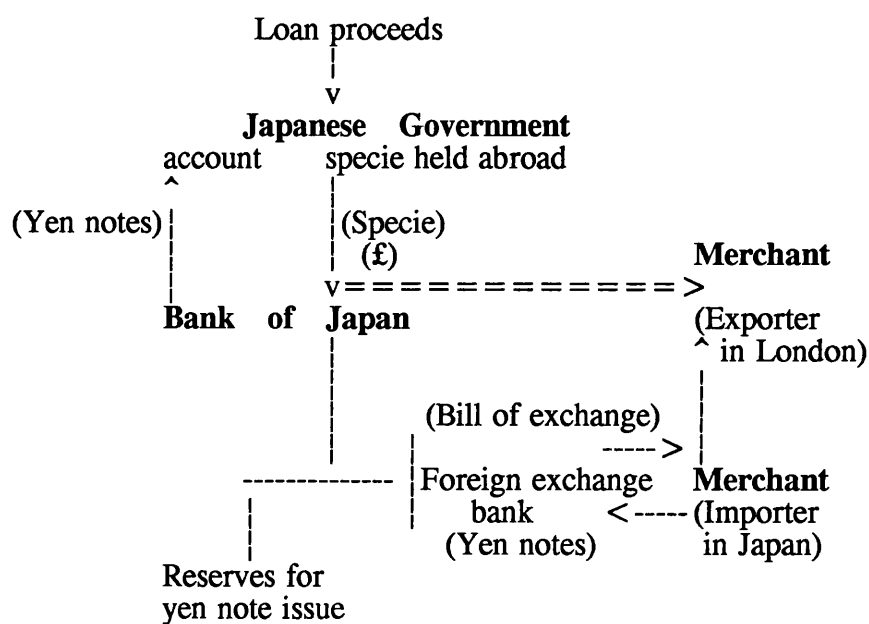
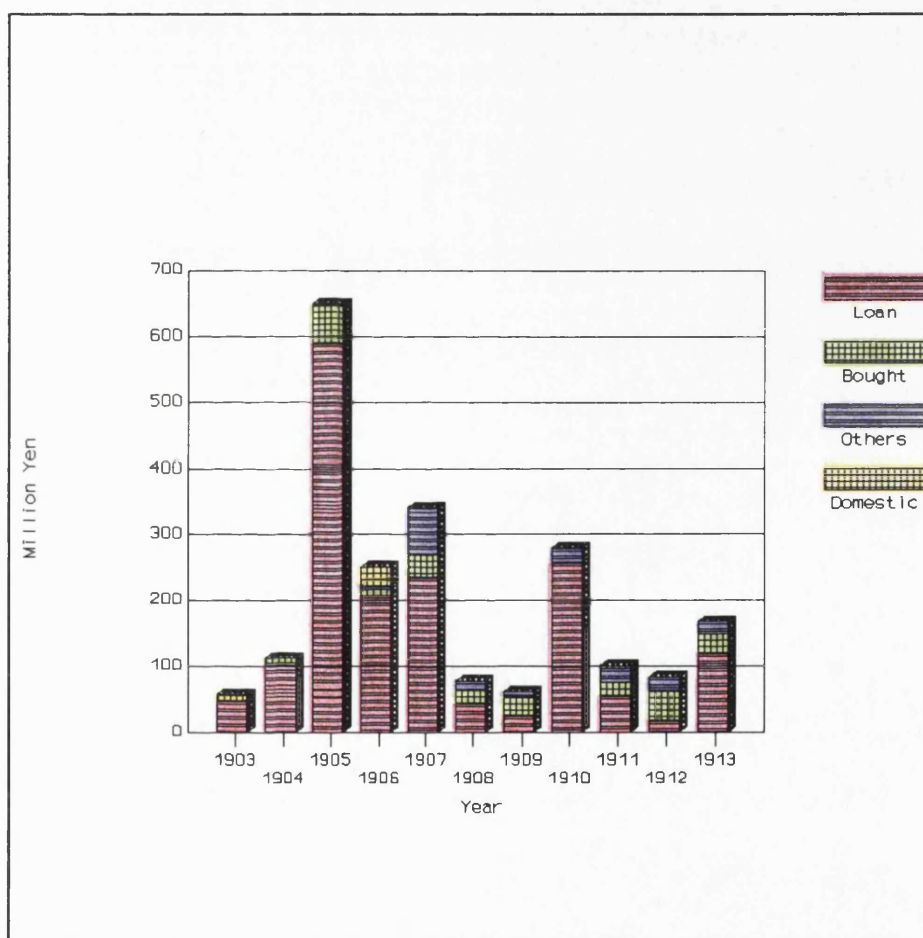
Chart 9.1 Distribution of Japanese Loan ProceedsChart 9.2 Specie Holdings Abroad and Foreign Exchange

Chart 9.3 Japanese Government's Specie Holdings, 1903-1913

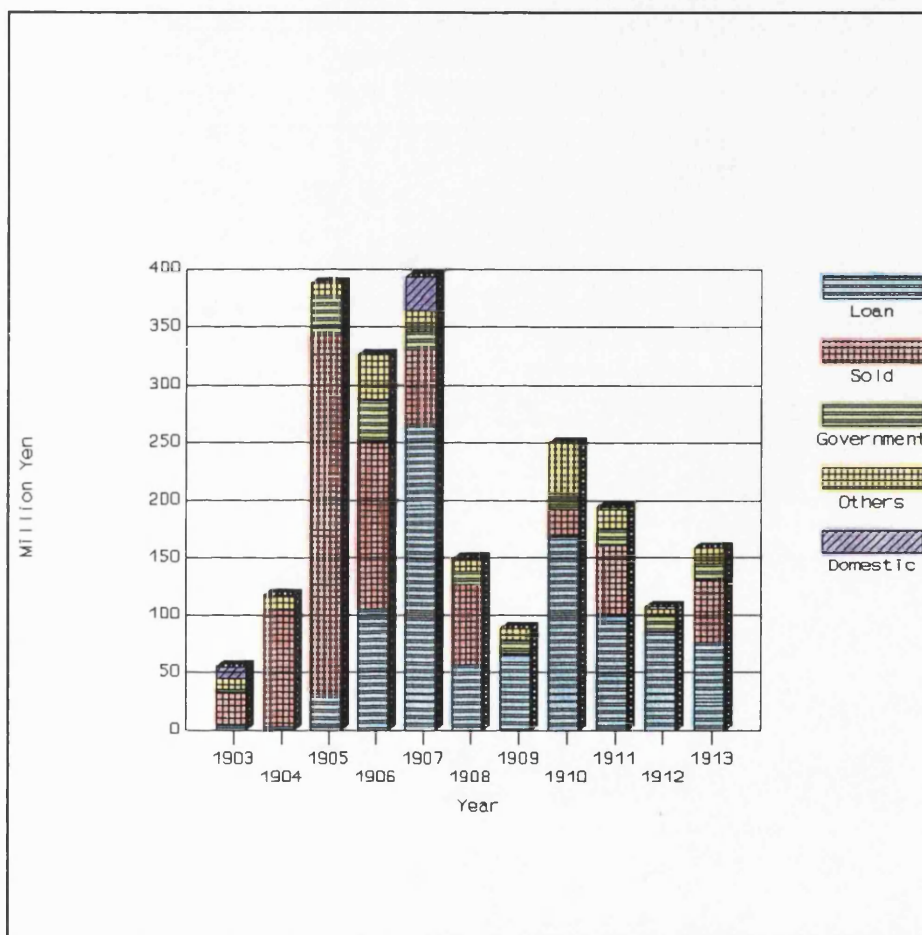
Received



Notes:

Loan - specie from government loan proceeds;
 Bought - specie bought from the Bank of Japan and the Yokohama Specie Bank;
 Others - mainly Chinese indemnity and interest incomes;
 ¥1 = 2s. 1/2d..

Chart 9.3 Japanese Government's Specie Holdings, 1903-1913(cont.)

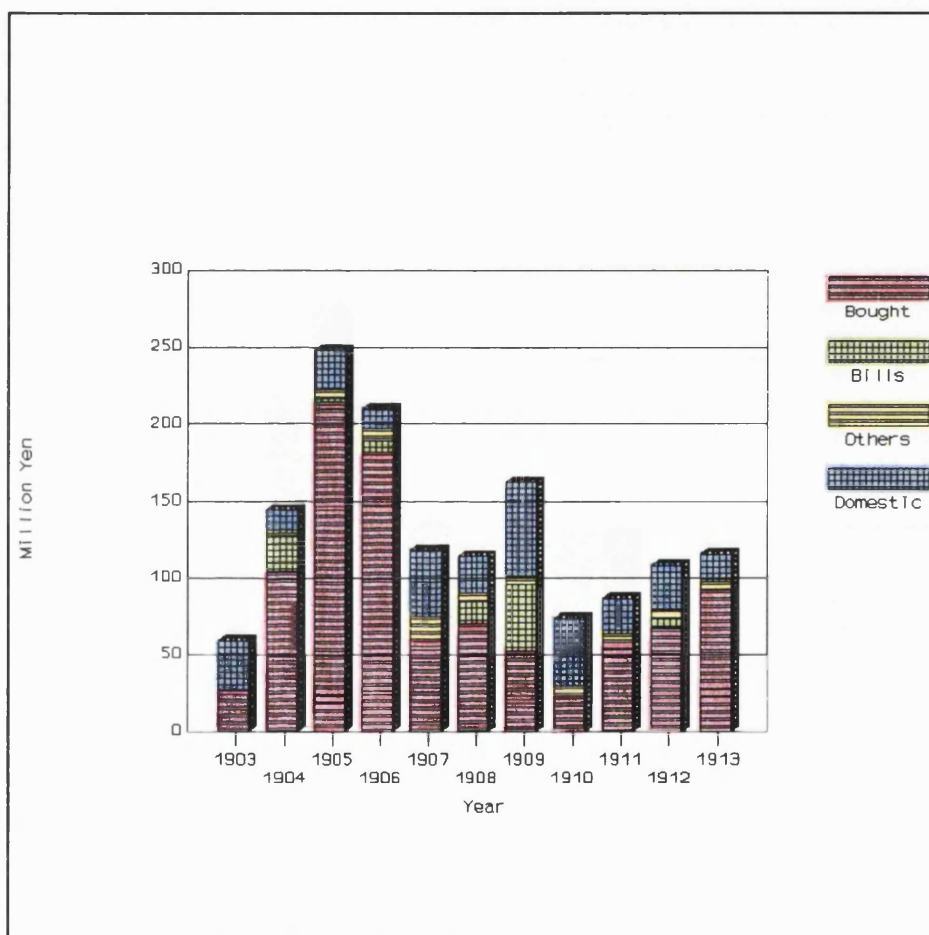
Paid**Notes:**

Loan - government loan redemption and interest payment;
 Sold - specie sold to the Bank of Japan and the Yokohama Specie Bank;
 Government - government import charges;
 Others - mainly bullion;
 ¥1 = 2s. 1/2d..

Source: J.M.F.A., Shōda Papers, 49-1, 14, 16 and 23.

Chart 9.4 Bank of Japan's Specie Holdings, 1903-1913

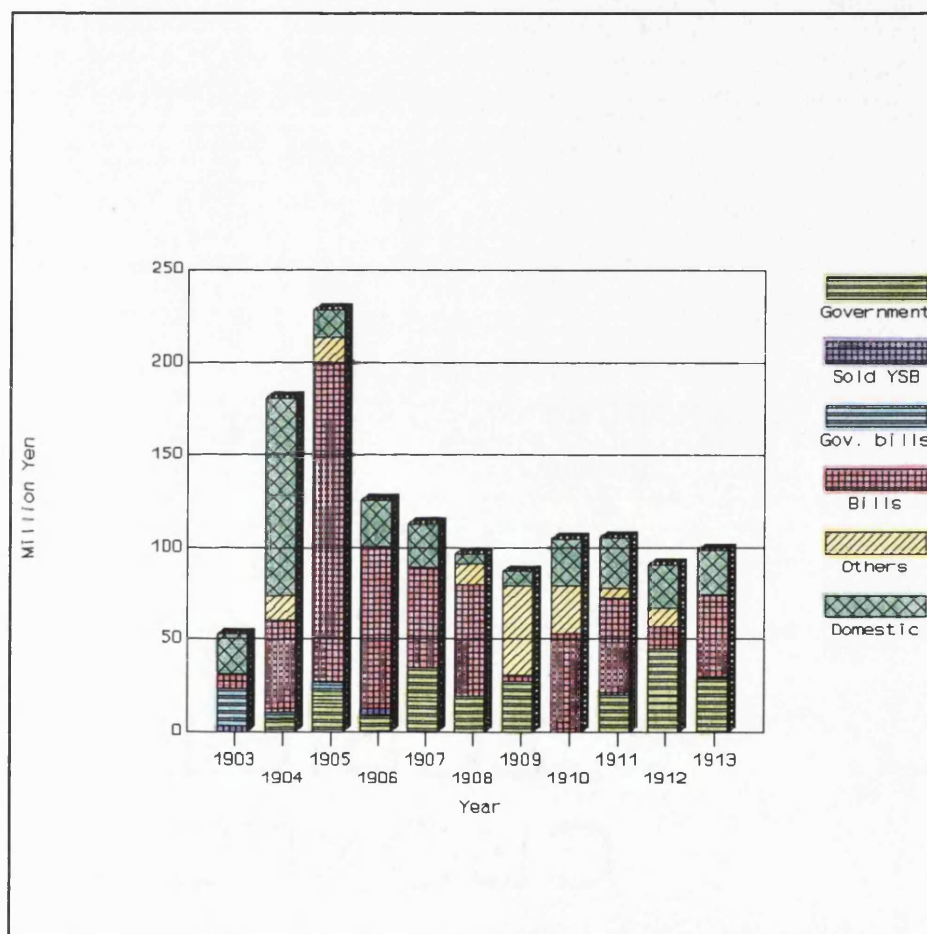
Received



Notes:

Bought - specie bought from the government, municipalities,
the Yokohama Specie Bank and the Industrial Bank;
Bills - specie bought in sterling bills;
Others - mainly interest incomes;
¥1 = 2s. 1/2d..

Chart 9.4 Bank of Japan's Specie Holdings, 1903-1913 (cont.)

Paid**Notes:**

Government - specie sold to the government;
 Sold YSB - specie sold to the Yokohama Specie Bank;
 Gov. bills - specie paid for government payment bills;
 Bills - specie sold in large bills;
 Others - mainly bullion;

¥1=2s. 1/2d..

Source: J.M.F.A., Shōda Papers, 49-1, 14, 16 and 23.

CONCLUSION

This thesis has analysed the Japanese government loan issues on the London capital market before the First World War. They were important, reaching over 20 percent of all foreign governments' loan issues in London in the period from 1900 to 1913.

At the outset of this thesis, two questions were addressed: firstly, how foreign governments were able to raise funds on the London capital market, and secondly, what the role of financial institutions involved in these operations was? Some answers to these questions have been discovered in this thesis, with respect to the history of the Japanese government foreign loan issues. The conclusion will now summarise the main arguments put forward in the thesis.

1 Japanese Foreign Loans 1870-1913: Anatomy of a 'Successful' Borrower

Most of this thesis has been concerned with the development of the loan issue markets for Japanese government foreign loans. The history of the Japanese government foreign loan issues has revealed the explanation for the rapid improvement of Japan's creditworthiness on the London capital market. Their history will be recapitulated first, before turning to a discussion on these main reasons.

Unlike Latin American countries, where close ties between governments and City financiers had existed since the early-1820s and excess funds in European money markets cyclically flowed,¹ Japan tended to be neglected by foreign financiers as it had been isolated for so long.

¹. C. Marichal, A Century of Debt Crises in Latin America (Princeton [N.J.], 1989), pp.4 and 95. For the historical perspective of international lending waves and boom loans, see C.P. Kindleberger, 'Debt Situation of the Developing Countries in Historical Perspective' in S.H. Goodman (ed.), Financing and Risk in Developing Countries (New York, 1977), pp.3-11.

In the 1870s London was the sole place of issue for Japanese government loans. Because the Japanese government, having no specific knowledge of public loans, was dependent upon foreign financiers, it always put its full trust in the bank with Far Eastern connections, the Oriental Bank, a leading British overseas bank of that time.

However, after an interval of a quarter-century, in the 1890s, the Japanese government aimed to establish close relations with the City for an effective loan flotation. The Yokohama Specie Bank, which had been set up in 1879 under the government's official patronage, looked for loan issue banks, rather than intermediaries, which could raise government loans on the most favourable terms on the London capital market. The Yokohama Specie Bank disregarded the existing influence of banks and merchant houses with Far Eastern and Japanese connections, and established business ties with Parr's Bank, a London clearing bank. Yet this link between the Yokohama Specie Bank and Parr's Bank did not successfully carry through the loan issue. The Japanese government, as a consequence, turned more of its attention to merchant banks, which were experts in loan issue business on the London capital market.

In 1902, Baring Brothers, one of the oldest London merchant banks, became involved in the loan issue through their business connections with the Hongkong Bank. This combination of the loan issue banks, including banks with Far Eastern and Japanese connections and a merchant bank, basically prepared the way for Japan's further large-scale financial operations on the international capital markets.

An expansion of the loan issue market for the Japanese government occurred during the Russo-Japanese War (1904-1905). The American banks' participation considerably modified the established loan issue pattern. The merchant banks' widely scattered network of correspondents introduced the loan issue to the New York capital market, the position of the American banks being subordinate to London. In the next stage, the German banks entered the loan issue. The London issue banks thus drew many international financiers to the loan issues, retaining their pre-eminence in the loan issue negotiations.

However, in the loan issue of November 1905, London's primacy in Japanese government loan issues, which had prevailed since 1870, was undermined because the banks in Paris participated. Loan issue negotiations between them being more competitive, the Japanese government could improve loan issue terms.

In 1910, as the result of the division of the issue banks in Paris from those in London, the market linkages became relatively diffused, although the markets had close relations in simultaneous loan issues. The London and Paris capital markets, the largest of the time, were no longer dependent on each other, but competed on equal footing for Japanese government loan issues. Thus the Japanese government could negotiate even more favourable terms.

Table 3.1, at the beginning of Part II, summarised the overall level of the Japanese government foreign loan issues in the period from 1870 to 1913. The total loans issued on the London capital market amounted to £82,106,335 (net amount), around 3.8 percent of the total foreign government loan issues in that period. However, the proportion in the period from 1900 to 1913 increased sharply to 20.8 percent because Japan's foreign loan operations took place mainly after 1900. Paris rapidly increased its share in Japanese loan business, despite only becoming concerned with it after 1905.

This thesis has suggested a number of reasons for Japan's growth in creditworthiness on the foreign capital markets.

Firstly, the Japanese government, after 1899, learned to avoid over-reliance upon one particular foreign financier and market, a practice which tended to impose a high rate of commission on borrowers. The Japanese government never allowed itself to fall easy prey to aggressive foreign financiers who often urged borrowers to take more loans, although in the 1870s it had been a dependent borrower. In order to take the initiative in loan issue negotiations with foreign financiers, the Japanese government prepared multiple markets and financiers for its foreign loan issues. From this point of view, the

Paris capital market played a significant role in sharpening competition among financiers and effectively improved Japan's borrowing position on the international capital markets. It seems, in the long run, that the geographical expansion of the loan issue markets produced a certain market mechanism in the loan issue negotiations. As a consequence, the Japanese government could obtain more favourable loan issue terms.

Secondly, considerable emphasis needs to be placed on the role of the leading local financial institutions in Japan, notably the Yokohama Specie Bank and the Industrial Bank, which took the initiative in negotiating loan issues with foreign financiers after 1899. By developing a protective economic policy against foreign capital, the Japanese government had a definite plan to set up those banks with privileges. Both Banks established close business ties with the eminent foreign financiers, through which they placed many loans efficiently on the international capital markets at lower costs.

Thirdly, the Japanese government developed a keen appreciation of the structure of the London capital market, and knew how to operate a variety of financial institutions in the City to maximise their effects in its loan issue operations. The loan issue mechanism for Japanese government loans may be described as a harmonious combination of various financial institutions.² At first, the banks with Far Eastern and Japanese connections, such as Parr's Bank, the Hongkong Bank, the Yokohama Specie Bank and the Industrial Bank, introduced a loan issue to the London capital market. These banks acted as loan issue banks (except for the Industrial Bank), but were not really such because they were not experts in loan issue business. Subsequently, their business ties drew in merchant banks (Baring Brothers, the London Rothschilds and Cassel) and a stockbroker (Panmure Gordon & Co.), whose role was important in organising the loan issue on the London capital market. At the final stage, the merchant banks, through their correspondent network, linked other major international capital

². 'The success of Japanese financial undertakings is owing to intermediaries who initiated the world into the value of Japanese bonds' (R.A.L., IX/130A/1, the London Rothschilds to the Paris Rothschilds, 25 February 1907).

markets, especially New York, Berlin and Paris, for the simultaneous loan issue.

The establishment of the gold standard and the conclusion of the Anglo-Japanese Alliance, which formed the background of loan issue negotiations, also helped Japan's rapid improvement of the creditworthiness on the London capital market.

From the macro-economic viewpoint, the adoption of the gold standard in Japan in 1897, as in other countries, played a critical role in its borrowing abroad. A standard for economic transactions was needed. The gold standard was a prerequisite for Japan to build up close effective relations with the City, for without it, it was difficult to make favourable and smooth borrowings in London.

Japan's practice of holding specie abroad, which enhanced the working of the international gold standard system, represented its links with the City. The practice of holding specie abroad contributed considerably to the adjustment of constant fluctuations on the London money market, because the Bank of Japan could often lend the specie reserves in London to the Bank of England. For Japan, this practice could reduce the influence of large borrowings abroad on the domestic economy by regulating the rate of foreign exchange. The holding of specie abroad pegged Japan's currency through sterling balances in London (not directly through gold) to the pound sterling, and Japan could absorb large foreign loans without disrupting its foreign trade and commerce.

From the diplomatic viewpoint, it was the Anglo-Japanese Alliance that enabled Japan to raise many loans successfully in London during the Russo-Japanese War. Diplomatic relations between a lending and a borrowing country formed the most basic structure of loan issue negotiations. After the conclusion of the Anglo-Japanese Alliance in 1902, it was certain that the London capital market came to favour Japan's loan issues. In the bond re-sale of 1902, the British government provided political assistance to Japan by the inscription of the stock at the Bank of England, a method which was employed only in diplomatically important foreign government loan issues.

In wider perspective, it is necessary to state the fundamentals of Japanese economic and political development in this era, related to the improvement of its creditworthiness.

Political stability fostered the smooth process of industrialisation in Japan, and this finally improved Japan's creditworthiness on the foreign capital markets. After the Meiji Restoration in 1868, the newly established government achieved political stability in Japan. This government initiated a deliberate programme of modernisation in the country by adopting Western culture and techniques.³

The economic development in the Japan of the time was directly connected to the military strength of the state. The state pursued policies, such as restricting inward direct investment, which maintained Japan's independence and hastened its development as a imperialistic country after the Russo-Japanese War. Often described as 'armament loans', the character of the Japanese government foreign loans had a military purpose above all. At least 75 percent of the total loan issue amount (net amount and excluding the conversion loans) was used for military outlay. The increased armaments raised Japan to the status of a great military power.

2 Loan Issue Process on the London Capital Market: New Perspectives

A number of general points about the foreign loan issue mechanism on the London capital market before the First World War have emerged from this research.

The loan issue mechanism of the London capital market, especially the important role of stockbrokers in loan issues, has not been emphasised sufficiently in the previous literature and needs to be highlighted here. The fragmented structure of the London

³. A. Gerschenkron, Economic Backwardness in Historical Perspective (Cambridge[Mass.], 1962), p.17.

capital market included a variety of the financial institutions in foreign loan issue operations, but the activities of stockbrokers co-ordinated their interests in loan issues and enabled various financial institutions, even lacking the necessary expertise, to become loan issue banks.

Undoubtedly, the leading figures of the London capital market were merchant banks, and they had dealt with most of the large foreign government loan issues since the early nineteenth century. Other banks, such as clearing banks, overseas banks and foreign banks, encroached gradually on the field of foreign loan issue business in the late nineteenth century. But the lack of experience did not easily allow them to effect loan issues on the market. They needed to co-operate with merchant banks or stockbrokers, who were experts in loan issue business.

Most of the loan issues on the London capital market were carried out by the method of public subscription. If the loan issue was underwritten fully, the loan issue banks did not run great risks, except for their own underwriting amounts. The loan issue banks were not always required to be experts in loan issue business and often were simply subscription agents, allowing other financial institutions, such as stockbrokers, to make the necessary arrangements for the loan issue. This is why various banks, other than merchant banks, could act as loan issue banks in the London capital market when they had reasons for business, namely specific linkages with borrowers.

Underwriting could effectively disperse the risks of loan issues to underwriters and became the core of loan issue operations on the London capital market. Such structure of the loan issue market could free financial intermediaries involved in loan issues from the large risks. Stockbrokers played a substantial role in organising the underwriters of loan issues, except when the loan issues were arranged by merchant banks, most of which would form underwriting syndicates mainly by themselves or undertake the loan issues at their own risk. In Germany and France, on the other hand, loan issue banks often undertook loan issues at their own risk. In most cases, they took the issue and placed them directly with their clients and correspondents by the method

of direct placement.

For financial institutions, loan issue commissions were important earning sources. Normally loan issue commissions were distributed among the following institutions involved in the loan issue: loan issue banks (loan issue bank commissions); underwriters (underwriting commissions); stockbrokers (brokerage commissions for placing underwriting); loan issue banks or stockbrokers (brokerage commissions for application); intermediaries which introduced the loan issue to the loan issue banks (intermediary commissions).

Both loan issue bank and underwriting commissions fluctuated with borrowers' creditworthiness on the market. Less creditworthy borrowers faced more expensive commissions which were imposed by loan issue banks and underwriters in order to compensate their risks adequately. Brokerage (placing underwriting and handling applications) and intermediary commissions were fixed. Loan issue commissions became one of the criteria for borrowers to select loan issue banks and markets, as did costs of loan issues. The competitive market structures enabled borrowers to issue loans at lower costs.

The expansion of loan issue markets was important in considering loan issues on the international capital markets, such as London, Paris, Berlin and New York. The mechanism of market linkages has not been satisfactorily analysed so far because of the lack of information on loan issue negotiations.

Before the First World War, only specific financial intermediaries, with established business connections over a range of national markets, could take up international loan issue business. Typically merchant banks, on their extensive correspondent networks, frequently linked the markets together for loan issues. At the outset, market linkages occurred in simultaneous loan issues under the influence of the main market. As a result of the development of the other capital markets, London's unchallenged lead declined and the relationships between the world's major capital markets became relatively decentralised. But each market was not really separate. The

national capital markets, parts of the international capital markets, would co-operate in many simultaneous loan issues. In addition, borrowers improved their borrowing position on foreign markets and could have access to any international capital markets directly, not through their main market. The patterns of loan issues became more diversified for borrowers. Now borrowers could select the most favourable loan issue either on one market (a separate loan) or on multiple markets (a simultaneous loan). The market linkages reached a new stage.

3 Japan: Debt Rewarded

Most of this thesis has been concerned with the Japanese government loan issue operations on the London capital market. It is right to conclude, from this viewpoint, that the Japanese government's foreign loan issues were 'successful', because Japan could raise itself from the position of a doubtful borrower in the 1870s to a respected one after the Russo-Japanese War. However, no straightforward answer to the larger question - whether Japan's foreign borrowings were really 'successful' with respect to its domestic economy - is possible unless their consequence is closely examined. The import of Japan's foreign borrowings in this sense is beyond the scope of this study, but a few final words should be said.

Japan's early industrialisation before the 1890s was financed mainly by domestic sources, not foreign borrowings. From 1897, Japan began to depend upon heavy foreign borrowings. The foreign capital in the Japanese economy of this time played a limited role mainly in alleviating the strain of the foreign trade deficits incurred to support rapid militarisation. The import of foreign capital in the form of government loans in this period neither contributed directly to the industrial development of Japan nor positively changed the basic structure of its economy.

The Japanese economy, just on the eve of the First World War, was almost thrown into a debt crisis which resulted from the large loan issues during the Russo-

Japanese War. In 1914, the Japanese government, exhausting a huge amount of its specie holdings abroad, had to make an urgent agreement with the Bank of Japan and the Yokohama Specie Bank that the latter should offer the government its export bills for the payment of the government's charges abroad. Yet the outbreak of war made it unnecessary.⁴ Increased exports, stimulated by war demand, secured Japan sufficient trade surpluses. Otherwise it would have suffered considerably from the payment of the outstanding debts and trade deficits. Japan was lucky because the exceptional and unexpected circumstances of a world war saved it from the most obvious problem of large foreign borrowings - the cost of servicing the debt.

⁴. N.G.H.S., vol.2, pp.295-96.

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