An Analysis of the Interest Rate for Loans to Direct Retainers of the Shogun in Early Modern Japan

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Research Goals/ Objectives

The purpose of this report is to analyze the transition of the interest rate for loans to direct retainers of the Shogun in early modern Japan, taking the case of Edo (now Tokyo) from the first half of the 19th century to the Meiji Restoration in 1868.

At the Annual Meeting of SSHA last year, I participated in the Paper Session of "Economic Actions in Historical Social Formations", and made a report of "An Analysis of Estimated Interest Rates in Early Modern Japan: Loans to Domain Lords in Osaka and Land Mortgage Finance in Edo". In this report, I compared the time series transition of the interest rate of real estate mortgages in Edo with that for loans to Domain Lords in Osaka. As a result, both interest rates showed a significant positive correlation with prices. However, the former increased, while the latter continued to decrease during the hyperinflation from the opening of the port in 1859 to the Meiji Restoration. From these fact findings, I concluded that financial markets were not yet unified nationally and were not arbitrated between East and West in modern Japan. On the other hand, there is also a problem that the two interest rates cannot be compared directly because the borrower's class and the financial market location were different. In order to solve this problem, I will analyze the transition of the interest rate for loans to direct retainers of the Shogun in Edo in this report. Therefore, I will clarify the difference of samurai finance in the money market between Edo and Osaka.

Backgrounds/ Sources

First of all, I will explain about a financial service for a direct retainer of Shogun in Edo. A financial institution that provided loans to him during the Tokugawa period was called the *Fudasashi*. He was supposed to be paid by the generals with rice produced at his place of control. However, even if he received all of his salary in rice, he did not consume it entirely as food. He would rather need cash to purchase the necessary goods for life. Furthermore, since rice was transported to Edo after autumn, he had to have cash from the *Fudasashi* when he needed funding in spring and summer. Most of *Fudasashi* set up stores in Asakusa where rice warehouses were accumulated in Edo City at that time. Then, *Fudasashi* received rice from the warehouse as a representative of the direct retainer, and paid a part of it to him. In addition, *Fudasashi* played the role of a financial institution that converted remaining rice into cash and passed it to the direct retainer, or lent cash to him using rice as a reserve.

There were about 100 *Fudasashi* in Edo from the first half of the 18th century to the end of the Tokugawa Shogunate in 1867. However, the Meiji new government stopped paying salaries for a samurai class and dismantled its status. Due to the effect, all *Fudasashi* closed without collecting the huge amount of debt they had been lending to direct retainers. Therefore, almost no historical material related to the management of *Fudasashi* remains today.

There are analysis by Kouda[1995] and Kitahara[2008] as prior researches on *Fudasashi*. Those studies include the background of the appearance of *Fudasashi*, the fund transfer system between *Fudasashi* and warriors, and the market intervention of the Shogunate for financial transactions of *Fudasashi* based on the historical materials of the Shogunate's legal system. However, there is no research that analyzed financial transactions quantitatively based on the books or borrowing documents of *Fudasashi* at that time. At present, these *Fudasashi* documents are only left in the Aochi family materials at Hitotsubashi University Library and in the Sumitomo Family documents. In this report, I will use the latter document recently published as historical material.

The Sumitomo family is one that has developed copper mining and refining industries as the core of family business since the early modern Japan. (The current Sumitomo Group is a Japanese corporate group that develops global business focusing on the metal, chemical, distribution, banking, insurance, and real estate industry, etc.) The Sumitomo family opened its first store in Edo in 1678, and advanced to Asakusa in 1702. They started to transfer funds to direct retainers as *Fudasashi* at the latest in 1755, and also made loans to domain lords and Edo townspeople. However, due to the influence of the Meiji Restoration, they decided to close two stores in Edo in 1868.

Methods and Analysis

There are 267 borrowing certificates in the Sumitomo family documents. In other words, the Sumitomo family established business relationships as a *Fudasashi* with at least 267 direct retainers of the Shogun in Edo. Of these, the certificates that described the interest rate clearly are 73, which were prepared in 1825-66. All 73 borrowing certificates contain information such as the amount of rice received as salary, principal for borrowing, repayment and interest per year, etc.

Based on this information, analyzing the nominal interest rate reveals two features. As the first feature, the direct retainers who received the funds transfer from the Sumitomo family were classified into the following two groups based on the loan interest rate. The first group was the ones who were in debt at an annual interest rate of 10-12%. Since the amount of rice as their salary and the principal for borrowing were relatively large, it is presumed that the annual interest rate on lending was high. The second group was the others who were in debt at an interest rate of 1-3% a year. Because the amount of rice as their salary was relatively small compared to that of the first group, they were judged to be minor retainers. In this way, the interest rates were divided into two groups, probably because there was a risk of being loaned off when the interest rate of the same rate as the market interest rate in Edo was imposed on a tiny retainers' group. The land mortgage interest rate in Edo was 6-8% a year at that time. It is speculated that the Sumitomo family was forced to lend funds to the small retainers class with low interest, but that they were lending with a slightly higher interest rate to the relatively high paid retainers class. .

The second feature is that the interest rate on loans by Sumitomo family did not change for 40 years. Meanwhile, the Shogunate issued a decree to reduce the annual interest rate of general public loans from 15% to 12% in 1842. However, the Sumitomo family did not reduce the interest rate on loans. In other words, the government's policy of intervention in the financial markets did not affect the *Fudasashi* loan for direct retainers. Since this fact has already been confirmed from the land mortgage interest rate in Edo, it can be said that this law did not lower the interest rate regardless of the lender's class.

On the other hand, despite the rise in prices triggered by the opening of the port in 1859, the nominal interest rate on the Sumitomo family remained unchanged. This trend was contrary to that of the land mortgage interest rate in Edo, but it was in common with that of the daimyo loan interest rate in Osaka. The reason is probably due to the pressure to maintain the nominal interest rate for funding for direct retainers. With the opening of the ports, trading in import and export goods and the development of new businesses benefiting from the trade could be expected to increase profits for the townspeople. However, a drop in disposable income due to price increases was expected for retainers. Therefore, *Fudasashi* were not able to raise the loan interest for retainers. However, it is not known at present whether it was decided by the market intervention of the Shogunate or by the demand-supply relationship of the financial market. We would like to consider further proving this question in terms of historical sources.

Expected Results/ Conclusions

It is thought that the profit of *Fudasashi* fell considerably at the end of the Tokugawa Shogunate. The reason is that the real loan interest rate was lowered by the sustained inflation rather than the legal pressure of the Shogunate that ordered the interest rate reduction. Furthermore, in the early modern Japanese financial markets, no arbitrage relationships were seen between regions or between lenders. The fact seems to be a great motivation to establish banking business nationwide after the Meiji Restoration. This is because the development of correspondent contracts was essential in order to carry out lending and remittance operations at the national level.

References

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