

CIRJE-F-610

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the Interwar Financial Centers:  
A Case of the Yokohama Specie Bank**

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January 2009

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# The Activities of a Japanese Bank in the Interwar Financial Centers: A Case of the Yokohama Specie Bank

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## Abstract

This paper aims to analyze the role of a branch of a Japanese bank in the international financial centers and its change during the Interwar period. Branches of international exchange banks generally buy bills for goods exported from where they exist, to collect bills for goods imported to where they exist, and to transfer funds with other branches. In addition to these “ordinary” businesses branches in the international financial centers raise funds by selling bills there or by borrowing money from other banks, to make investments for securing reserves, and to advise letters of credit issued by large banks there. This paper sheds light on these activities of the Yokohama Specie Bank, which was the largest international exchange bank in Japan before the Second World War and shows that branches in London and New York facilitated the flow of funds within the bank. The Interwar period saw significant change in international money flow as New York grew to an international financial center, which was as important as London and also saw the Great Depression and international conflicts after that. This paper analyzes how businesses of the two branches changed in order to cope with turbulence in the financial markets.

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## 1. Introduction

After the 1870s international capital flows increased significantly and financial centers in the world were integrated more closely by the much faster transmission of information. The City of London became the hub of international financial relations in the second half of the nineteenth century. The period between the 1870s and the First World War was a “classic” period of the City of London as the global financial center. The City of London provided the commercial credit necessary to finance not only British exports and imports but also those of countries other than Britain. As only bills accepted by merchant bankers or well-known joint stock banks in London were discounted by bill brokers, banks and merchants outside Britain were eager to transact with London bankers. Then, 60 percent of prime bills outstanding in London were finance bills by 1913; therefore, the City of London not only provided international trade finance but played an important role for the maintenance of international finance.<sup>1</sup> In order to do foreign exchange business it was vital to have access to the London money markets; thus foreign banks such as *Crédit Lyonnais* and *Deutsche Bank* began to establish London offices from around 1870, though British overseas banks had London offices from the period before 1870. By 1913 the number of foreign banks’ London offices rose to about thirty (Nishimura, 1971; Michie, 1992; Cassis, 2006).

During the First World War, however, London lost the dominant position as the world financial center and New York increased its importance greatly. With the passage of the Federal Reserve Act in 1913 member banks of the Federal Reserve System became able to accept time bills of exchange and the New York acceptance market began to take shape (Beckhart, 1932; Madden and Nadler, 1935). The New York acceptance market, however, did not replace the London Market. Although New York surpassed London as the world’s capital market, London retained the advantage in financing international trade. In the 1930s over two-thirds of the world’s banks had an office, an agent or a correspondent bank in London (Merrett, 1995; Michie, 2005; Cassis, 2006). Many foreign banks established their agencies or affiliated companies in the United States, especially in New York, but its exact number is unknown. Two

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<sup>1</sup> A large amount of bonds were issued on the London capital market, but capital issuance is not analyzed in this paper. For capital issuance, especially for bond issuance of the Japanese government, see Suzuki (1994).

international financial centers co-existed between the two world wars.

By 1929 six Japanese banks had foreign offices: the Yokohama Specie Bank (hereafter referred to as YSB) had 37, the Bank of Chosen 19, the Bank of Taiwan 14, the Sumitomo Bank 8, the Mitsui Bank 6, and the Mitsubishi Bank 3. The former three banks had been established under special legislations and the latter three banks were among the largest ordinary banks at that time. Sixty-four offices out of eighty-seven offices were located in China, Manchuria, India, Southeast Asia, and Australia, but all six banks had a New York office and five banks except for the Bank of Chosen had a London office (Itoh, 1979). This figure suggests that the offices in London and New York played an important role for their international businesses. This paper aims to analyze the activities of London and New York offices of the YSB in the interwar period. Yamazaki (1992) has analyzed the activities of both branches in 1930 and 1931 and Taira (1993, 1997) did so for the years after 1937. They showed that (1) the YSB bought and sold bills and telegraphic transfers (T.T.) and collected and paid bills and T.T.s and this was its main business; (2) it discounted a large amount of bills on the London and New York markets and borrowed funds from the top-ranking banks there in order to obtain the necessary funds; (3) After the outbreak of the Second Sino-Japanese War in 1937 the transactions on the both markets markedly contracted. This paper will analyze the relationship between the YSB's exchange transactions and its fund raising on both markets more closely, examine the YSB's acceptance business which has been rarely studied, and will show that the credibility of the bank on the markets were seriously affected after the outbreak of the Manchurian Incident in 1931. In the next section the overall business of the bank is briefly described. In sections 3 and 4 the activities of the offices in London and New York will be analyzed and the final section concludes this paper.

## 2. Exchange Business of the YSB

When Japan opened its ports to the world in 1859 almost all international trade was conducted through foreign merchants, who came from Europe, the United States, China, and other countries. After the offices of three Western banks were established in 1863 they came to finance the Japanese foreign trade, though wealthy merchants imported or exported commodities with their own funds (Tamaki, 1995, 17). Japanese merchants soon began to participate in foreign trades. The ratio of the amount of Japanese imports and exports conducted by Japanese merchants to the total amount of Japanese international trade began to rise, and it reached about a half around the outbreak of the First World War. Japanese merchants or the Japanese government had to depend entirely on the Western banks for their international money transactions until the YSB (established in Yokohama in 1880) began foreign exchange business in 1882. With the issuance of the Yokohama Specie Bank Ordinance of 1887 and its revision in

1889 the YSB was reorganized as an exchange bank, obtained special supports from the government and the Bank of Japan, and was under a stricter control of the financial authorities than the ordinary banks. The YSB bought bills drawn by foreign merchants as well as those drawn by the Japanese. In 1887 about a fifth of the Japanese international trade was financed by the YSB and the figure rose to 45 percent by 1911 (Ishii, 1994). The share of foreign banks in the finance of the Japanese exports and imports decreased drastically during the First World War and that of the Japanese banks other than the YSB also increased. Due to growing competition with Japanese ordinary banks such as the Mitsui Bank and the Bank of Taiwan, the share of the YSB in the finance of Japanese international trade declined by one tenth in the 1920s, though it rose again to the almost the same figure as that in the 1910s after the Great Depression due to the increased control over the foreign exchange market by the financial authorities (Itoh, 1989).

With the change in the functions of international financial centers the internal flow of funds of the YSB also experienced changes. Japan exported silk to the United States and cotton goods to China, Southeast Asia, and India; and imported raw cotton from the United States and India, iron and steel from India and Europe, wool from Australia, and machinery from the United States and Europe. The internal flow of funds within the YSB was similar to the flow of Japanese international trade as shown in Figure 1. Some important differences, however, existed. Silk was the largest export product of Japan until the Great Depression and more than half of Japanese exported silk was shipped to the United States around 1890 and this ratio increased to four fifths by 1915. In the nineteenth century Japanese merchants drew bills on New York for their silk exported to the United States. However, they began to draw bills on London for silk exported to the United States around the turn of the century. The ratio of bills on London rose to two thirds just before the First World War (Ishii, 1994). The London Branch of the YSB played an important role for the international settlement (Yokouchi, 1984). After the outbreak of the First World War the Japanese merchants began to draw bills on New York again for silk exported to the United States. With the increase and decrease in bills on London the circulation of funds within the YSB changed. In 1913 the flow of funds through the United States was very small in comparison with that in 1903, but it grew significantly by 1925. In addition to the London Branch the New York Agency became a world financial hub within the YSB in the 1920s.

Figure 1 near here

The interwar period witnessed the increase in international money flow due to the decrease in the cost of money transfers. Foreign exchange rates fluctuated more widely than before 1914 and foreign exchange markets grew rapidly in London and New York (Kynaston, 2000, 99-101; Madden and Nadler, 1935, 214). Overdrafts and

telegraphic transfers began to replace trade bills (Battilossi, 2000). The YSB not only bought and collected bills for exports and imports but also transferred money globally for their fund adjustment among offices and for making profits from the exchange and the interest arbitrage. The ratio of telegraphic transfers to the total amount of transfers with bills and by cable at the YSB increased in the interwar period as shown Figure 2. The offices in London and New York were also important from the viewpoint of international fund transfers.

Figure 2 near here

As the London and New York offices discounted their bills on the markets and borrowed funds from banks, the outstanding amounts of bills discounted and of borrowings were very large, though the amount of funds raised in Japan was naturally the largest as shown in Table 1. Discounting and borrowing were done on the London money market before the First World War, but discounting and borrowing on the New York money market increased markedly as the New York markets grew. On the other hand, large amounts of funds were deposited at banks in London and New York. The total outstanding amount of deposits at banks on the both markets was larger than that deposited at banks in Japan. These figures suggest that the activities of the offices in London and New York were very active in the interwar period and they are analyzed in the following sections.

Table 1 near here

### 3. The Activities of the London Branch

The YSB's London Branch purchased bills drawn for goods exported from Britain (export bills) and collected bills representing goods imported to Britain (import bills).<sup>2</sup> As the details of bills for 1935 are available, London branch's business in this year can be more closely examined.<sup>3</sup> The branch bought export bills of £5.2 m., of which £4.0 m. were interest bills denominated in pound sterling. Pound sterling was an international currency in the middle of the 1930s. Principal export goods for which bills were drawn were as follows: iron and other metals (£0.7 m.), paper and pulp (£0.4 m.), woolens (£0.3 m.), cereals (£0.3 m.), chemicals (£0.3 m.), and machinery (£0.2

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<sup>2</sup> Trades not to or not from Britain are supposed to be included in figures for export and import bills, but no breakdown is available. This note applies to the business of the New York Agency.

<sup>3</sup> Yokohama Shokin Ginko maikuro firumu ban [Microfilms of YSB Archives, hereafter referred to as MYSBA], Dai 3 ki [Third Series] Reel 0165, koma [exposure] No. 0180-0205.

m.). As Japan was becoming an industrialized country, the value of machinery was not so large and smaller than that of woolens, most of which are supposed to have been shipped from Australia to Japan. In the same year the branch collected import bills of £37.1 m., of which £36.5 m. were bills receivable. It is natural that almost all import bills were denominated in pound sterling. Principal imported goods represented by bills were as follows: cotton and cotton goods (£10.6 m.), silver and other metals (£6.0 m.), green peas and beans (£3.1 m.), rubber goods (£3.0 m.), cereals (£1.6 m.), and silk goods (£1.2 m.). In the 1930s the British Empire imported a large amount of cotton goods from Japan and its amount was much larger than that of silk.<sup>4</sup>

For the international trade two kinds of bills were drawn: bills under bank credit and trade bills. For the latter bills an office of the YSB located in a place where an importer of some goods lived instructed another office to buy a trade bill drawn by an exporter of the goods on the importer. This instruction is called a letter of instruction. In addition to bills drawn on L/C and letters of instruction the YSB purchased trade bills of very creditworthy trading companies such as the Mitsui & Co. and the Mitsubishi Corporation which were drawn on the trading company's overseas offices and those were called "house bills." The amount of bills under bank credit was much larger than those under letters of instruction as shown in Table 2. The amount of bills under bank credit gradually declined in the 1920s with the decrease of the world trade and fell down sharply in 1927. A financial crisis broke out in Japan in 1927 and the Suzuki Trading Co., which was a large customer of the YSB and had drawn bills under credit, went bankrupt. Moreover, after the failure of the Suzuki Trading Co. the Mitsui & Co. and the Mitsubishi Corporation increased their transactions to fill the void left by the collapse and the house bills bought by the YSB increased. The estimated ratio of bills accepted by banks other than the YSB to the total amount of bills receivable and interest bills receivable was 43 percent at the end of 1931 and 31 percent at the end of 1936 and the ratio accepted by the YSB was 21 percent and 8 percent respectively.<sup>5</sup> London acceptance became less important gradually from the 1920s but its importance was still undisputed in the 1930s. The ratio of bills under bank credit to the total amount of bills and interest bills bought was 14 percent at the end of 1931 and 4 percent at the end of 1936. The reason why the ratio was low for

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<sup>4</sup> The total amount of clean bills was £5.0 m. (£2.0 m. of export bills and £3.0 m. of import bills) and its ratio to the total amount of export and import bills was only 12 percent. This percentage is much smaller than 60 percent of British average in 1913. The rise in telegraphic transfers seems to have affected the decline of clean bills.

<sup>5</sup> The ratios were estimated from the outstanding amounts at the end of each year. A bill under bank credit is regarded as a bill of which acceptor was a bank. Most bills of which acceptor was the YSB seem to have been drawn on letters of instruction. MYSBA, Dai 2 ki [Second Series] Reel 0123, No. 0573-0905; Reel 0132, No. 0576-0965.

export bills is analyzed in the next section.

Table 2 near here

Letters of credit were issued by bankers, who had established their reputation on the London money market. Table 3 shows the names of the ten largest issuers of the letters of credit advised through the YSB's London Branch and their outstanding amounts in June 1922. Table 4 shows the largest ten bankers in Monthly Balance Sheet of Special Acceptors, Bills Receivable for the end of years 1931 and 1936.<sup>6</sup> Out of the ten bankers seven were merchant banks in 1922, one in 1931, and one in 1936. The merchant bankers were replaced by clearing banks, colonial banks, and foreign banks, though the Hambro's Bank was ranked first in 1936. Facing the competition from clearing banks the heyday of merchant banking had come to an end during the First World War and merchant bankers' share in the acceptance business declined in the interwar period (Chapman, 1984; Cassis, 2006, 167). Table 3 and 4 indicate the decline of merchant bankers as acceptors of bills for the YSB, though in the case of the YSB the decline was sharper than the general trend.

Table 3 and Table 4 near here

In 1935 the amount of import bills was seven times as much as that of export bills. Also between 1924 and 1926 the amount of import bills was twice as much as that of export bills.<sup>7</sup> This does not mean that the London Branch was rich in cash. In addition to buying (export) bills and collecting (import) bills, it sold demand drafts and T.T.s and paid bills and T.T.s as shown in Table 5. Although the table is incomplete, it seems useful in estimating the cash flow of the branch. The branch paid a large amount of T.T. and this means that other branches sold T.T.s on London in order to raise funds. At the same time the branch sold demand drafts and T.T.s to raise funds. The total amount of bills and T.T.s paid and demand drafts and T.T.s sold (business not directly related to exports and imports) was almost equal to the total amount of collected bills and T.T.s receivables and bills and T.T.s bought (business directly related to exports and imports), therefore the former was as important as the latter. In this way the branch functioned within the global network of the YSB. In addition to internal fund transfers the branch raised funds and invested money on the London money market. Using the resources and facilities of the London market it was able to function as a hub of the YSB's network.

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<sup>6</sup> The meaning of special acceptors is not given.

<sup>7</sup> MYSBA, Second Series, Reel 0114, No. 1049-1061.



Table 5 near here

In order to do business in London the branch was at first necessary to open an account at a British bank. When the YSB's London Sub-branch was established in 1881 (promoted to a branch in 1884) it opened a current account at the Alliance Bank with an introduction from Alexander A. Shand, who had worked for the Ministry of Finance of Japan and was working for the Alliance Bank at that time. The Alliance Bank also agreed to accept bills drawn by the YSB and to lend money to the London Sub-branch against bills receivable (Yokohama Shokin Ginko, 1986, 115; Ishii, 2002, 119). The YSB made similar contracts with the London Joint Stock Bank in 1885 and with the Union Bank of London in 1886. Moreover, the YSB also made a similar contract with the Lloyds Bank in 1912 and with the Barclays Bank in 1934. The Alliance Bank merged with the Westminster Bank; the London Joint Stock Bank amalgamated with the Midland Bank; and the Union Bank of London merged with the National Provincial Bank; thus the YSB had accounts at all the "Big Five" banks. In addition to clearing banks the YSB opened a current account at the Bank of England in 1896, though it was not allowed to borrow money from the central bank (Tokyo Ginko, 1981, 52, 79, and 84; Tokyo Ginko, 1982, 128; Tamaki, 1990). The total amount of facilities provided by British clearing banks increased steadily: £2 m. in 1922, £4.15 m. in 1923, £4.5 m. in 1929, and £5 m. in 1937, although the amounts offered by each bank fluctuated (for example, between 1929 and 1937, the amount provided by the Westminster Bank increased from £500,000 to £2,000,000 but the amount by the Lloyds Bank decreased from £2,000,000 to only £100,000).<sup>8</sup> Moreover, when the YSB made a contract with the Barclays Bank, the latter first proposed simply to open an account to the former. The branch borrowed £5,550,000 from the four clearing banks at the end of 1929 (Yamazaki, 1988). In the 1920s the YSB has already achieved credibility, thus it raised a large amount of funds on the London money market.

In addition to borrowings from the British banks the YSB London Branch sold bills to discount houses to raise funds. In 1898, however, the branch was still unable to do business with the first class discount houses. Korekiyo Takahashi, the then vice president of the YSB, requested the government to deposit money with the bank and to allow it to make loans to the first class discount houses in London (Uetsuka, 1976, 126). It is unclear when this request was granted but one-million-pound loan was made with governmental funds in 1919 and 1921.<sup>9</sup> In 1929 the branch made loans of £

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<sup>8</sup> MYSBA, Dai 1 ki [First Series] Reel L013, No. 0285-0268; Tokyo Ginko (1981, 415); MYSBA, First Series, Reel L014, No. 0866-0874; "Kamihanki chu tegata saiwaribiki gaikyo (29/071937) [A survey on bill rediscounting in the first half year, dated 29 June 1937]," US National Archives, RG 131.3.4., YSB Box 8.

<sup>9</sup> MYSBA, First Series, Reel L011, No. 0313-0318; MYSBA, Second Series, Reel 0115, No. 0449-0545.

600,000 with governmental funds and loans of £150,000 with its own funds. At the same time the branch discounted bills of £2,878,895 as shown in Table 6. A large amount of bills were purchased by houses to which the bank made loans of £50,000 or more. Governmental fund loans were effective to keep in “touch” with the money market. Moreover, the relationship with the discount houses was very stable. In 1929 the YSB made loans to the same thirteen houses to which it had made loans with government funds in 1921.<sup>10</sup> Allen, Harvey & Ross, Cater & Co. and some other discount houses listed on Table 6 bought YSB bills in 1935 (Yamazaki, 1988).

Table 6 near here

The YSB established important connections with the discount houses in London. It discounted not only bills accepted by the London bankers but also sold house bills on the market. The YSB usually made up parcels of bills following the custom of the money market (Madden and Nadler, 1935, 273). In these parcels house bills were included but their amount was up to 10 percent of the total value of the parcel. The discount rate of a house bill was usually higher than that of a bank bill, but a parcel of bills (including house bills) of the YSB was discounted at a “fine rate” in the 1920s like other banks’ parcels.<sup>11</sup> This suggests that the London Branch had almost the same credit rating with other foreign agencies in London. In 1936 house bills endorsed by the YSB were discounted at 0.625 to 0.6875 percent, while house bills endorsed by other Japanese banks were discounted at 0.75 to 0.875 percent. The YSB had a better credit rating than other Japanese banks.<sup>12</sup>

After the 2/26 Incident in February 1936 and the Second Sino-Japanese War in July 1937 British banks became cautious about Japanese banks. Although fine bills (accepted by British banks) were discounted at 0.53125 percent and agency bills (accepted by foreign agencies) at 0.5625 percent in the first half of 1937, parcels of bills made up by the YSB, which included 20 percent of bills accepted by it or house bills, were discounted at 0.6875 percent.<sup>13</sup> That is the YSB faced a “Japan premium” at this time. In August 1937 London bankers began to cut down the amount of the facilities provided to the YSB. Moreover, it became impossible to discount bill parcels

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<sup>10</sup> MYSBA, Second Series, Reel 0115, No. 0449-0545.

<sup>11</sup> MYSBA, First Series, Reel L013, No. 1105-1107; MYSBA, Second Series, Reel 0114, No. 1049-1061; MYSBA, First Series, Reel L014, No. 0985-1024.

<sup>12</sup> “Zenhanki toten toritate tegata narabini tegata waribiki ni tsuite, Rondon shiten (27/08/1936) [On bills receivable and discounted bills of this branch in the previous half year, London Branch, dated 27 August 1936],” US National Archives, RG 131.3.4, YSB Box 8.

<sup>13</sup> “Kamihanki chu tegata saiwaribiki gaikyo (29/071937) [A survey on bill rediscounting in the first half year, dated 29 June 1937],” cited in note 8.

which included house bills or bills accepted by it. The activities of the branch continued to diminish in the following years and its assets were finally frozen when Japan declared war against Britain in December 1941 (Taira, 1997).

#### 4. The Activities of the New York Agency

The New York Agency was established in 1880 and opened a current account at the National Park Bank of New York with an introduction from the Japanese consul in New York (Yokohama Shokin Ginko, 1986, 109). By 1922 the agency was provided facilities of \$26.1 million by the following five banks: the Chase National Bank, the National City Bank of New York, the National Park Bank of New York, the National Bank of Commerce in New York, and the First National Bank, New York. The amount was raised to \$33.0 million in 1923 (Tokyo Ginko, 1981, 416).<sup>14</sup> By April 1930 the Bankers Trust Co., the Bank of the Manhattan Co., and the Irving Trust Company were added to the list (in 1929 the National Bank of Commerce in New York merged with the Guaranty Trust Co. of New York and the National Park Bank of New York was absorbed by the Chase National Bank, thus the number of banks at which the YSB had an account was seven) but the amount of facilities was reduced to \$24.5 million.<sup>15</sup>

The New York Agency's two main businesses were buying export bills and collecting import bills just as the London Branch. In the second half of 1932 the agency bought export bills of \$27.1 m., of which \$21.9 m. (81 percent) were bills drawn for raw cotton export. In the same half year it collected import bills of \$36.6 m., of which \$28.2 m. (77 percent) were bills for raw silk.<sup>16</sup> Most import bills were denominated in dollars and bills for exporting raw cotton were denominated in yen, though bills for exporting machinery were denominated in dollars. The ratio of interest bills bought to the total amount of bills bought plus interest bills bought was 25 percent in the second half of 1931 and 20 percent in the second half of 1936.<sup>17</sup> The limited use of interest bills indicates the limits of the dollar as an international currency in comparison with the pound sterling. Anyway, this agency's business relating to exports and imports can be accounted for by only two goods: raw cotton and raw silk. Let us first take up the bills for importing silk.<sup>18</sup>

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<sup>14</sup> MYSBA, First Series, Reel L013, No. 0269-0290.

<sup>15</sup> MYSBA, First Series, Reel L015, No. 0059-0068. The amount of \$24.5 m. was a figure of on-demand loans. In addition to on-demand loans the agency had agreements with nineteen banks on acceptance against export bills and its total amount was \$22.75 million. J. P. Morgan & Co. allowed the YSB to open an account in December 1930.

<sup>16</sup> MYSBA, Third Series, Reel 0160, No. 0767-0781.

<sup>17</sup> MYSBA, Second Series, Reel 0123, No. 0268-0496; Reel 0132, No. 0317-0574.

<sup>18</sup> The ratio of bills for silk declined to 60% and that of raw cotton to 30% by 1937. The ratio of raw cotton fell down sharply from 72% in 1936 because of restriction on

Japanese merchants exporting silk to the United States drew bills either on American bankers or on importers (trade bills) and the ratio of the former to the total of the two kinds of bills was 30 to 40 percent in the 1920s (Ishii, 1988). The estimated ratio of bills under bank credit to the total amount of bills receivable and interest bills receivable was 54 percent at the end of 1931 and 41 percent at the end of 1936. The YSB tried to raise the ratio from the 1920s because too high ratio of house bills was very risky and these efforts bore fruit (the ratio of bills accepted by it was negligible in New York). In 1927 the YSB Head Office advised letters of credit issued by other banks of \$55.2 m. by cable and the ten largest issuers are indicated on Table 7. The Chase National Bank, the National City Bank and the National Bank of Commerce in New York were banks at which the YSB had accounts and the American Exchange Irving Trust allowed the YSB to open accounts in 1930. The Brown Brothers was an affiliated company of the Brown Shipley of London and the Equitable Eastern Banking Corporation, which had some branches in China, was an affiliated company of the Equitable Trust Company. Famous banks, banks with business relationship with the YSB, and banks which had competitive edges in the Far Eastern business are listed on Table 7. Bills accepted by banks, which had a second class credit rating (e.g. the Philadelphia-Girard National Bank on Table 7), constituted only about 10 percent of the bills under bank credit.

Table 7 near here

The YSB did not buy all the bills drawn on credit advised through it because a portion of such letters of credit was open (unrestricted). In 1927 the YSB purchased bills of \$34 million out of bills of \$55 million advised through it. As every merchant did not draw bills up to the amount of credit provided by banks, the bank appears to have purchased about 70 percent of bills advised through it. In actual fact the bank purchased bills drawn on credits advised through other banks or credits which were on the way to Japan and its amount in 1927 was \$23 million. Advising letters of credit issued by American bankers was an important but not a crucial business to obtain customers.

Acceptance was utilized also for export bills. In 1922 the YSB agreed with the International Acceptance Bank (hereafter referred as IAB), which was a specialized acceptance corporation established in 1921 (Beckhart, 1932, 303), that the YSB could draw bills on the IAB at ninety days sight against bills bought by the YSB. Such a kind of acceptance business seems to have been already done in 1919, but the date that the

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importing raw cotton imposed by the Japanese government in this year and a sudden increase in exports of iron and steel to Japan due to the outbreak of the War with China (Taira, 1993).

YSB began this business is unknown.<sup>19</sup> The bill accepted by the IAB (commission was 0.25 percent, that is 1 percent per annum) and endorsed by the YSB was expected to be discountable as a “prime bill” on the money market (Tokyo Ginko, 1981, 380).<sup>20</sup> By 1929 bills for raw cotton exported from Bombay to Osaka and bills for cotton piece goods exported from Japan to China and Southeast Asia could also be used as securities for drawing acceptance bills on New York. The outstanding amount of such kind of acceptance in July 1929 was \$10.75 million and the acceptors were: the First National Bank of Boston (\$2 m.), the Guaranty Trust Co. (\$2 m.), the City Bank Farmers Trust Co. (\$1.5 m.), the IAB (\$1.5 m.), the New York Trust Co. (\$1 m.), J. P. Morgan & Co. (\$1 m.), the French American Banking Corp. (\$0.75 m.), the National Shawmut Bank (\$0.5 m.), and the Bank of America N.A. (\$0.5 m.).<sup>21</sup> Of these banks only the Guaranty Trust Co. was included in the list on Table 7 (the First National Bank of Boston and the IAB are included in others on Table 7 because each bank’s amount of acceptance was less than \$1 million in 1927). Bills of the YSB were accepted by many banks near New York. The amount of bills drawn against export bills increased from \$44 m. in 1928 to \$67.5 m. in 1930. However, it began to decline afterwards and vanished by 1934 because American bankers became cautious about Japanese banks after the Manchurian Incident of 1931 and the Shanghai Incident of 1932. The ratio of bills under bank credit was less than 1 percent of bills and interest bills bought. American banks accepted bills drawn by the YSB against export bills; but the ratio relative to the amount of actual export bills was very low. This circumstance is the same with export bills accepted by banks in London.<sup>22</sup>

Table 8 near here

The New York Agency sold and paid bills and T.T.s as well as buying export bills and collecting import bills as shown in Table 8. Transferring money with other offices, especially with the London Branch, was as important as buying and collecting bills from the point of view of cash flow. This table also shows that discounting import bills was as important for the agency as borrowing money from banks at which the YSB had accounts, while bills drawn on American banks against export bills had already disappeared at this time. The New York agency functioned as a hub of the flow of funds within the bank on condition that New York money market was available. The amount of borrowings from banks is shown in Table 1 and it was very large around

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<sup>19</sup> MYSBA, First Series, Reel L011, No. 0319-0320.

<sup>20</sup> MYSBA, First Series, Reel L013, No. 0226-0229.

<sup>21</sup> MYSBA, First Series, Reel L014, No. 0909-0935. Farmer’s Loan & Trust Co. became affiliated with the National City Bank of New York in June 1929.

<sup>22</sup> London banks also accepted bills drawn on them against bills against raw cotton exported from Bombay to Japan. MYSBA, First Series, Reel L013, No. 0258-0268.

1930. Discounting silk bills on the New York money market, however, was a more stable source of funds for the agency. The agency sold bills to the Discount Corporation of New York (hereafter referred to as DCNY), the Solomon Brothers and Hutzler (hereafter SBH), the Alexander T. Stephan Inc. (hereafter ATS), the First National Corp. of Boston, and other bill dealers (Yamazaki, 1988). According to a document titled "Acceptors" and dated 25 February 1933, which listed 140 banks in the United States with ratings by the SBH, the DCNY, and the ATS, the YSB obtained "Prime" from the SBH and the DCNY and "Prime-1/4 up" from the ATS. Out of 140 banks 38 banks obtained three "Prime"; one bank had two "Prime" and "Prime-1/8 up"; one bank (the YSB) had two "Prime" and "Prime-1/4 up"; and other 100 banks had worse ratings.<sup>23</sup> Moreover, out of 39 banks, which had better ratings, only seven were "foreign" banks.<sup>24</sup> The New York Agency was one of the first class banks on the New York money market at least in this year.<sup>25</sup>

Bills accepted by banks which had good credit ratings were easily discounted on the money market, but trade bills were difficult to be discounted, if not impossible. There did not exist a custom of parceling of bills in New York as was done in London, so that trade bills were discounted only on their own creditworthiness. In 1921 bills for importing silk accepted by member banks of the Federal Reserve System were discounted at 4.25 percent and bills accepted by non-member banks were discounted at 4.375 to 4.75 percent; but trade bills were not discounted except for silk bills drawn by the Mitsui & Co. Even bills drawn by the Mitsui & Co. were discounted only when the market was easy and the discount rate was 1 or 1.125 percent higher than the prime rate. Thus, the bank usually used trade bills as collateral for a loan from American banks.<sup>26</sup> After 1922 not only Mitsui bills but also Mitsubishi bills seem to have been discounted, but with the outbreak of the Manchurian Incident American banks stopped

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<sup>23</sup> US National Archives, RG 131.3.4, YSB Box 115.

<sup>24</sup> It is difficult to define a "foreign" bank. Out of seven banks five were Canadian banks of which head office was located in Canada; two had an intimate connection with a foreign bank (the J. Henry Schroder Banking Corp. with the J. Henry Schröder & Co. and the French American Banking Corporation with the Comptoir National d'Escompte de Paris). Banks established by settlers in the United States such as the Goldman Sachs & Co. and the Heidelberg, Ickelheimer & Co. are excluded. A closer research may increase the number of foreign banks.

<sup>25</sup> There is one more similar list titled Acceptors and dated 21 October 1930 (US National Archives, RG 131.3.4, YSB Box 007). In this list only one rating (it is unknown whose rating it is) is described for each bank. The YSB obtained "Prime-1/4 up", while out of 159 banks, 101 banks obtained "Prime"; 9 banks had "Prime-1/8 up"; 12 banks had "Prime-1/4 up"; and 37 banks had a worse rating. In 1930 the YSB had a middle class rating. In "Discountability of Bank Bills in New York Market, July 1939" (US National Archives, RG 131.3.4, YSB Box 031) the rating of the YSB is not listed.

<sup>26</sup> MYSBA, First Series, Reel L013, No. 0082-0086.

buying such trade bills (house bills). Around 1935 with less hostility towards Japanese banks and with the easiness of the market some banks in the West began to buy Japanese house bills. After the 2/26 Incident, however, the market became more cautious again and after the outbreak of the Second Sino-Japanese War American banks stopped buying these house bills. Bills accepted by the first class American banks were still discounted, but the amount of their credit was restricted. The activities of the offices of the YSB in the United States began to diminish, and their assets were finally frozen with the outbreak of the Pacific War (Taira, 1993).

## 5. Concluding Remarks

In the 1920s the YSB offices in London and New York bought export bills, collected import bills, and advised letters of credit issued by banks there in favor of merchants (most clients were the Japanese) exporting goods to the United State or Britain. The two offices transferred a large amount of money each other and with other offices around the world. In addition to these businesses they discounted bills on the both markets, borrowed a large amount of money from the first class banks there, and deposited money with them. These activities were correlated with one another and the availability of the both markets facilitated the flow of funds within the YSB. The internal circulation of funds changed from a system which had London as a sole center before the First World War to a system which had New York and London as twin centers. Increased significance of New York Agency reflected the growing importance of the New York market.

On both markets the credibility of the bank was at least as good as those of other foreign agencies and better than those of other Japanese banks. The YSB was established under a special legislation and obtained supports from the financial authorities. These factors particular to the YSB seem to have generally raised the bank's credit rating, and the lending of governmental funds on the London money market was a specific method to raise the creditworthiness of the bank. After the outbreak of the Manchurian Incident, however, British and American banks became cautious about Japanese banks including the YSB and acceptance business and bill discounting of the YSB on both markets began to be restricted. After the Second Sino-Japanese War broke out, the activities of the both offices were restricted more and more and they were forced to retreat from both countries in December 1941.

The role of the Head Office to control the whole bank is not analyzed in this paper. The activities of the headquarters office, especially for the internal flow of funds, should also be studied further. Comparing the activities of the YSB in the global money centers with those of other Japanese banks or British Eastern Exchange Banks is also necessary.

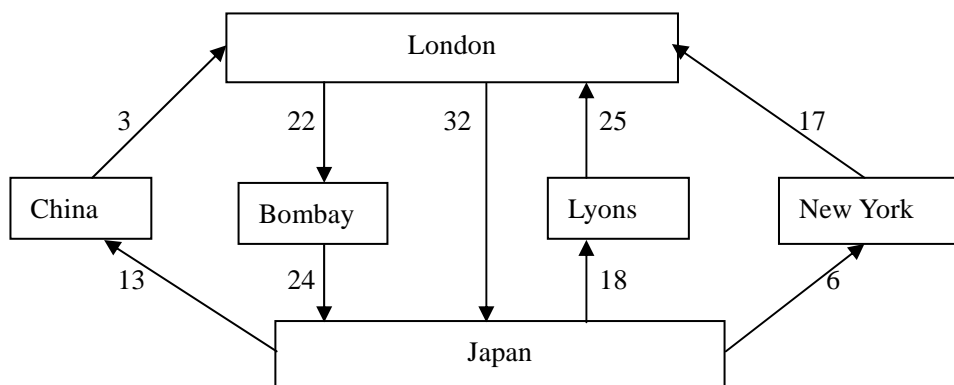
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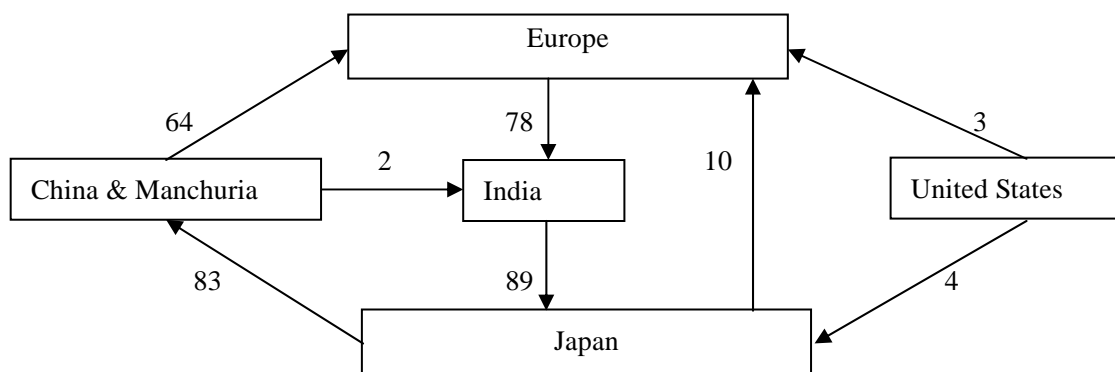


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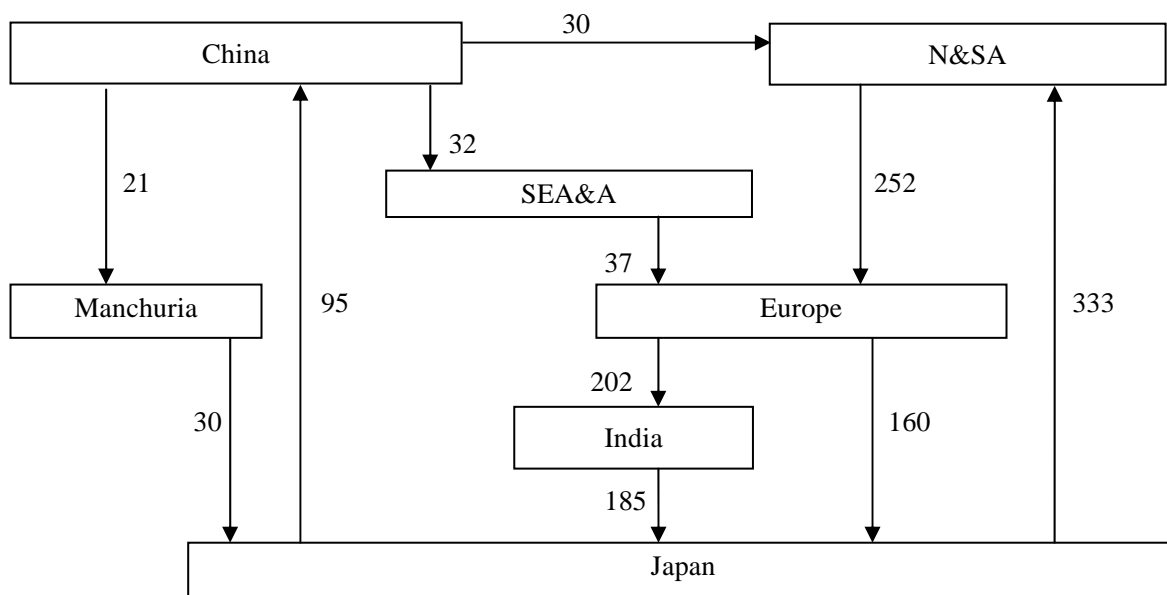
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(1) Circulation of Funds in 1903



(2) Circulation of Funds in 1913



(3) Circulation of Funds in 1925

Figure 1. Changes in the Circulation of Funds within the YSB (million yen)

Sources: Ishii (1994, 12 and 17); Itoh (1989, 166).

Note: N&SA indicates North & South America; SEA&A does Southeast Asia & Australia.

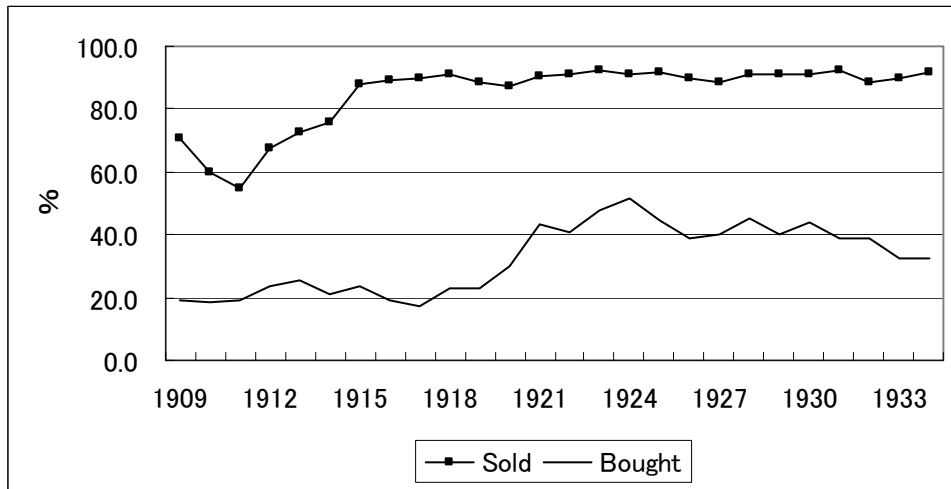


Figure 2. The Ratio of Telegraphic Transfers at the YSB

Sources: Okurasho Ginkokyoku (1909-1934).

Note: Sold equals to  $T.T. \text{ sold} \cdot 100 / (\text{demand drafts sold} + T.T. \text{ sold})$ ; Bought equals to  $T.T. \text{ bought} \cdot 100 / (\text{bills bought} + \text{interest bills bought} + T.T. \text{ bought})$ .

Table 1. The Outstanding Amounts of Borrowing, Discount, and Deposit of the YSB (million yen)

	Japan	N&SA	New York	Europe	London	Others	Total
<b>Borrowing from Banks</b>							
1911	32	3	3	8	8	0	43
1916	140	0	0	7	7	2	150
1921	108	0	0	0	0	6	114
1926	100	0	0	23	23	9	133
1931	237	71	67	50	49	0	358
1936	194	NA	12	NA	81	NA	293
<b>Discount on the Market</b>							
1911	0	0	0	31	24	0	31
1916	0	12	12	28	25	0	41
1921	1	62	NA	3	NA	0	66
1926	24	93	NA	35	NA	0	152
1931	1	63	62	13	13	0	77
1936	209	NA	31	NA	42	NA	281
<b>Deposits at Banks</b>							
1911	0	8	8	5	5	2	16
1916	30	20	18	16	15	10	76
1921	2	43	NA	12	NA	12	69
1926	2	12	7	11	10	17	41
1931	58	17	12	10	10	16	101
1936	9	NA	5	NA	16	NA	54

Sources: "Kokajo and hanki hokoku [Semi-annual reports]," MYSBA, First Series, Reels E009-E012; Okurasho Ginkokyoku (1911-1936).

Notes: 1. Figures for New York are included in figures for N&SA (North and South America) and figures for London are included in figures for Europe. Figures for Europe include figures for the Alexandria office after 1926.

2. Figures of deposits at banks for New York and London offices after 1926 are figures of current deposits at banks.

Table 2. L/C and Letters of Instruction  
through the London Branch (£000)

	L/C Issued by Another Bank and Advised through the YSB	Letters of Instruction
1921	10,523	177
1922	6,133	210
1923	5,821	482
1924	4,656	417
1925	4,234	312
1926	3,943	262
1927	1,531	178
1928	1,495	329

Source: MYSBA, Second Series, Reel 0115,  
No. 0005-0274.

Table 3. The Ten Largest Issuers of L/C Advised through the London Branch, June 1922

Issuers' Name	Amount (£)
Konig Brothers	246,790
Colonial Bank	161,660
Kleinwort Sons & Co.	152,480
William Brandt's Sons & Co.	150,460
Samuel & Co.	126,530
Erlangers	100,000
London Joint City & Midland Bank	97,420
S. Japhet & Co.	64,210
London County Westminster & Parr's Bank	56,950
Goschen & Cunliffe	51,400

Source: MYSBA, Second Series, Reel 0115, No. 0449-0545.

Note: 1. Outstanding amounts in June 1922 are listed.

2. Samuel & Co. is a private bank, which is different from M. Samuel & Co. or Samuel Montagu & Co., and abandoned its banking business in 1922. It is considered as a merchant bank.

Table 4. Large Special Acceptors

Acceptors' Name	Amount (£)
1931	
Midland Bank, Ltd.	147,654
Banca Commerciale Italiana	96,254
Westminster Bank, Ltd.	56,293
Standard Bank of South Africa, Ltd.	51,723
National City Bank of New York	43,375
Brown, Shipley & Co.	40,482
Royal Bank of Scotland	39,232
Martins Bank, Ltd.	38,755
Lloyds Bank, Ltd.	35,185
Commercial Bank of Australia, Ltd.	31,681
1936	
Hambro's Bank, Ltd.	215,579
Midland Bank, Ltd.	206,626
Barclays Bank, Ltd.	114,183
Westminster Bank, Ltd.	83,609
Royal Bank of Scotland	75,930
Barclays Bank (D. C. & O.)	72,957
Lloyds Bank, Ltd.	52,364
English Scottish & Australian Bank, Ltd.	43,279
Commercial Bank of Australia, Ltd.	42,642
Banque Belege pour l'Etranger	40,093

Source: MYSBA, Second Series, Reel 0123, No. 0573-0905; Reel 0132, No. 0576-0965.



Table 5. Cash Flow of the London Branch in the First Half of 1935 (£000)

Cash in	Amount	Cash out	Amount
D.D. and T.T. sold	4,249	Bills and T.T. bought	7,153
Collecting T.T. receivable	12,526	T.T. paid	31,596
Collecting bills receivable	16,653	Bills paid	1,550
Collecting interest bills receivable	284	Pound currencies sold to the government	2,320
Increase in discounting	1,244		
Increase in suspense receipts	144	Decrease in fixed deposits	43
Decrease in special deposits at other banks	7,000	Decrease in special deposits	832
		Increase in loans	201
Decrease in securities	1,129	Increase in current deposits at other banks	230
Decrease in bullion	248		
Total	43,477	Total	43,925

Source: MYSBA, Third Series, Reel 0164, No. 0007-0028.

Note: D.D. indicates demand draft.

Table 6. Loans and Discounts of the London Branch, 1929 (£)

	Money at Call (governmental funds)	Money at Call (own funds)	Bills discounted by
Allen, Harvey & Ross	75,000	50,000	905,823
R. W. Carter & Co.	75,000	75,000	918,228
Alexanders Discount Co., Ltd.	50,000		38,730
B. W. Blydenstein & Co.	50,000		
Brightwen & Co.	50,000		82,978
Gillett Brothers Discount Co., Ltd.	50,000		143,997
King & Foà	50,000		142,260
Samuel Montagu & Co.	50,000		
Union Discount Co. of London, Ltd.	50,000		385,122
Roger Cunliffe, Sons & Co.	25,000		
National Discount Co., Ltd.	25,000		
Ryder & Co.	25,000		
Smith, St. Aubyn & Co.	25,000		
Jessel, Toynbee & Co.		25,000	26,665
Anglo-South American Bank, Ltd.			29,470
Lyon & Tucker			18,181
Midland Bank, Ltd.			162,441
National Provincial Bank, Ltd.			25,000
<b>Total</b>	<b>600,000</b>	<b>150,000</b>	<b>2,878,895</b>

Source: MYSBA, First Series, Reel L014, No. 0985-1024.

Table 7. Issuers of L/C for Importing Silk, 1927 (\$000)

Name of Bankers	Amount
American Exchange Irving Trust Co.	6,235
Equitable Trust Co. of New York	5,063
Chase National Bank of the City of New York	4,239
National City Bank of New York	4,033
Guaranty Trust Co. of New York	2,813
Brown Brothers & Co.	2,746
Equitable Eastern Banking Corp.	2,398
Manufacturers Trust Co.	2,394
National Bank of Commerce in New York	1,437
Philadelphia-Girard National Bank	1,410
Others	22,459
Total	55,225

Sources: "Showa 2 nen kamihanki ni oite honten no toriatsukaeru beikoku muke kiito tegata ni kansuru shinyojo ni tsuite [On L/C advised through the Head Office for bills for exporting silk to the U.S. in the first half of 1927]" and "Showa 2 nen shimohanki ni oite honten no toriatsukaeru beikoku muke kiito tegata ni kansuru shinyojo ni tsuite [On L/C advised through the Head Office for bills for exporting silk to the U.S. in the second half of 1927]". US National Archives, RG131.3.4, YSB Box 167.

Note: Letters of Credit advised by cable through the YSB head office are listed.

Table 8. Cash Flow of the New York Agency in the Second Half of 1936 (\$ million)

Cash in	Amount	Cash out	Amount
Collecting and discounting import bills	55	Export bills bought and advances	67
D.D. and T.T. Sold on London	25	Money transferred to San Francisco	4
Money transferred from Japan	6	Money transferred to Seattle	7
Collecting bills and T.T. from London	10	Bills and T.T. bought on London	8
Money transferred from other offices	25	Bills and T.T. from Japan paid	11
Bonds sold	3	Bills and T.T. from London paid	20
Money borrowed	6	Bills and T.T. from others paid	8
		Interest of bonds paid and bond redemption	4
		Increase in current deposits with banks	1
Total	130	Total	130

Source: MYSBA, Third Series, Reel 0168, 0253-0260.

Note: D.D. indicates demand draft.