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ABSTRACT

The origin of paper currency in Japan can be traced back to the *Yamada Hagaki*, a private note which first appeared around 1600. This paper analyzes the Yamada Hagaki's issuance system and organization to clarify its historical significance, as well as the development of the Japanese paper currency system in early modern times.
As the significance of the Yamada Hagaki in the history of currencies, the following three points are stressed: (a) the Yamada Hagaki was issued without interruption for 300 years until the beginning of the Meiji Era; (b) although it was issued privately under the control of a local autonomous organization, the Yamada Hagaki gained strong acceptability like a national currency; (c) the Yamada Hagaki is recognized as having close connections with the modern bank notes of Japan in the sense that it is the prototype of paper currency.

KEY WORDS: Yamada Hagaki; Origin of Paper Currency; Hansatsu

JEL CLASSIFICATION: N2

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Introduction

During the Edo Period a steady growth of agricultural production as represented by rice and cotton and handicraft production was observed throughout the country. Commercial activities across the feudal borders developed as well, although the feudal clan economy of that period was spatially segmented. In parallel with this growth and development, Osaka became an important market for both collection and distribution, whose prosperity was founded on the rice market. A feudal lord sold his surplus rice at Osaka to get money or merchandise. Most of the goods consumed in Edo were first collected in Osaka and then shipped to Edo. And through economic development, the rise and growth of commercial capital and a merchant society comparable to the civil society of the West were gradually promoted in the Edo Period.

The use of silver and gold coins as a means of payment became a common practice around 1670 under the Tokugawa Shogunate government's currency monopoly. The supply of minted coins, however, was deeply connected with the Shogunate government's expenditure, and the amount and timing of issue and the fineness of coins were directly controlled by the Shogunate government. Most of the coins were disbursed in large cities such as Edo and Osaka. In areas other than big cities, minted coins were not sufficiently diffused; we can observe so called currency shortages in rural clans where net cross-border transactions were in deficits. To deal with the currency shortage, with permission from the Shogunate government, feudal lords decided to issue hansatsu, notes circulated within their territories (han) throughout Japan which first appeared in 1661.

The origin of paper currency in Japan can be traced back to the *Yamada Hagaki*, a private note issued in the Ise area by an autonomous body called the Sanpo Kaigosho. The Yamada Hagaki first appeared around 1600 or near the close of the Muromachi Period, the beginning of early modern times. In the early 17th century when the Tokugawa Shogunate government was established, a variety of private notes were being locally circulated in the Kinki region, of which the Yamada Hagaki was the forerunner.

It goes without saying that the development of the paper currency in Japan was encouraged by the social stability, sustained economic growth and currency shortages in areas other than big cities under the Tokugawa Shogunate government. In Western Europe, the first privately issued notes, the *goldsmith notes*, appeared in the mid-17th century in England[1], making the history of paper currency in Japan older than that of European countries.

Based on materials held by the Bank of Japan, we will survey the development of the Japanese paper currency system in early modern times chronologically, focusing on the characteristics and economic and historical significance of its prototype model, the Yamada Hagaki of Isenokuni (Ise area).

1. The development of Currency in Medieval and Early Modern Times

Currency before the Edo Period

In medieval times, the Japanese economy was dominated by agricultural production. Rice and fabrics had been commonly used as a medium of exchange after the government ceased the mintage of coins in 958 A.D. Continued economic development in the medieval period created a growing demand for a standardized medium of exchange or money, equipped with the properties of durability, divisibility and portability, to smoothly settle transactions, but the government no longer minted the coins. During the 12th and 13th centuries, with no domestic currency, a large amount of Chinese coins were imported by wealthy merchants and samurai groups who were becoming influential in their provinces. These imported Chinese coins came to be used as a medium of exchange throughout the country, and constituted the mainstay of the Japanese currency for a long time to come. It remained practically unaltered for the next 500 years, until the early 17th century, which was the beginning of the Edo Period.

1 For the history of currency in Europe, see Green (1984).

During the 100 years of Sengoku era from the latter-half of the 15th century to the middle of the 16th century, the Ashikaga Shogunate government lost authority, and many rival clans battled for power in various areas of the country. The war lords who survived the battle for power exploited gold, silver, copper mines to finance the war, as well as to manufacture weapons. With an increase of commercial transactions and exploitation of mines, the use of precious metals as a means of payments was seriously considered. In order to accommodate the use of gold and silver as currency, the metals were melted and shaped into bars or plates known as *hirumokin* (beaten gold slug) and *chogin* (silver slug). Bars, slugs and other shapes were weighed or cut according to each transaction as a currency by weight.

<u>Currency System of the Edo Period</u>

In 1600, a few years after the death of Toyotomi Hideyoshi who unified Japan under his authority in 1583, Tokugawa Ieyasu succeeded in taking over the control of Japan. Realizing that a stable monetary system would serve as a very effective device to rule the entire country, Ieyasu monopolized the right to issue currency in 1600 and started to issue gold and silver coins of fine quality in the following year. From 1636, copper coins were minted in large amounts, thereby replacing imported coins. These coins laid the foundation for the monetary institution of the Edo Period which survived over the next 270 years.

Three kinds of currencies have their own units respectively as shown in Figure 1; gold coins were expressed in "ryo" and copper in "mon" as currency by tale, while silver coins were used by weight. The three types of coins were each designated as a monetary standard, and the choice of coin which should be used was decided according to the type of transaction and geographical orientation.

Throughout the country, most daily necessities were commonly expressed in "mon" of copper coins and settled by them. In Eastern Japan, prices of commodities other than daily necessities were usually expressed in ryo, bu or shu of gold, while prices were quoted in weight of silver (momme, fun) in Western Japan. To facilitate money exchange, exchange rates among the coins were required. In 1700, the official exchange rates were established by the Shogunate government at 60 momme of silver for 1 ryo of gold and 4 kammon of copper for 1 ryo. However, these rates were not always observed: the exchange rates for actual transactions were determined by the market.

The money exchange business throughout the Edo Period was conducted by money exchange houses called *ryogae-sho.* Some of them later expanded their functions into issuing bills, drawing drafts, receiving deposits and lending money, which are similar to those of modern banks. Most commercial transactions by merchants in Osaka and Tokyo were settled by debiting and crediting of deposits held at those money exchange houses..

2. The Development of Paper Currency in Early Modern Times

Emergence of Privately Issued Notes

In the beginning of early modern times, from the late 16th century to the early 17th century, private notes had come to be used as a means of payment as well as coins throughout the Kinki region (Figure 2), a region centered on Kyoto and Osaka and highly developed economically since medieval times. Particularly in the Ise area, which is located toward the eastern edge of the Kinki region and from ancient times known as a sacred area, commercial trade developed at a relatively early stage reflecting the fact that so many pilgrims visited the area to pray for Ise Shintoism. A shortage of small change appeared in this area. Against this background, the Yamada Hagaki backed by silver (Figure 3), the oldest paper currency in Japan, first appeared as a medium for token change in Isenokuni-Yamada around the end of the Muromachi Period or at the beginning of the Keicho era (end of the 16th century to the beginning of the 17th century), followed by gradual refinements as a currency from 1615 to 1624. It circulated mainly in the limited area of Ise Shinryo (sacred area) for about 300 years. Various types of private notes influenced by the Yamada Hagaki also came into use in the neighboring areas in Eastern Kinki such as Uji, Matsuzaka and Isawa.

Silver backed payroll-notes referred to as *ninsoku tegata* were issued in 1617 in Osaka in payment for constructing the Edo moat. This was followed by the issuance of silver backed notes by local merchants in Settsunokuni Hiranogo and Yamato Shimoichi, both in the central Kinki region. Following the issuance of the above mentioned notes, many types of private notes were invented to enhance the efficiency of funds settlements in the Kinki region during the early Edo Period. Under this circumstance, *fudazukai* or the use of paper currency as a means of payment became a common practice among merchants. These early, privately issued notes are generally called *Kinai Koshihei*, "old paper currency of the Kinki region" and survived until the establishment of the monopoly of currency issue by the Tokugawa Shogunate government. This evolution towards *fudazukai* within the Kinki region can, in fact, be regarded as the leading example in the development of paper currency in Japan.

The private notes known as *Kinai Koshihei* were backed by silver and in most cases aimed at covering the shortage of currency supply for commercial trade that temporarily arose in the process of unifying the currency system in Japan by the Tokugawa Shogunate government. It is thus an open question how often these notes were actually used as a means of payment in society as a whole during the early Edo Period. We can conjecture that they were circulated as paper currency only among leading merchants and related parties for limited types of transactions. Most of the private notes mentioned above, excluding special ones such as the Yamada Hagaki and the Yamato Shimoichi silver notes, disappeared after the Kambun era (1661-1673). The disappearance of private notes can be regarded as a natural result of the completion of the unified currency system by the Tokugawa Shogunate government.

Circulation of Hansatsu or Feudal Notes

Upon its inauguration, the Tokugawa Shogunate attempted to control the issue of currency either directly or indirectly by monopolizing the power to mint specie (gold, silver and copper coins). Its aim was to strengthen the Shogunate's political power over the country through the unification of the currency system. The Shogunate government thus maintained a wary stance towards hansatsu or feudal notes independently issued by feudal lords, as they might give rise to a potential threat to the government's policy of specie monopoly. Above all, in areas under the direct rule of the Shogunate government, such as the *tenryo*, the circulation of currencies other than gold, silver and copper coins was strictly prohibited.

As demand for currency increased accompanying the growth of the Japanese economy from the Kan'ei era (1624～44) to the Genroku era (1688～1704), currency shortage was obvious in areas other than big cities such as Edo, Osaka and Kyoto. Currency shortage was especially severe in rural areas, since gold and silver coins were mainly put into circulation through the Shogunate government's expenditure that fell mostly in Edo and Osaka. To cope with this situation, the Shogunate government was compelled to partially relax its currency policy to permit feudal lords to issue feudal notes as a local means of payments within their territories. The need of feudal lords to finance their budget deficits through currency issue was also cited as a reason for this partial relaxation. Accordingly, numerous feudal lords throughout Japan issued their own hansatsu or feudal notes[2], starting with the Fukui-han Satsu (Fukui feudal note, Figure 4) in 1661, and continuing until the end of the Shogunate rule (with the exception of the temporary ban on feudal notes in 1707 to 1730).

Feudal notes were initially issued in exchange for gold and silver coins and their convertibility to coins was ensured. Civilians were obliged to exchange their gold and silver coins for feudal notes and to use them as a means of payment within each feudal

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2 Referring to The Resolution of the Paper Currency Problem by Prince Matsukata Masayoshi, a great financial administrator of the early Meiji era, at the time of the establishment of prefectures in 1871, feudal notes were issued in 244 han, 14 daikan-syo or local magistrates and 9 hatamoto-ryo or bannermen's territories, which accounted for 80% of total feudal clans in Japan.

territory. As a result, feudal samurais and civilians accounting for approximately 80% of the national population, used feudal notes and small change (coins) for daily payments, with the exception of travel outside their feudal territories[3]. Cross-border transactions between clan territories were chiefly settled with gold and silver coins, specie established by the Tokugawa Shogunate government. The relationship between gold and silver coins and feudal notes was thus very much similar to that of international payment media and domestic currencies.

Gold and silver coins absorbed by feudal lords were maintained as reserves by the clan treasury. Since no reserve ratio was imposed on the issue of feudal notes by the Shogunate government, there was an incentive for feudal lords to issue feudal notes in excess of their reserves through their fiscal expenditures. It is pointed out that the reserve ratio was on average maintained at around 30%. In some cases, an excessive issue of feudal notes or a partial restriction on their convertibility were observed to overcome the financial difficulties, leading to economic chaos locally. Typical examples are found in the history of the Hiroshima, Okayama and Takamatsu clans after the end of the Tempo era (1830-1844). In the latter half of early modern times, the value of a large number of feudal notes collapsed, since they were overissued relative to specie reserves and their convertibility was not well maintained.

In contrast, a few clans managed the issuance of feudal notes successfully by encouraging the development of their local economies. A prominent example was the Fukui clan, where feudal notes totaling 50 thousand ryo were jointly issued from 1858 to 1859 with the establishment of the Bussan Soukaisyo or "General Commerce Center for Local Products" under the management of a samurai named Mitsuoka Hachiro.

3 According to an article in the Manuscript History of Fukui City, for example, gold and silver coins were used as a means of payment in the Fukui clan (known for being one of the first feudal clans to issue feudal notes). The article describes an incident one day at a council meeting when an *Ichibukin* (gold coin) was taken out, and most of those present passed it round excitedly till everybody's curiosity was satisfied. The book further mentions that when Hachiro Mitsuoka, a samurai from the same clan, departed for Edo under his lords orders in 1858, he was given an *ichibukin* for traveling expenses, the first gold coin he had ever held. The book explains that he often reminisced on how he was thoroughly marveled by this rare experience.

Mitsuoka thought that stimulating local production was necessary to resolve the financial difficulties of the clan and that the slack in production in the past was attributable to a shortage of funds for production. Based on this conjecture, he proposed and implemented a reform of the currency and commercial systems in the Fukui clan whereby the General Commerce Center for Local Products was given authority to issue feudal notes to the value of 50 thousand ryo as loans for production capital, and the exclusive right to collect and sell local products within the clan's territories.

That is, feudal notes were issued to facilitate the spontaneous growth of the local economy by accommodating the need of farmers for production capital. The Center was privately run by leading merchants of the feudal clan designated by the lord, and only one clan official was involved in its management as a financial auditor. Loans for production capital by the Center via the issue of feudal notes contributed greatly to stimulating production in the lord's territories. The total collected amount of local products reached 3 million ryo by 1861, which were exported to areas outside the territories via the Center. The exports led to a gold inflow which increased gold reserves. Feudal notes were thus gradually redeemed and the clan's financial condition was so markedly restored that the clan's treasury was able to maintain a balance of 500 thousand ryo in gold reserves at all times.

Paper Currency of the Meiji Era

In addition to feudal notes, the so-called *Kō kishisatsu* or "private notes of the latter years" emerged in the latter half of the Edo Period in areas such as the Kinki region where credit transactions were highly developed. These private notes were primarily issued to raise working capital for the issuers, but played an important role as a means of payment for economic transactions in the environment of currency shortage in those years. The *Kō kishisatsu*, considered the offspring of the *Kinai Koshihei* (old paper currency of Kinki), resembled the sight bill in form but in reality functioned as a currency. As the issuers of these notes were prominent merchants in the money exchange business, shrines, temples and villages, they also enjoyed a higher reputation than feudal notes, due to the issuers' financial strength and prudent attitude towards note issuance. The *Kōkishisatsu* circulated in large numbers in areas such as (a) Ise, (b) Settsu, and (c) Harima and Bitchu; sometimes referred to as the three major paper currency areas of the Edo Period.

It is worth noting that both feudal notes and the *Kōkishisatsu* had their origin in the *Kinai Koshihei*, and mutually influenced each others' development. Furthermore, the modern currency system in Japan after the Meiji Restoration was established on this foundation. Feudal notes led to the post-restoration *Dajokan satsu* in terms of structure and form (1868, the first government note) and subsequent government notes issued by the Cabinet. These government notes issued by the Cabinet were later transformed into the "new currency" (still similar in form to the rectangular feudal notes) issued in 1872 under the new westernized currency system following the New Currency Act (May 1871).

Most of the *Kawase Kaisha* (exchange banks), established in Tokyo, Yokohama and Osaka immediately after the Restoration, and authorized to issue their own paper currency, evolved from money exchange merchants who issued the *Kōkishisatsu*. The new paper currency issued by these exchange banks can be viewed as having historical connections with the *Kōkishisatsu*. We can also detect the strong influence of government notes issued by the Cabinet in their form, since they were issued under the guidance of the Shogunate government's currency unification policy. In the process towards financial and currency modernization, national banks (private banks chartered under the National Bank Act) were established in 1872. They were authorized to issue private notes named national bank notes, modeled after the US currency system of that decade. However, as these bank notes were issued under the guidance of the government, they can be classified into the same category as the above-mentioned exchange bank notes.

Thus far, we have briefly described the history of paper currency in Japan by examining various materials on the subject and numerous specimens held by the Bank of Japan. The development of paper currency can be summarized as in Figure 5. It is commonly known that the new Meiji government tried to develop modern industries to catch up with the industrialized countries of the West, and to promote the unification of the currency system as well. These goals were successfully accomplished in a relatively short period, largely owing to the groundwork laid during the 300 years of the Edo Period.

3. Yamada Hagaki of Isenokuni

Historical Significance of the Yamada Hagaki

A variety of research has already been published by numerous scholars concerning the Yamada Hagaki. Hagaki means a "small change" paper currency used to pay for odd sums. The Yamada Hagaki were relatively small denomination notes, mainly used as small change for payment in daily transactions with the largest face value being 1 momme of silver (the other denominations were 5 fun, 3 fun and 2 fun). In a very rough and conjectural approximation, the value of 1 momme and 1 fun would be equal to ¥ 1,000 and ¥100 of present-day money respectively in terms of daily living costs.

We can summarize the significance of the Yamada Hagaki in the history of currencies as follows, based on these research as well as the original currency and documentary materials held by the Bank of Japan:

(a) The Yamada Hagaki, the oldest paper currency known in Japan, was issued without interruption for 300 years until the beginning of the Meiji Era;

(b) Although it was issued privately under the control of a local autonomous organization named the Sanpo Kaigosho, the Yamada Hagaki gained strong acceptability like a national currency;

(c) The Yamada Hagaki is recognized as having close connections with the modern bank notes of Japan in the sense that it is the prototype of paper currency.

We will examine in further detail points (a) and (b), since they represent the most striking features of the Yamada Hagaki and carry unique implications for the history of currencies as well. With regard to point (a) that the Yamada Hagaki is the oldest paper currency in Japan, the majority of currency history students believe that the origins of the Yamada Hagaki go back to some time in the early Muromachi Period (14th century) or during the golden years of the Kitabatake family (1300-1500) (<u>History of Money in Japan</u>, Ministry of Finance). This, however, is merely a conjecture based on legend, because neither records nor notes are available to evidence it. Nonetheless, the majority accepted the idea that the Yamada Hagaki first appeared as a commercial bill in the early Keicho era (around 1586) of the late Muromachi Period in the Ise area which boasted commercial prosperity since the medieval times. The Yamada Hagaki was then developed step by step in the hands of the Yamada *oshi* of Ise Outer Shrine, who were masters of Shinto prayers as well as wealthy merchants.

Some scholars argue that the prototype of the Yamada Hagaki can be legally classified as a kind of bill of exchange that had been used since the Kamakura Period, but so far no documents are available to evidence this view. The oldest Yamada Hagaki were issued in the Keicho era (around 1600). These notes seem to be similar to a receipt of deposit in nature, since they were all written in the form "receipt of one momme of *chogin* (small sum silver coins circulated by weight)". Another interpretation is that the Yamada Hagaki was issued to deal with odd sums between 1615 and 1624 when the Tokugawa Shogunate government banned the *kirizukai* (cutting-down according to use) of *chogin*. This explanation, however, is not convincing in view of the fact that the Yamada Hagaki held by the Bank of Japan was issued prior to that period. It is indeed probable that the prohibition of *chogin kirizukai* by the Tokugawa Shogunate government contributed greatly to the circulation of the Yamada Hagaki. In fact, many kinds of notes similar to the Yamada Hagaki were circulated to pay odd sums in the Kinki region during the Gemna (1615-1624) era.

The Yamada Hagaki was then refined into a more simple form with the wording "*chogin* ichimomme azukari (one momme of *chogin* in deposit)" (Figure 6). In any case, it is safe to assume that the Yamada Hagaki has its origin in the receipt of deposit for *chogin*, which were used before the end of medieval times by leading merchants in the Ise Yamada area backed by their outstanding credibility.

The Yamada Hagaki was eventually placed under the control of the Sanpo Kaigosho, an autonomous administrative body peculiar to the Ise Yamada area. From the beginning of the Edo Period, it comprised wealthy merchants having the title of *oshi*. As the Shogunate government's policy expanded, the Sanpo Kaigosho eventually became subject to strong control by the Shogunate government. However, the Yamada Hagaki were issued until the Meiji Restoration with no interruption. The negative stance of the Shogunate government with respect to note issue remained unchanged until its last days; it even resorted to a ban on feudal notes in order to promote the circulation of gold and silver coins at times of recoinage. It is also worth noting that in the Ise Yamada area, politically controlled by the Shogunate government, private notes were allowed to be issued throughout the Edo Period in spite of the total ban on the issuance of paper currency in other areas under the direct control of the Shogunate government.

History of the Yamada Hagaki

We can divide the history of the Yamada Hagaki into 4 stages according to the degree of government intervention.

Stage 1 --- The time of uncontrolled private notes or the period of merchant notes (up until 1630).

Stage 2 --- The period of control by the Sanpo Kaigosho under the authorization of the Shogunate government (1631-1789).

Stage 3 --- The period of quasi-official notes under the control of the Yamada magistrate (1790-1867).

Stage 4 --- The period of control by the Meiji government (*wataraifu*) (1868-1875).

In Stage 2, Hanabusa Yukitsugu, the Yamada magistrate appointed in 1631, started to supervise the management of the Sanpo Kaigosho which controlled the issuance of the Yamada Hagaki. Under his supervision, the Yamada Hagaki was granted government approval and the issuance system was gradually improved. It should be noted that the Yamada Hagaki were transformed into gold backed notes in 1668, although they were originally issued as silver backed notes. After deliberations, the Sanpo Kaigosho decided to stabilize the Yamada Hagaki by linking it to gold, as the premium of the then-silver-backed Yamada Hagaki against silver coins soared to a level of 15-16% reflecting the sharp appreciation in the price of silver caused by the efflux of silver abroad and the drop in silver production nationwide. Consequently, while the Yamada Hagaki maintained its form as silver backed notes, its value was fixed at 64 momme of the Yamada Hagaki to 1 ryo of gold (Figure 7), irrespective of fluctuations in gold and silver prices.

Stage 3 started with the take-over of controlling rights of the Yamada Hagaki by the Tokugawa Shogunate government (Yamada magistrate) in 1790, and during this stage the issuance system was refined dramatically. One may divide the 300 year life of the Yamada Hagaki into two periods, taking this shift of control to the Tokugawa Shogunate government as the major moment of change. The reform measures were in line with the so-called *Kansei Reform* implemented by the Roju or Council of Elders Matsudaira Sadanobu. The Yamada Hagaki system survived until the fall of the Tokugawa Shogunate government. With the Meiji Restoration, the Yamada Hagaki was placed under the control of the *Wataraifu*, an Ise branch of the new central government, making a fresh start as an 'official note' in name as well as reality. Like other feudal notes, it was ultimately redeemed as the debt of the new government.

Refinements of Issuance System

Why was the Yamada Hagaki able to win strong trust and the confidence of the public and survive for such a long period of 300 years; not only in the Ise Shinryo but in surrounding feudal areas? As briefly discussed earlier, the Ise Shinryo was traditionally considered to be "the land with no *Shugo* or Constables" as an ancient sacred territory, and directly controlled by the Tokugawa Shogunate government. It enjoyed political and economic stability for a long period under the umbrella of the Shogunate government, and was thus unaffected by changes of feudal lords unlike other areas. Even when the Shogunate government announced the *fudazukai kinshirei* or ban on the use of paper currency in 1707 to promote the circulation of their newly minted coins, the Yamada Hagaki was exempted, being allowed to circulate within the Ise Shinryo.

Moreover, the immense economic power and credibility of the *oshi*, who issued the Yamada Hagaki with their assets as reserves, cannot be overlooked as a contributing factor behind the long life of the Yamada Hagaki. Since early modern times *oshi* had been Shinto prayer masters as well as wealthy merchants, and the number of their religious supporters increased throughout the country in all classes. Income from contributions made their financial base stronger. Because of their religious occupation, the *oshi* seemed to conduct their commercial business more prudently and thus enjoyed the strong trust and confidence from the public that is required for the issue of notes.

Aside from the circumstances unique to the Ise Shinryo territory, we must especially note that, in early modern times, few private notes were managed by autonomous bodies with an issuance system as sophisticated as that of the Yamada Hagaki. The issuance system of the Yamada Hagaki after the Kansei era in particular, can be compared with the national currency system of modern times. That is, due care was exercised by setting a fixed limit on the amount of issue as well as having adequate gold reserves, so that convertibility was always assured. Furthermore, the Yamada magistrate and associated parties involved in the Yamada Hagaki collaborated in maintaining the credibility of the Yamada Hagaki as their primary goal. These points will now be examined in more detail.

Issuance organization

The issuance system of the Yamada Hagaki was brought almost to completion with the authorization of the Sanpo Kaigosho by the Yamada magistrate Hanabusa in 1631. Under the control of three directors of the Sanpo Kaigosho, several groups of five to ten members were formed with each group entitled to issue the Yamada Hagaki based on their joint responsibility for its convertibility. After the Kansei Reform, the number of Hagaki partners was limited to 39 groups and 404 persons, and a ceiling on the amount of issuance was imposed on each group. Although the name of only one partner from the group appeared on the face of the Yamada Hagaki as the issuer (Chart 7), all partners of the group in fact guaranteed the convertibility of the Yamada Hagaki, which enhanced its credibility as a currency.

The Yamada Hagaki was issued by partners to merchants in exchange for gold and silver coins, and those who received the Yamada Hagaki as small change could exchange them freely into gold or silver coins at a specified moneychange shop at their convenience, for example, when they leave Isenokuni-Yamada. Furthermore, the partners could issue the Yamada Hagaki at their discretion up to the limit on issuance to finance their payments. The seignorage was retained at the hands of the Hagaki partners, and to prevent a possibility of overissue limits were thus imposed on both the members of partners and the amount of issue.

Limits on issuance

Accompanying the establishment of the feudal clan system and the development of credit transactions, the number of Yamada Hagaki partners reached 28 groups consisting of 229 members by the Genroku era (1688-1704), with outstanding issues amounting to 687 silver kamme (a little over 10,000 ryo of gold based on the Yamada

Hagaki's conversion rate of 1 ryo of gold = 64 momme). As the Yamada Hagaki system expanded reflecting the economic growth of the area, the number of Yamada Hagaki partners had increased to 404 by the mid-Edo Period (1724), and the limit on issuance of 20,200 ryo was more or less established as a custom.

The limit on Yamada Hagaki issuance was not always obeyed. A group or a number of wealthy partners of the Yamada Hagaki sometimes abused their status to issue the Yamada Hagaki excessively for their own profit. To prevent such abuse the first reform of the Yamada Hagaki system was implemented by the Yamada magistrate himself in 1740. The basic principles of issuing the Yamada Hagaki were reconfirmed: an issuance limit of 20,200 ryo, equal to 3 kan 200 momme (50 ryo of gold coins) of silver backed note issues per partner for a total of 404 partners. Furthermore, renewal of the Yamada Hagaki every 7 years by an exchange of old and new notes was laid down as a principle.

From the Gembun era (1736 ～41) to the Kampo era (1741～ 44), the number of the Yamada Hagaki partners and outstanding issue were fairly established as a system. In the latter years of this period, however, damaging abuse of the system arose. For example, prominent *toshiyori* or senior partners repeatedly abused their powers for their own benefit by issuing the Yamada Hagaki above the specified limits. Moreover, new notes were issued every 7 years, yet old notes were not replaced promptly for new ones and in some cases the provision of discarding the collected old notes was completely ignored. In addition, suspicions arose in the Yamada magistrate that the Sanpo Kaigosho did not properly control the amount of Yamada Hagaki issues as required, since the outstanding amount of the collected Hagaki (those withdrawn from circulation after conversion into gold and placed in the custody of the Exchange after being sealed) increased when it should have dropped.

With the aid of the Shogunate government the Yamada magistrate conducted an on-site examination of the Sanpo Kaigosho in 1790, exposing various internal misconducts. As a result, all partners involved were dismissed and the management system of Sanpo Kaigosho along with the issuance system was drastically reformed. The issue of the Yamada Hagaki was thus directly controlled by the Yamada magistrate, and the three managing directors of the Sanpo Kaigosho became no more than a mere operating organization. The partners were still allowed to issue notes under their own names within the allotted limit, but their right to issue became purely nominal.

Despite these reforms, however, the issuance limit of the Yamada Hagaki remained unchanged at 20,200 ryo until the last days of the Tokugawa Shogunate government. The following reasons can be enumerated for this: (a) the above-mentioned strict constraints had been placed by the Shogunate government; (b) as the Ise area was originally a sacred territory, the use of official coins (gold and silver coins) was not, as in feudal clan territories, restricted to settlements of large-sum transactions; and (c) feudal and private notes issued in peripheral areas were also used freely as a means of payment in this area.

Convertibility and Gold Reserves

Prior to the Kansei Reform (1787), the Yamada Hagaki stock partners pledged their real estates as collateral in accordance with their designated limit of Hagaki issuance, so that their convertibility could be maintained by liquidating the collateral in the event of default. The eligibility of collateral differs with the period. The first reform of the Yamada Hagaki system by the Yamada magistrate in 1740 stipulated that the collateral must be equivalent to 5 kamme of silver (=88 ryo of gold) per share, to be placed with the Sanpo Kaigosho in return for an issuance allowance of 50 ryo each. In this way, the Yamada Hagaki was backed by the credibility and real estates of individual partners up until the mid-Edo Period.

After the Kansei Reform which corrected the slackening discipline of the Sanpo Kaigosho, however, the basis of the Yamada Hagaki issue was changed to backing by adequate gold reserves. The gold reserves consisted of the reserve deposited by 404 partners with the Yamada magistrate, totaling 8,080 ryo, and a reserve deposited by the 6 directors of the Sanpo Kaigosho totaling 5,500 ryo. The 8,080 ryo reserve tranche placed by partners was held at Osaka Castle as primary reserves for issuance (a 40% reserve ratio to 20,200 ryo of outstanding issues). The other 5,500 ryo tranche of Jyono reserves placed by the 6 directors was maintained as secondary reserves and was in turn invested as compulsory loans to them with the Yamada magistrate receiving an interest of 550 ryo annually (interest rate of 10% p.a.).

As for the business of conversion of the Yamada Hagaki into gold, the magistrate designated the Unita moneychanger shop as the specified exchange. The moneychanger was obliged to repay gold using its own funds, while the magistrate paid interest on the collected Yamada Hagaki in arrears. In this manner its convertibility was maintained until the Meiji Restoration with the amount of reserves unchanged.

As discussed before, feudal notes tended to be overissued exceeding the gold reserve and issuance limit to finance fiscal deficits. Consequently, in most cases the convertibility of feudal notes was severely restricted. On the other hand, the conversion system for the Yamada Hagaki functioned adequately owing to ample reserves and strict issuance limits, and no gold conversion restrictions were placed on both residents and non-residents of the territory. Reflecting the difference in their convertibility, the Yamada Hagaki was more creditworthy than feudal notes (roughly 30% of the outstanding Yamada Hagaki issues were circulated locally and the remainder outside the territory).

<u>New Coins of the Meiji Era and its Conversion</u>

With the Meiji Restoration, the Yamada Hagaki worth 20,200 ryo were passed on to the newly established *Wataraifu* (the local office of the new government) which was a replacement of the Yamada magistrate, and new Yamada Hagaki notes were printed. Until the conversion of the Yamada Hagaki into new coins under the New Coin Act of 1871, another 120 thousand ryo worth of Yamada Hagaki were issued to cover the fiscal deficits of the new government. These notes along with the old notes were all referred to as *Wataraifu Satsu* and treated as feudal notes. The Yamada Hagaki, like the *Dajokan satsu* and feudal notes of the neighboring areas, continued to be used as a means of payment even after the Meiji Restoration in villages under the *Wataraifu* jurisdiction (called Wataraiken after 1869), but was abolished altogether under the *hansatsu shobun* or abolition of feudal notes in July 1871. Subsequently, while the majority of the Yamada Hagaki were replaced by new coins, some were conveniently used as "new notes" (*Meiji Tsuho Satsu*) by stamping the seal of the Ministry of Finance on the face.

As the printing skill of the new notes progressed, the Meiji government decided in February 1875 to suspend the circulation of the old notes as of March 5 of the same year, and published instructions that all old notes should be exchanged into new notes. At the same time, the government ordered the Mitsui Gumi, a wealthy moneychanger, to establish a branch office in the Yamada-Matsuzaka area to facilitate the exchange of the Yamada Hagaki into new notes. The exchange began on February 5, and all related work was completed by May 15. This marked the end of the long history of the Yamada Hagaki. However, it deserves special attention in the history of currencies worldwide that a single paper currency survived for 300 years without interruption.

Conclusion

For reference, we will compare the development of paper currency in Japan with that of other countries. In Western Europe, the emergence of paper currency was relatively late as opposed to the extremely long history of coins in the region (introduced in the 7th century BC). Financial transactions developed greatly during the Renaissance period in the 14th and 15th centuries. In the 16th century, various forms of bills and securities evolved, but they were merely a personal means of payment exchanged among a limited circle of trading parties; that is, they could not be regarded as a currency with general acceptability. In the 1640's, the *goldsmith note* (originally a receipt issued by goldsmiths for gold bullion and precious metal coins deposited by customers) was the first paper money to be used in England as a currency. With the inauguration of the

Bank of England (the first incorporated bank) in 1694, these goldsmith notes were transformed into the first modern paper currency in Western Europe[4]-- Bank of England notes. In spite of their official appearance, they were basically a currency that was locally circulated within the City.

Unlike England, other continental European countries were slow to introduce paper currency, particularly in Germany where the first official paper currency appeared in the late 18th century. It is well known that the political instability in Germany prior to the unification largely accounted for this delay. That is, the public's trust and confidence in paper currency was deeply connected with the political and economic stability of the nation. England was successful in issuing the first paper currency in Western Europe mainly because, unlike European countries on the Continent, she was fortunate to stabilize herself early as a modern nation owing to her geographical advantage.

We can find a sharp contrast in the development of currency in Japan compared with that of western countries. In Japan coins were introduced much later than in Western European countries, as the first coin in Japan emerged at the end of the 7th century. On the other hand, paper currency appeared in Japan earlier than Western Europe, with privately issued notes coming into use in 1600, and official paper currency

4 In the 1650's, the Stockholm Bank in Sweden issued non-interest bearing bearer's notes in place of certificates of deposit, which circulated as a currency equivalent. The Stockholm Bank, originally a private bank, became a public institution in 1668, and was later renamed the national bank. These bank notes possessed acceptability as currency in circulation. When the Stockholm Bank, however, in financial distress, went bankrupt in 1776, only 50% of the issued bank notes in outstanding were backed by gold reserves. In view of this, the Bank of England, which succeeded in issuing the first bank note in the true sense, and linked the issuance business to the discounting of commercial bills, is considered the pioneer of the modern issue bank.

In China, Jiao Zi, the first paper notes, presently known as bearer's sight bill, were issued in the early Song Dynasty at around 1000 AD by a union consisting of 16 wealthy merchants from the prosperous Sichuan region with the permission of the government. The authority to issue Jiao Zi was eventually monopolized in 1023 by the government.

(feudal notes) in 1661. The relatively early emergence of paper currency in Japan can be attributed to the following factors: (a) Japan was immune to external political influence due to its geographical isolation, with the prolonged political chaos finally brought under control in 1615 with the termination of the Osaka Natsunojin War and; (b) the completion of the national isolation policy, in particular, greatly contributed to the political unification of Japan by the Tokugawa Shogunate government, and the rise and growth of commercial capital and a merchant society was gradually promoted.

These factors laid the framework for the development of the paper currency following the Yamada Hagaki, including the *Kinai Koshihei*, feudal notes and *Kōkishisatsu*. As for the Yamada Hagaki, the main reason for its success was the early establishment of political stability which enabled the Ise Shinryo to gather countless number of pilgrims during the battles of the medieval and early modern times. Nonetheless, Japan and Western Europe underwent the same process of private note transformation into paper currency.

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Figure 1. Units and exchange rate of the Currency in the Edo Period

1. Units of currency

(a) Gold coin (by tale)

1 ryo (= one *Koban* = 4 bu)

1 bu (= one *Ichibukin* = 4 shu)

1 shu

(b) Silver coin (by weight: *Chogin* and *Mameitagin*)

1 momme (3.75 grams)

(1,000 momme = 1 kamme, 1/10 momme = 1 fun)

(c) Copper coin (by tale)

1 mon (= one small piece)

(1,000 mon =1 kammon)

2. Official exchange rates among moneys

gold coin 1 ryo = silver coin 60 momme

= copper coin 4 kammon

"mon" and "kammon" = units of value

"momme" and "kamme" = units of weight

Figure 2: The province of Japan

Source: George Sansom, A History of Japan, The Cresset Press, 1964.

Figure 3: The Yamada Hagaki (Old Hagaki from Keicho period)
Issued around 1600 (2/3 reduction of actual size)

Figure 4: Fukui Han Satsu (Feudal Note issued by Fukui Clan in Kambun Period)
Issued between 1661~1673 (3/5 reduction of actual size)

Figure 5. The Development of Paper Currency in Japan

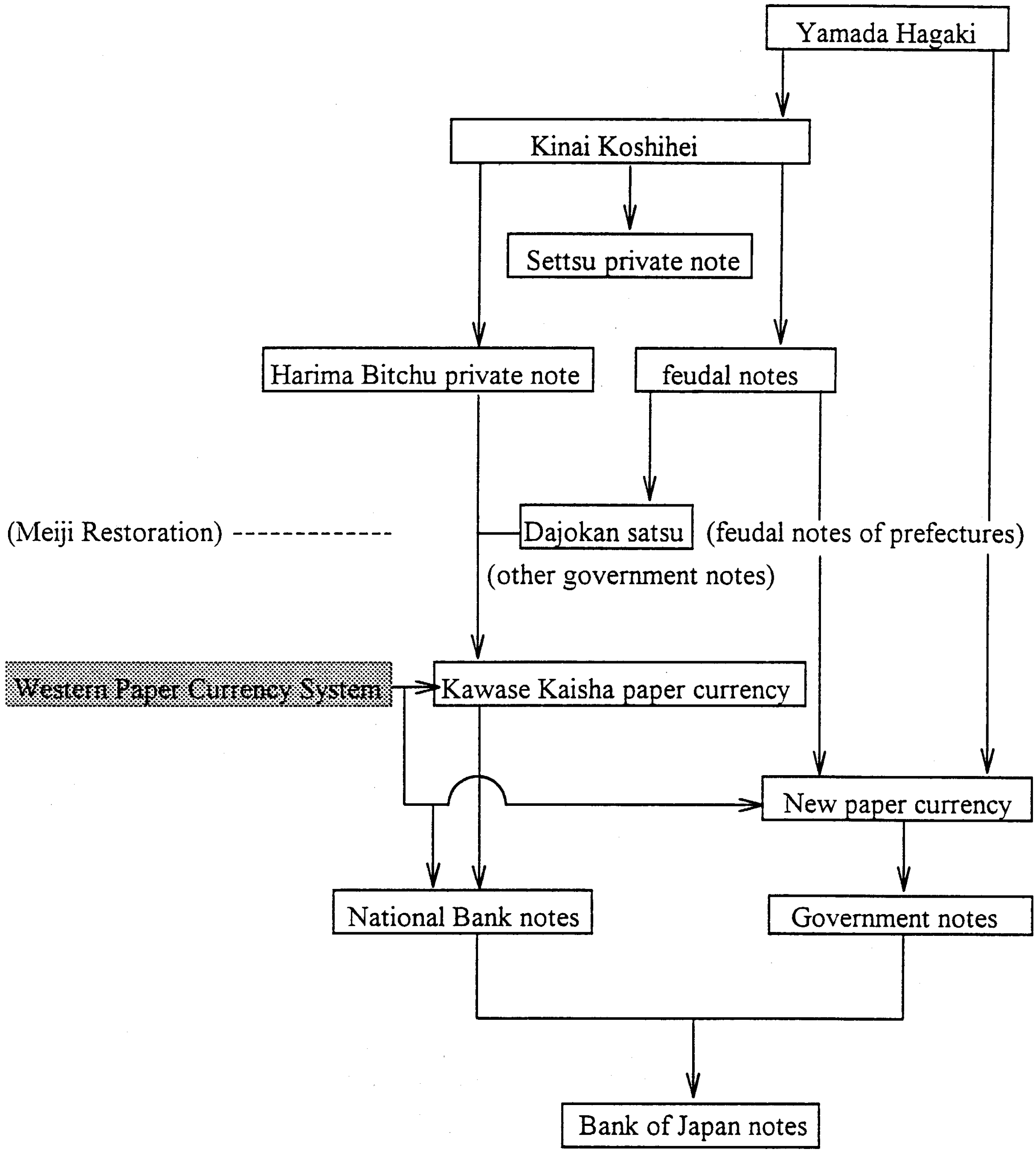

Figure 6: The Yamada Hagaki (Gemna period)
Receipt of 1 momme of chogin
Issued between 1615~1624 (2/3 reduction of actual size)

(Front) (Back)

Figure 7: The Yamada Hagaki (after the Kansei Reform)

Issued in 1790 (2/3 reduction of actual size)

The inscription on the bottom of the front side was printed after 1668 as the Hagaki began to be linked with gold value.

(Front) (Back)