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# JAPANESE GOVERNMENT LOAN ISSUES ON THE LONDON CAPITAL MARKET 1870-1913

Toshio Suzuki

BLOOMSBURY



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# Abbreviations

## ARCHIVES

AGA	Antony Gibbs Archives (Guildhall Library)
AJAA	American Jewish Association Archives (Cincinnati, Ohio)
AMAE	Archives du Ministère des Affaires Etrangères (Paris)
AMF	Archives du Ministère des Finances (Paris)
AN	Archives Nationales (Paris)
ASABA	Anglo-South American Bank Archives (DMS Watson Library, University College)
BBA	Baring Brothers & Co. Archives
BCA	R. Benson & Co. Archives
BEA	Bank of England Archives
BJA	Bank of Japan Archives (Tokyo)
BLPESA	British Library of Political & Economic Science Archives
BTAA	Bank of Tarapacá & Argentina Archives (DMS Watson Library, University College)
BTLA	Bank of Tarapacá & London Archives (DMS Watson Library, University College)
CBA	Chartered Bank of India, Australia & China Archives
CIBA	City Bank Archives
CCBA	Capital & Counties Bank Archives
HA	C.J. Hambro & Son Archives (Guildhall Library)
HSBA	Hongkong & Shanghai Banking Corporation Archives (Hongkong)
IBPA	Imperial Bank of Persia Archives
JMFA	Japanese Ministry of Finance Archives (Tokyo)
JMFAA	Japanese Ministry of Foreign Affairs Archives (Tokyo)

JNDL	Japanese National Diet Library (Tokyo)
KA	Kleinwort & Sons Co. Archives (Guildhall Library)
LBA	Lazard Brothers Co. Archives
LBBA	London & Brazilian Bank Archives (DMS Watson Library, University College)
LJSBA	London Joint Stock Bank Archives
LCMBA	London City & Midland Bank Archives
LSEA	London Stock Exchange Archives (Guildhall Library)
LSWBA	London & South Western Bank Archives
MA	Mitsui Archives (Tokyo)
MBA	Midland Bank Archives
MGA	Morgan Grenfell & Co. Archives (to 1910 J.S. Morgan & Co. Archives) (Guildhall Library)
MTBA	Mitsui Bank Archives (Tokyo)
PAAA	Politische Archiv des Auswärtigen Amts (Bonn)
PBA	Parr's Bank Archives
PRO	Public Record Office
RAL	N.M. Rothschild & Sons Co. Archives
SA	J. Henry Schröder & Co. Archives
SOASA	School of Oriental & African Studies Archives (University of London)
UBLA	Union Bank of London Archives
ULSBA	Union of London & Smiths Bank Archives
WBA	Westminster Bank Archives

#### OTHERS

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

#### COMPANIES AND BANKS

Banque de Paris	Banque de Paris et des Pays-Bas
Banque Française	Banque Française pour le Commerce et l'Industrie
Baring Brothers	Baring Brothers & Co.
Benson	R. Benson & Co.
Brown Shipley	Brown, Shipley & Co.

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

## BOOKS AND JOURNALS

BPP	British Parliamentary Papers
CSS	<i>Chūgai Shōgyō Shinpō (Domestic and Foreign Commercial News)</i>
DDF	<i>Documents diplomatiques français</i>
GKS	<i>Gaisai Kankei Shiryō (Papers related to Foreign Loans)</i>
GTR	<i>Ginkō Tsūshin Roku (Japanese Bankers' Magazine)</i>
IMM	<i>Investor's Monthly Manual</i>
JIB	<i>Journal of the Institute of Bankers</i>
JRSS	<i>Journal of the Royal Statistical Society</i>
MHSKT	<i>Meiji-ikō Honpō Shuyō Keizai Tōkei (Hundred-Year Statistics of the Japanese Economy)</i>
MTZ	<i>Meiji Taishō Zaiseishi (History of Japanese Finance in the Meiji and Taishō Eras)</i>
MZ	<i>Meiji Zaiseishi (History of Japanese Finance in the</i>

	<i>Meiji Era)</i>
<i>MZKSS</i>	<i>Meiji-zenki Zaisei Keizai Shiryō Shūsei (Collected Papers on the Financial and Economic Histories in the Early Period of the Meiji Era)</i>
<i>NGHS</i>	<i>Nippon Ginkō Hyakunenshi (One Hundredth Anniversary History of the Bank of Japan)</i>
<i>NGB</i>	<i>Nippon Gaikō Bunsho (Japanese Diplomatic Records)</i>
<i>NKGGS</i>	<i>Nippon Kōgyō Ginkō Gojūnenshi (Fiftieth Anniversary History of the Industrial Bank of Japan)</i>
<i>SEOI</i>	<i>Stock Exchange Official Intelligence</i>
<i>SID</i>	<i>Segai Inouekō Den (Biography of Inoue Kaoru)</i>
<i>TKJ</i>	<i>Takahashi Korekiyo Jiden (Autobiography of Takahashi Korekiyo)</i>
<i>TKZ</i>	<i>Tokyo Keizai Zasshi (Tokyo Economic Journal)</i>
<i>YSGZS</i>	<i>Yokohama Shōkin Ginkō Zenshi (Complete History of the Yokohama Specie Bank)</i>

# Rates of Exchange (1913)

(£1 sterling=20 shillings=240 pence)

<i>Nation</i>	<i>Currency</i>	<i>Shillings</i>	<i>Pence</i>
France	franc		9 $\frac{1}{2}$
Germany	mark		11 $\frac{4}{5}$
Japan	yen	2	$\frac{1}{2}$
USA	dollar	4	1 $\frac{1}{2}$
Hongkong	Hongkong dollar	4	6

Source: *SEOI*, for 1913, p 1691;

F.H.H. King, *The Hongkong Bank in the Period of Imperial China, 1864–1902*, vol 1 (Cambridge, 1987), p xxxviii.

## Definition

In this book the term ‘foreign’ refers to countries outside the British Empire.

## Preface and Acknowledgments

This book is based upon my doctoral dissertation submitted to the University of London in 1991. It describes the Japanese government's financial activities mainly in London during the years 1870 to 1913. Japan's trade surplus recently hit record levels but only a century ago Japan was suffering serious trade deficits. These deficits inevitably caused Japan to undertake heavy foreign borrowings. Indeed, during the 1910s it was a rather notorious fact throughout European financial circles that Japan, as well as Tsarist Russia, was in near crisis due to the burdens of debt service. Nevertheless, Japan eventually improved its awkward financial position on the international capital markets. Although a historian has the satisfaction of simply telling his story to readers, the history of how the Japanese government was able to raise necessary money abroad is, I believe, worthwhile when we ponder the present day debt problems of underdeveloped countries.

The topic of loans to foreign governments belonged to a neglected area of scholarship in British financial history. Because of the banking communities responsibility to safeguard their customers, banks concerned with loan issues, especially merchant banks, imposed strict limitations upon access to their confidential business records. Without consulting documents, it is almost impossible to analyse loan issues on the market. In the 1980s, however, such restriction was lifted and several commissioned histories of merchant banks strong enough to endure academic criticism were published. I had the good fortune to begin my research efforts under these more favourable circumstances and have been able to bring them to completion via the help and co-operation of various warm-hearted City people.

Above all, I would like to thank Professor T.C. Barker and Dr W.P. Kennedy, of the London School of Economics, who were so patiently willing to supervise a foreign student and invariably encouraged me to complete the study. I am greatly indebted to Professor G. Jones,

of the University of Reading, for his generous supervision while he was at the London School of Economics. I also wish to acknowledge my special gratitude to Professor M. Daunton, of University College London, and Dr C.W. Munn, formerly of the University of Glasgow and now with the Chartered Institute of Bankers in Scotland, who kindly and judiciously commented on my present work as an examiner. Concerning errors of fact and interpretation, however, I alone must be held responsible.

While many archivists and librarians have contributed greatly to the completion of this study, I owe a special debt of gratitude to Mr E. Green (Midland Bank) and Dr M.J. Orbel (Baring Brothers & Co.) for their outstanding help and support. I am afraid that a strange non-native English speaking researcher must have greatly interrupted their usual archival work activities. Other archivists, librarians and institutions who kindly assisted my research are: Dr J. Booker (Lloyds Bank), Madame I. Brot (Archives nationales), Mr D.G. Corble (Hill Samuel & Co.), Mr C. Cove-Smith (National Westminster Bank), Mr H. Gillet (Bank of England), Mr G. Knight (N.M. Rothschild & Sons), Mrs M. Lee (Hong Kong Bank), Ms S. Mace (N.M. Rothschilds & Sons), Mr B. McGónigle (Lazard Brothers & Co.), Mr G.F. Miles (Barclays Bank), Mr M. Purton (Kleinwort Benson), Mr R.M. Reed (National Westminster Bank), American Jewish Association Archives, Archives du Ministère des Affaires Étrangères, Archives économiques et financières, Bank of Japan Archives, British Library of Political & Economic Science, Auswärtiges Amt, Broadland Archives Trust, Européenne de Banque, Guildhall Library, Hambros Bank Ltd., Institute of Historical Research (University of London), Japanese Ministry of Finance Archives, Japanese Ministry of Foreign Affairs Archives, Mitsui Archives, Morgan Grenfell Group, National Diet Library (*Kensei Shiryōshitsu*), School of Oriental and African Studies Library (University of London), Standard Chartered Bank Archives and Sakura Bank Archives.

I am under great obligation to a wide variety of people whose professional and personal generosity has been immense. Some of those who have furthered my study in various ways are: Dr K. Burk, Dr S.J. Diaper, Ms L. Doole, Professor Shin-ichi Gotō, Professor Shin Gotō, Professor H. Ichihara, Professor T. Kanegae, Professor F.H.H. King, Dr D. Kynaston, Mr C. Monk, Professor K. Nakamura, Professor I.H. Nish, Professor T. Nakajima, Dr R.W.

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Toshio Suzuki



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# Introduction

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

Consideration centres on the London capital market, but the significance of other markets, especially the Paris capital market,<sup>1</sup> is also taken into consideration. Previous research has established that borrowers seeking to improve the terms of loan issues would sound out other main capital markets when London's conditions seemed unfavourable. International market linkages in simultaneous loan issues, the integration of capital markets, is looked into more seriously,<sup>2</sup> although London became the centre for the Japanese government foreign loan issues. This also raises the question of a borrower's efficient access to foreign capital markets.

Some scholars have neglected the role of Japan's foreign borrowings at the early stage of its industrialisation,<sup>3</sup> but the importance of Japan's large capital imports after the turn of the century, which resulted mainly from increased military outlay, is generally admitted,<sup>4</sup> comprising over 20 per cent of the total foreign government loan issues in London in the period from 1900 to 1913. The scale of the Japanese government loan issues reached its apogee during the Russo-Japanese War period (1904–1905), and these financial operations on the international capital markets, especially London, New York, Berlin and Paris, attracted a great deal of attention from financiers and public investors.<sup>5</sup>

The activities of Japanese banks in the London capital market

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

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

The neglected area of Japanese government foreign loan issues also forms a part of the wider neglected area of the loan issue mechanism on the London capital market, although, exceptionally, Hall<sup>9</sup> and Gilbert<sup>10</sup> have scrutinized the Australian governments loan issues. This neglect is curious in view of the long debate about British foreign investment.<sup>11</sup>

The 'backwardness' of research on the mechanism of loan issues can be ascribed mainly to the problem of sources. Restrictions on access to loan issue banks' papers made the research almost impossible in the past. In addition, the transitory character of loan issue organizations complicated the study.<sup>12</sup> Loan issue terms published in a prospectus or journal told nothing of the negotiations, which can only be revealed by the loan issue banks' records.

Jacob Viner observed in 1929 that

no documented and detailed study of this phase of European diplomacy has ever been published by any historian or economist. It has been necessary, therefore, to piece together the miscellaneous bits of information which could be gathered from contemporaneous literature and from the flood of diplomatic

documents and memoirs published since 1914. But the secrecy which ordinarily surrounds transactions such as are here dealt with when they occur, the reticence of diplomats even in their memoirs, and the rarity of informative memoirs or biographies of the financiers who participated in the transactions, make it impossible to hope for anything like a complete account, even if all published sources of information had been found and used, of the relations between *haute finance* and *haute politique*.<sup>13</sup>

Recently in Britain, the 'secrecy' of the foreign loan issues before the First World War has lifted partially because loan issue banks have permitted access to most of their records. This study is based primarily on the research at the archives of Baring Brothers, the London Rothschilds, the Paris Rothschilds, Parr's Bank and the Hongkong Bank, which were involved most deeply in Japanese government loan issues in the period from 1897 to 1910. However, the situation in Japan is different. The banks concerned with the foreign loan issues are still unwilling to admit access to their archives.<sup>14</sup> Nevertheless, this research has been based on several Japanese banks' archives.<sup>15</sup>

The official histories of the Japanese Ministry of Finance are another major problem. These histories are important and useful sources for the study of Japanese government foreign loan issues, but have referred to them without any footnotes or references.<sup>16</sup> Therefore, this study is founded on records at the Ministry of Finance Archives, the Ministry of Foreign Affairs Archives and the National Diet Library. So far no one has studied Japanese government foreign loan issues using both Japanese government's (borrower's) and loan issue banks' (lenders') records.

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

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# **PART I**

## **Foreign Government Loan Issues on the London Capital Market**

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# 1

## Foreign Government Loan Issues in London 1870–1913

*It is not too much to say that the modern foreign policy of Great Britain has been primarily a struggle for profitable markets of investment. To a larger extent every year Great Britain has been becoming a nation living upon tribute from abroad, and the classes who enjoy this tribute have had an ever-increasing incentive to employ the public policy, the public purse, and the public force to extend the field of their private investments, and to safeguard and improve their existing investments. This is, perhaps, the most important fact in modern politics, and the obscurity in which it is wrapped has constituted the gravest danger to our State.*

*J.A. Hobson, Imperialism: A Study*

From the early nineteenth century the London capital market was deeply involved in many foreign governments' financial operations. In fact, the financial activities of Baring Brothers, the oldest London merchant bank, were regarded almost as one of the 'Six Powers in Europe'.<sup>1</sup> This clearly shows the magnitude of the contemporary London capital market in foreign government loan business. Chapter 1 presents a general overview of foreign government loan issues on the London capital market in the period from 1870 to 1913, giving consideration to trends, geographical distribution, yields, commissions and market linkages.

### TRENDS

Although during the era of 'railway mania' between the 1830s and the 1850s domestic railway securities attracted British investors, Consols remained the primary object for investment for many throughout the nineteenth century because of their safety. However, Consols'



large share in transactions diminished rapidly after 1863,<sup>2</sup> and more investors sought a prudent way to invest money abroad and to return a higher rate of interest than at home. There was now a search for higher anticipated returns from overseas lending. The number of foreign government loan issues in London increased in the 1860s and 1870s, and foreign government bonds became the centre of the market. The British economy had by this time entered into the high age of capital exports. After the Franco-Prussian War (1870-1871), Paris lost its foremost position and, conversely, London became established in its place as the world's centre for foreign lending.<sup>3</sup> 'Now London has a manifest monopoly of every new issue of any importance,' *The Economist* observed, 'the names of other foreign markets are mentioned in the prospectuses, but they obviously play a second part.'<sup>4</sup>

It was also during the 1860s and 1870s that London merchant banks briskly expanded their loan issue business. Newcomers, such as Kleinworts, E. Erlanger, Morton, Rose & Co., Speyer Brothers, Seligman Brothers, J.S. Morgan & Co. and Lazard Brothers, emerged in London as cosmopolitan family banking firms.<sup>5</sup> Some of them were German-born Jews who came across from the United States. These Anglo-American houses opened London branches and began to take up foreign loan issues on a liberal scale. It is obvious that their new business strategy was to take advantage of organizing simultaneous loan issues in London and New York.

From about 1880, instead of the foreign government bonds common in the 1870s, colonial government bonds, and Indian, colonial and American railway debentures were highlighted on the market. Corporation bonds, domestic and colonial, were also newly introduced into the market from the late-1870s. Colonial government bonds, Indian and colonial railway guaranteed debentures and corporation bonds were gradually expanding the gilt-edged market.

The volume of new foreign government loan issues had cyclical fluctuations. There was another boom in them in the late-1880s ending in the Baring Crisis of 1890. Although their volume increased thereafter, foreign government bonds were no longer a promising market leader, but rather stable investment objects. The transactions of industrial securities now registered more rapid growth. By 1913 foreign government bonds had earned a reputation as a safe form of investment.<sup>6</sup>

Simon's calculation, the most precise one based on the *Investor's*

*Monthly Manual*, is too aggregated for an overview of foreign government loan issues on the London capital market.<sup>7</sup> For this purpose, information on individual, not overall, loan issues is needed. Appendix A shows the individual foreign government loan issues made wholly or partially through the London capital market in the period from 1870 to 1913. As mentioned in the notes, this contains several inevitable defects resulting from the dearth of data which is available only from the financial press.<sup>8</sup> Since appendix A includes many conversion loans and 'partials', amounts placed outside London simultaneously, it is not able to support a calculation of the amount of British foreign exports or of capital transfers from the London capital market. Its validity is strictly limited to a general overview of foreign government loan issues on the markets. Appendix A, therefore, must be treated most carefully. Despite these short-comings, however, it should be possible to gain an idea of the nature and the character of foreign government loan issues coming before the London capital market in the years from 1870 to 1913.

#### GEOGRAPHICAL DISTRIBUTION

Table 1.1 shows the geographical distribution (by country) of foreign government loan issues on the London capital market. Major developed European countries and the United States after 1896 were no longer large borrowers in London and raised necessary funds on their own domestic markets. Paris, rather than London, became the prime source of loans for Southern Europe, the Scandinavian countries, Romania, Switzerland and Russia.<sup>9</sup> Russia conducted large-scale financial operations in both London and Paris, but patronized the Paris capital market far more following the Franco-Russian entente of 1894. Russia did return to London in 1906 for a simultaneous loan issue.

The London capital market became especially receptive to South American and Far Eastern countries from the late-1890s. Their proportion of the total issue amount increased prominently, although South American government bonds had already been market leaders in the 1870s and late-1880s. From the outset, London was of paramount importance for Chinese government loan issues, but in 1895 China, as a result of Russia's diplomatic influence, tapped the Paris capital market to raise the Sino-Japanese War indemnity. China floated many simultaneous loans both in London and on the

Table 1.1 Foreign government loan issues in London 1870-1913  
(by country)  
(£000; net proceeds)  
(%)(excluding % \*)  
[index]

[illegible]

<i>Country</i>	<i>1870-74</i>	<i>1875-79</i>	<i>1880-84</i>	<i>1885-89</i>	<i>1890-94</i>	<i>1895-99</i>	<i>1900-04</i>	<i>1905-09</i>	<i>1910-13</i>	<i>Total</i>
Japan	3200 (1)(1)					13451 (8)	15209 (13)	39793 (36)	10450 (12)	82103 (4)(8)
Liberia	85 (0)(0)							101 (0)		186 (0)(0)
Mexico				6702 (3)	7585 (4)	3787 (2)	7736 (7)			25810 (1)(3)
Montenegro								243 (0)		243 (0)(0)
Nicaragua				264 (0)				460 (0)		724 (0)(0)
Norway		2889 (1)	859 (0)	4817 (2)	2166 (1)				2217 (3)	12948 (1)(1)
Paraguay	1278 (0)(0)			839 (0)						2117 (0)(0)
Persia					475 (0)				1206 (1)	1681 (0)(0)
Peru	21310 (3)(7)								1154 (1)	22464 (1)(2)
Portugal		3506 (1)	4438 (2)	14573 (6)						22517 (1)(2)
Romania	805 (0)(0)								1802 (2)	2607 (0)(0)
Russia	46680 (6)(15)	13800 (4)	22897 (13)	93891 (38)	54175 (30)			16945 (15)		248388* (11)(-)
Santo Domingo				502 (0)	2478 (1)	759 (0)				3739 (0)(0)
Salvador				287 (0)				860 (1)		1147 (0)(0)
Serbia						680 (0)	2160 (2)			2840 (0)(0)
Siam								1580 (1)		1580 (0)(0)
South Africa			100 (0)		2250 (1)					2350 (0)(0)
Spain	20116 (3)(7)	26515 (8)	12000 (7)							58631 (3)(6)
Sweden		3297 (1)	3918 (2)	1470 (1)	2950 (2)		928 (1)	2940 (3)		15503 (1)(2)
Switzerland								2841 (3)		2841 (0)(0)
Tonking						2784 (2)				2784 (0)(0)
Turkey	29068 (4)(9)	2500 (1)	14067 (8)	6027 (2)	21121 (12)		45155 (39)	2759 (2)		120697* (6)(-)
USA	102375 (14)(34)	205950 (65)				35709 (20)				344034* (16)(-)
Uruguay	2520 (0)(1)		8011 (4)	3510 (1)	19300 (11)	1192 (1)		164 (0)		34697 (2)(4)
Venezuela			2702 (2)					5229 (5)		7931 (0)(1)
Total	748124	319067	183105	245976	181192	175419	115818	110759	87415	2166875
Total (excluding *)	304741									1003993
[index]	[100]	[100]	[100]	[100]	[100]	[100]	[100]	[100]	[100]	[100]

(Table 1.1 continues overleaf)

	1870-74	1875-79	1880-84	1885-89	1890-94	1895-99	1900-04	1905-09	1910-13	Total
Feinstein [index] (excluding index *)	385000 [51]	142000 [45]	271000 [148]	402000 [163]	338000 [187]	217000 [124]	155000 [134]	666000 [601]	818000 [936]	3394000 [157]
	[126]									[338]
Simon [index] (excluding index *)	352600 [47]	158100 [50]	307600 [168]	451500 [184]	294400 [162]	379400 [216]	359700 [311]	653300 [590]	785300 [898]	3741900 [173]
	[116]									[373]

*Sources:* Appendix A; C.H. Feinstein and S. Pollard (eds.), *Studies in Capital Formation in the United Kingdom, 1750-1920* (Oxford, 1988), table xvii (462-63); M. Simon, 'The pattern of new British portfolio foreign investment, 1865-1914' in A.R. Hall (ed.), *The Export of Capital from Britain 1870-1914* (1968), 38-39.

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

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

Net proceeds were calculated as follows:

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

These amounts do not mean actual capital transfers from the London capital market, and the data for the period before 1885, not based on *SEOI*, are perhaps insignificant because they include large partials;

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

Continent. Japan depended upon the London capital market for its first foreign loan issue in 1870. After a long interval, in the 1890s, it began to organize large loan issues in London. Japan briskly expanded a loan issue market from London to New York and Berlin during the Russo-Japanese War, and later reached Paris. The total Japanese government loan issues on the London capital market in the period from 1870 to 1913 amounted to £82,106,335 (net amount), 3.8 per cent of the total foreign government loan issues, but their proportion increased remarkably to 20.8 per cent in the period from 1900 to 1913 when transactions of foreign government bonds on the market were at a low ebb.

## YIELDS

Anticipated returns and risks are the fundamental determinants of investors' demand. The promised yields of colonial and foreign government bonds were typically much higher than those of Consols,<sup>10</sup> but British investors did not always prefer these higher interest bonds because of perceived 'country risks'. In 1865 Viscount Goschen, in saying 'thousands of men, who, under the old system [the principle of unlimited liability], would rather have invested their money at 3

per cent. at home than risk it abroad for 50',<sup>11</sup> noted that not only high yields but also risks swayed the decision of British investors.

Dickson, who gives full treatment to eighteenth-century national debt problems, has paid attention to the aspect of safety in investment.<sup>12</sup> Kennedy has discussed British investors' preferences for safety, and explained the reasons for the apparent bias of the Victorian capital market towards foreign securities, as resulting mainly from a limited ability to achieve informed diversification of dangerous domestic ventures and the highly segmented, informationally inefficient structure of the various financial institutions of the London capital market.<sup>13</sup> Edelstein, taking risks in investment into consideration, calculated 'risk-adjusted returns' and confirmed a tendency for overseas 'risk-adjusted returns' to exceed those at home.<sup>14</sup> Edelstein's analysis of 'risk-adjusted returns' was similar to that of Bailey's analysis of Australian governments' bondholders.<sup>15</sup> Bailey emphasized that the importance of 'safe' investors or rentiers as colonial government bond investors.<sup>16</sup> The behaviour of Victorian investors is worth considering, but it is now almost impossible to trace bondholders because the loan issue banks held no subscription lists of their issued securities.<sup>17</sup> 'It has, in fact, proved to be extremely difficult to generalize about Victorian investors.'<sup>18</sup>

Table 1.2 shows the average realized yields of the foreign government bonds quoted on the London Stock Exchange at 5 year intervals from 1870 to 1910. The figures of these yields were made by dividing the annual nominal interest payments by the averages of the annual highest and lowest quotation prices of the bonds in the *Investor's Monthly Manual* and then averaged by country. Let

$HQP_{ijt}$  = the annual highest quotation price of the  $i^{th}$  loan of the  $j^{th}$  country in the  $t^{th}$  year,

$LQP_{ijt}$  = the annual lowest quotation price of the  $i^{th}$  loan of the  $j^{th}$  country in the  $t^{th}$  year,

$NIP_{ijt}$  = the nominal interest payment (per cent) of the  $i^{th}$  loan of the  $j^{th}$  country in the  $t^{th}$  year,

where

$i$  = 1,.....,m, loans,

$j$  = countries' number (Argentina,.....Venezuela),

and

$t$  = the calendar year (1870, 1875, 1880, 1885, 1890, 1895, 1900, 1905, 1910).

The annual realized yield to the  $i^{\text{th}}$  loan of the  $j^{\text{th}}$  country in the  $t^{\text{th}}$  year is calculated from:

$$r_{ijt} = \frac{NIP_{ijt} \times 100}{(HQP_{ijt} + LQP_{ijt})/2}$$

The averaged annual realized yield to the  $j^{\text{th}}$  country of the  $t^{\text{th}}$  year is also calculated from:

$$r_{jt} = \frac{\sum_{i=1}^m r_{ijt}}{m}$$

The contemporary market rate of interest and investors' assessment of the risk factors involved in the investment could affect the quotation prices. Obviously higher yields coincided with higher interest payments and lower prices.

The realized yields showed geographical patterns. In particular, South American countries' high-yield bonds deserved attention at the time. There were several notorious South American government loan issues which defaulted immediately after flotation. Without doubt, the fabulous promised yields enticed investors into perilous ventures and many disappointments. South European countries and Turkey manifested low creditworthiness on the market. Greece and Turkey had crucial debt problems from the late nineteenth century. Italy, after unification in 1870, steadily improved its borrowing position on the European financial markets and achieved first-rate standing by the 1880s. The yields of the bonds issued by East European and Far Eastern countries were not as high as those of the South American countries. Their creditworthiness was still middling even in 1910. Throughout the nineteenth century the more developed West European countries received a favourable assessment from investors. Just before the First World War the Scandinavian countries, where central governments relied on much foreign capital for their industrialization, attained similar levels of credit rating on the London capital market.

Silver loans were assessed at a discount under the gold standard mainly because of the depreciation of silver from the late nineteenth

Table 1.2 Realized yields of foreign government loans 1870–1910  
(by country) (%)

Country	1870	1875	1880	1885	1890	1895	1900	1905	1910
Argentina	6.7	7.4	7.8	6.6	7.9	13.0	7.5	5.5	4.6
Austria	—	7.8	7.2	6.6	5.8	5.4	5.5	4.0	4.2
Belgium	4.5	4.2	3.9	3.5	3.1	3.1	—	—	—
Bolivia	—	27.0	24.0	—	—	—	—	—	—
Brazil	5.6	5.1	4.9	5.1	5.2	6.0	6.7	4.9	4.7
Bulgaria	—	—	—	—	—	6.6	7.1	5.8	5.1
Chile	6.1	5.8	6.8	5.2	4.7	4.8	5.6	4.9	4.8
China	—	—	7.6	5.8	6.2	6.3	6.1	5.3	5.2
Colombia	—	6.7	12.6	23.8	13.2	29.2	10.3	4.0	6.7
Costa Rica	—	37.3	36.9	39.6	5.0	16.9	10.4	12.2	12.5
Cuba	8.9	8.5	—	—	—	—	—	4.7	4.9
Denmark	3.3	4.5	—	4.0	—	—	3.6	3.3	3.5
Ecuador	10.3	14.3	10.4	12.1	4.9	18.5	—	—	—
Egypt	8.5	9.5	7.8	6.6	4.7	3.8	3.7	3.6	3.8
Finland	—	—	—	—	—	—	—	—	4.6
France	5.9	4.8	3.8	3.9	3.6	3.1	3.2	3.1	3.1
Germany	—	—	4.1	3.9	3.8	3.3	3.5	3.4	3.7
Greece	48.8	37.0	30.6	7.6	5.5	15.3	11.8	8.7	8.6
Guatemala	8.9	14.1	—	15.9	7.6	13.0	20.1	12.4	9.6
Hawaii	—	—	—	—	5.8	5.8	5.8	—	—
Holland	4.8	4.0	3.9	3.8	3.3	3.1	3.2	3.1	3.3
Honduras	12.7	200.0	181.2	210.5	74.4	143.0	190.5	97.3	83.3
Hungary	—	6.9	6.2	5.1	4.5	5.0	4.0	3.9	4.2
Italy	7.9	6.2	5.6	5.2	5.3	5.5	5.4	5.0	4.6
Japan	9.3	7.6	7.6	6.4	6.4	6.5	7.0	6.2	4.4
Mexico	32.5	32.2	32.4	26.2	7.2	8.4	8.4	6.2	6.2
Nicaragua	—	—	—	—	6.1	13.3	7.6	5.4	5.5
Norway	—	—	4.2	4.2	3.6	3.4	3.6	3.5	5.3
Orange Free State	—	—	—	6.1	5.8	—	—	—	—
Paraguay	—	51.0	61.5	133.3	4.8	19.7	17.0	5.7	5.6
Peru	6.7	10.2	26.6	50.0	—	—	—	—	—
Portugal	10.0	5.8	5.8	6.4	5.0	11.7	12.5	4.4	4.5
Romania	8.8	7.2	7.4	7.1	—	—	—	—	—
Russia	5.8	4.9	5.5	5.4	4.4	3.8	3.9	4.5	4.3
Salvador	—	—	—	—	—	9.1	—	—	6.8
Santo Domingo	9.9	66.7	5.6	44.4	13.6	—	—	—	—
Serbia	—	—	—	—	—	—	6.7	5.0	4.7
Siam	—	—	—	—	—	—	—	—	4.5
Spain	8.8	9.8	9.7	5.4	4.8	5.2	5.8	4.3	4.2
Sweden	5.0	4.7	4.4	4.1	3.7	3.2	3.6	3.5	3.9
Switzerland	—	—	—	—	—	—	—	3.5	3.6
Transvaal	—	—	—	—	—	4.5	—	—	—
Turkey	8.9	11.8	30.4	5.6	5.1	3.8	3.9	4.0	4.3
United States	6.8	5.3	4.5	3.6	3.7	3.6	3.2	3.3	3.4
Uruguay	—	13.0	20.0	10.3	8.8	1.0	7.7	5.2	4.9
Venezuela	29.3	43.9	36.5	10.0	6.0	7.1	10.7	5.9	5.3
Consols	3.2	3.2	3.1	3.0	2.9	2.6	2.8	2.8	3.1
Colonial governments	4.8	4.4	4.1	4.0	3.7	3.3	3.5	3.8	4.0

Source: IMM, 1872, 1875, 1880, 1885, 1890, 1895, 1900, 1905 and 1910; Consols – B.R. Mitchell, *British Historical Statistics* (Cambridge, 1988), 678; Colonial governments – M. Edelstein, 'The rate of return on UK home and foreign investment, 1870–1913' (1970), 295–6.

Notes: — implies no transactions; Excluding Treasury bills and provincial governments loan issues; Germany includes Prussia and Bavaria; Italy includes Sardinia; Romania includes Danube; Colonial governments' yields were calculated from 51 bonds.



Table 1.3 Japanese government loan issue terms (London) 1870–1910

Year	(1) Nominal interest rate (%)	(2) Issue price (%)	(3) Nominal issue amount (£000)	(4) Borrowing period (year)	(5) Yield at issue (%)	(6) Yield on Consols (%)	(7) Yield difference (%)
1870	9	98	1,000	13	9.2	3.2	6.0
1873	7	92 ½	2,400	25	7.6	3.2	4.4
1897	5	101 ½	4,385	53	4.9	2.5	2.4
1899	4	90	10,000	55	4.4	2.6	1.8
1902	5	100	5,104	55	5.0	2.9	2.1
1904	6	93 ½	5,000	7	6.4	2.8	3.6
1904	6	90 ½	6,000	7	6.6	2.8	3.8
1905	4 ½	90	15,000	25	5.0	2.8	2.2
1905	4 ½	90	10,000	25	5.0	2.8	2.2
1905	4	90	6,500	25	4.4	2.8	1.6
1907	5	99 ½	11,500	60	5.0	3.0	2.0
1910	4	95	11,000	60	4.2	3.1	1.1

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

Notes: (5)=(1)/(2) × 100; (7)=(5)–(6); The yields of 'Goschen' Consols (2 ¾%) were 2.0% (1897), 2.2% (1899) and 2.7% (1902) (C.K. Harley, 'Goschen's conversion of the national debt and the yield on Consols', *Economic History Review*, second series, xxix 1 (1976), 105.

century. The price of silver fell 20 per cent in the 1870s.<sup>19</sup> The establishment of the gold standard improved borrowing countries' creditworthiness on the foreign capital markets. The establishment of the gold standard in Russia attracted more foreign capital because of reductions in exchange risks.<sup>20</sup> In fact, after the adoption of the gold standard in 1897, the yields of Russian and Japanese government bonds plummeted as bonds prices rose.

Table 1.3 sets out the Japanese government loan issue terms in the period from 1870 to 1910. The rates of nominal interest reflect Japan's creditworthiness of the time, and the level of the yields at issue indicates the market's assessment of these loan issues. The risk factors were calculated roughly from the difference between the yields at issue and those on Consols, one of the relatively risk-free investments. The two early loans held large perceived risks for public investors since Japan was still an unknown country. Japan's borrowing position in London, however, improved remarkably as a result of both the adoption of the gold standard in 1897 and the conclusion of the