

TRANSFORMING RAILROADS INTO STEAMSHIPS: BANKING WITH THE MATSUKATA FAMILY AT THE 15TH BANK

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I. *Introduction: Reasons to Consider Banking at the 15th Bank*

This is the story of a bank which believed it was a railroad company and its ill-fated attempts to transform itself into a shipping conglomerate.¹ It is also the story of an attempt to create an industrial and financial empire (*zaibatsu*) with the funds that were intended to provide for the livelihood of Japan's peerage. This is the story of the 15th Bank and its affiliated concerns under the management of the Matsukata brothers.

Although the 15th Bank (or the 15th National Bank, as it was known until 1897) was the largest bank in terms of capitalization throughout most of the Meiji period, a comprehensive history of the bank has yet to be published. A short history is included in *Mitsui ginko hachiju-nen shi* and another brief history of the bank is included in *Kazoku kaikanshi*. Professor Tohara Shiro has discussed the bank's activities during the Meiji period in *Kokuritsu ginko no kenkyu*. The present article also makes use of a discussion of the bank's financial problems in the mid-1920's provided in *Nihon kinyushi shiryô*. In addition to these studies there have been a limited number of articles relating to the bank published in scholarly journals. Hoshino Takao has written about the bank and its railway activities in an article in *Musashi daigaku ronshu* ("*Nihon tetsudo kaisha to dai jûgo kokuritsu ginko*"), Ishikawa Kenjiro has written about the 15th Bank as a source of peerage investment in *Osaka daigaku keizaigaku* ("*Meijiki ni okeru kazoku no ginko toshi—dai jûgo ginko no ba-ai*"), Asajima Shoichi has written about the 15th Bank and its related trust company in the journal *Shintaku* ("*Jûgo ginkokei no shintaku kaisha*"), and Shiba Takao has written about the bank's relations with Kawasaki Shipbuilding in *Kei ei shigaku* and *Osaka daigaku keizaigaku*. Beyond these

¹ This article provides a brief summary of the author's Ph.D. dissertation, to be submitted to Princeton University in the summer of 1988. The dissertation research has been guided by the counsel and encouragement provided by Professor Marius Jansen. Words provide meager means to express the intellectual debt and feelings of respect which this author holds for his mentor.

Debts incurred in Japan have been neither few nor insubstantial and it is a source of great pleasure to be able to acknowledge at least a few of those debts at this time. The author wishes to express his sincere gratitude to the Mitsui Bank for making the material on the 15th Bank available for inspection and to Hitotsubashi University for providing access to one of Japan's finest libraries. A few of the many persons who offered advice or assistance during the course of this research were Professors Hoshino Takao, Nakamura Masanori, Senda Minoru, Tohara Shiro, Tsurumi Masayoshi, and Yui Tsuchihiko. Financial support has been provided by a Fulbright grant. Finally, special thanks are offered to Professors Fujitsu Seiji and Hirata Mitsuhiro of Hitotsubashi University for their exceptional kindness and assistance.

studies there exist only scattered references to the 15th Bank in books and articles on the Meiji economy.

The reason for this lacuna in Japanese economic history may well be that scholars have not yet had full access to what is by far the most useful and complete collection of materials related to the 15th Bank, to be found in the archives of the Mitsui Bank. It was the Mitsui Bank, in its guise as the Teikoku Bank, which swallowed both the bank and its records immediately before the end of the war. When the Teikoku Bank was broken up by the Occupation authorities into the First Bank and the Mitsui Bank (which initially retained the name Teikoku Bank) the records of the 15th Bank remained with the Mitsui Bank and are today an important part of the Mitsui Bank archives. Beyond such common materials as lists of stockholders and annual reports, these archives also contain such treasures as reports from meetings of the bank's board of directors (1923-1944), materials on the former Teiyu, Kobe-Kawasaki, and Naniwa banks, and eight volumes of a manuscript history of the 15th Bank apparently written by Takegoshi Yosaburo. It is the hope of this author that a complete history of Meiji Japan's largest bank can finally be reconstructed on the basis of these various materials.

II. *Banking on The railroads*

The 15th Bank was created in 1877 by the former court nobility and *daimyo* with capital provided by the *kinroku kosai*, which were the bonds issued by the Meiji government in exchange for the privilege of cancelling the stipends of the feudal military class.² The bank was designed to protect the newly gained fortunes of the peers and to absorb the majority of this government bond issue, which threatened to overwhelm the Meiji economy. The inspiration for the creation of the bank came from Matsukata Masayoshi of the Finance Ministry, who first suggested the idea to Minister of the Right Iwakura Tomomi sometime in 1876. Iwakura was not initially persuaded by Matsukata's ideas as he believed the interests of the peerage would best be served by creating a railway to absorb and manage peerage capital. This idea had earlier been suggested by former Tokushima *daimyo* Hachisuka Mochiaki, who had become aware of the importance of railways in the modern economy while studying in England. Matsukata and Iwakura were able to combine their dreams for the future when it was realized that the bank could be used to fund railroad construction. It was planned that the bank would loan a portion of its surplus funds, represented by the banknotes which it was authorized to issue, to the Tokyo Railway Association, an organization which had gained government approval for operating the existing Tokyo-Yokohama line. When the bank's charter expired the bank would be dissolved and the peers would become the proprietors of the railway company.

The rebellion of disaffected *samurai* which Saigō Takamori led in 1877, however, derailed

² A number of studies of the relationship between the formation of banks and the *kinroku kosai* have been published. See Fujitsu Seiji, "*Kokuritsu ginko to shizoku kabunushi*," *Hitotsubashi ronso* 69 (February 1973) and Sugiyama Kazuo, "*Kokuritsu ginko seisaku no ichi kosatsu—chitsuroku shobun to no kankei o chushin to suru*," *Kinyu keizai* 74 (June 1962) for two examples of this literature. One of the earliest, and still one of the best, discussions of the government actions which eventually eliminated feudal military stipends is to be found in Fukaya Hiroharu, *Kashizoku chitsuroku shobun no kenkyu*.

these plans. The 15th Bank was forced to loan its surplus funds to the government and these funds were used to defray the military expenses associated with subduing the rebellion. The bank was able to offer the Tokyo Railway Association only a token loan and the peers who had formed the railway association eventually chose to dissolve the company rather than continue without funding from the bank.

The 15th Bank soon found another railway company, however, to take the place of the ill-fated Tokyo Railway Association. The creation of the Japan Railway Company in 1881, Japan's first successful and largest railway company, provided the 15th Bank with another opportunity to invest in the railway business. The bank eventually became so tightly linked with the Japan Railway Company that it can almost be said that it existed merely to provide funds for railway expansion and as a depository for railway capital. The process by which the bank provided funds to the Japan Railway Company has been described in some detail by Professor Hoshino, but many questions remain in regard to this process as the bank was less than candid in its semiannual reports about the degree or means of such investment. It is, however, apparent that the bank was loaning money to its own stockholders so that they could acquire shares in the Japan Railway Company for the bank. This subterfuge was necessary as the national banking regulations, chapter five article 54, prohibited banks from holding stock in other companies.³

By the time the 15th Bank's charter expired in 1897 it held over 200,000 shares of the Japan Railway Company's stock.⁴ Although this made the 15th Bank the largest single stockholder in the Japan Railway Company it did not provide the bank with majority control in the company. Even the vast wealth of the peerage had proven inadequate to serve as the sole source of funds for railway expansion. The choice the bank faced when its original charter expired was thus not between transforming the bank into a railway company or a private bank, but between transforming the peerage into merely another shareholder in a company which was as responsive to Mitsubishi interests as it was to those of the peerage, or maintaining peerage control over an independent bank.⁵ The bank's managers decided in favor of independence and the bank thus continued operations as a financial institution with substantial railway interests.

The nationalization of the railways, promoted by the Saionji cabinet in 1906, put an end to any remaining hopes for transforming the 15th bank into a railway company. The nationalization laws forced the bank to liquidate its shares in the Japan Railway Company and another smaller railway company. In return for the railway shares the bank received 31 million yen in government bonds. Although this amount was approximately twice the market value of the stock when nationalization was proposed, it represented a one-time payment as opposed to yearly dividends from railway profits. The bank was finally forced to make some difficult decisions regarding the use of its capital. The time had arrived to

³ *Meiji zaiseishi*, volume 13, page 162.

⁴ Professor Hoshino has placed the exact figure at 304,876 shares. The partial lists of stockholders which he provides for the years 1896 and 1897 suggest that the bank's stockholders and employees held 221,340 shares of railway stock in their own names for the bank's account.

⁵ Although the bank had finally, in 1893, revised its charter to conform with National Bank Regulations in making the privilege of stock ownership open to all classes of people, the peers continued to hold the majority of stock until after World War I. Even as late as December 1927 the peers controlled almost half of the bank's "old" stock, though they controlled only 30% of the total stock of the bank.

consider alternative means for maintaining a reasonable return on capital—perhaps even seeking deposits and offering loans.

Unfortunately, the 15th Bank was not particularly adept in the skills of commercial banking. It had previously been reluctant to make its funds available to any entity other than the Japan Railway Company. It likewise was not inclined to assume responsibility for the savings of the common man. The directors of the bank had felt no need to establish a branch office until December 1899. It thus began the twentieth century holding less than half the total amount of deposits of the Mitsui Bank, and also trailed the Mitsubishi, Sumitomo, and First banks in total deposits.⁶ It realized more profits from the interest on government bonds than it did on loans. In fact, before the nationalization of railways was completed in 1909 the largest single source of profits for the bank was stock dividends from the Japan Railway Company. Nationalization changed the primary source of profits from dividends to interest on government bonds but the essential character of the bank's P & L (profit and loss) statements remained unchanged for yet a few more years. The bank was accustomed to operating in an environment almost devoid of risk and it remained reluctant to commit a higher proportion of its funds to commercial loans unless payments of interest and principal were guaranteed. It was not until after the First World War that the bank threw caution to the winds. Within less than a decade the 15th Bank, which had previously held nothing more speculative than high-grade municipal bonds, was the trustee for 137 million yen of bad debt, an amount greater than the bank's 100 million yen capitalization. In order to understand this abrupt transformation it is necessary to now shift our focus from railroads to steamships.

III. *Risk and Adventure on the High Seas*

There seems little doubt that the first four presidents and management of the 15th Bank would have avoided the shipbuilding industry like the plague. Although the industry could be highly profitable it was also extremely cyclical in nature. Expansion within the industry caused by war or favorable economic conditions brought windfall profits, but a period of contraction was certain to follow and with it came the lean years which caused great anxiety for those stockholders who depended on dividend payments for their livelihood. The Japanese nobility controlled immense wealth as a group, but the majority of its individual members were as dependent as the proverbial widow on regular dividend payments from the 15th Bank to meet annual living expenses or otherwise supplement meager incomes. It was the intention of the bank's founders that a reasonable standard of living be guaranteed to all those who held stock in the bank, but there were no means devised to transform paupers into plutocrats.⁷ It was important, therefore, that the bank maintain a steady flow of dividends to its shareholders. Rising dividend rates were welcome, but not if they were at the expense

⁶ *Sumitomo ginko hachiju-nen-shi*, page 145.

⁷ It is worth noting that, of the original 484 stockholders, 294 did not have the cash or savings necessary to meet the specie requirement for ownership of shares in the bank. These peers received a special loan from the Imperial Household Ministry to enable them to purchase stock in the bank. *Jugo ginko enkakushi* (Meiji period—volume one), page 63. Annual bank dividends allowed these people to make ends meet, but they did not elevate them to the ranks of the wealthy.

of future declining rates. The government had guaranteed profits and thus, indirectly, dividends for the Japan Railway Company, but there were no such guarantees for the shipping industry when the bank's managers devised their plans to avoid the inevitable contraction in that industry following World War I. The result of this indiscretion was near bankruptcy and the inability to provide dividend payments for over a decade.

The man responsible for the policies that brought financial distress to more than a few members of Japan's peerage was Matsukata Iwao (1862–1942), who became the fifth president of the bank in 1915. Matsukata Iwao was the eldest of twelve sons sired by the respected finance minister Matsukata Masayoshi. Iwao was a key figure, together with brothers Kojiro, Masao, Goro, Otohiko, Shokuma, and Yoshisuke, in the creation of what contemporary sources referred to as the “Satsuma *zaibatsu*.”⁸ The Satsuma *zaibatsu* was involved in such diverse fields as sugar, gas, and life insurance, but its heart was in the shipbuilding industry. Although it was Kojiro, Goro, and Shokuma who were primarily responsible for implementing the corporate policies which turned the bank's assets into memories of better days, it was Iwao who provided the introductions and access to the capital of the 15th Bank and the Taisho Bank and International Trust Company, which were affiliated with the 15th Bank. Iwao apologized for the problems he had brought to the peerage by relinquishing his court rank in December 1927, but the debts were not so easily cleared.

The most conspicuous debtor among the Satsuma *zaibatsu* was Kawasaki Shipbuilding, controlled by Matsukata Kojiro (1865–1949). Kojiro was the third son of Matsukata Masayoshi and the first president of Kawasaki Shipbuilding company. He also served as president of Kobe Gas, Kyushu Electric Tramway, Kyushu Real Estate, Asahi Oil, Kawasaki Steamship, and International Steamship, and was the managing director of the Matsu trading company. By 1927 the 15th Bank held 40.81 million yen of Kawasaki Shipbuilding's promissory notes (*tegata*) and another 10.97 million in notes from International Steamship. The Matsu trading company, which served as a holding company for Kojiro's business activities, had borrowed another 13.24 million yen. The majority of the loans made to the Matsu trading company had been made by the Osaka and Kobe branches of the 15th Bank. The Kobe branch had also granted Kojiro a personal loan of 2 million yen.⁹ These branches were, respectively, the former main offices of the Naniwa and Kobe-Kawasaki banks, which the 15th Bank had absorbed in a merger in 1920. The relative ease with which Kojiro obtained money from these branches can be explained in part by the fact that he was the brother of Iwao, who was bank president from January of 1915 to November of 1922, but there were other factors which made these particular branches vulnerable to loan requests. The president of the Naniwa bank at the time of its merger with the 15th Bank was another Matsukata, Matsukata Masao, and personal ties with the Matsukata family were thus particularly strong at the Osaka branch. The Kobe branch had strong ties with the Kawasaki family, which had founded the Kobe-Kawasaki Bank, and Kawasaki Shipbuilding, of which Kojiro was president. It was no surprise, therefore, that Kojiro was received warmly at

⁸ Mishima Yasuo, “Sasshu zaibatsu no seiritsu to hokai,” *Kei ei shigaku* (April 1980). Mishima notes that both the *Osaka Mainichi* newspaper and the *Economist* used this designation in the early 1920s. The traditional home of the Matsukata family had been Kagoshima, also known as Satsuma, and it was from this place name that the group of affiliated companies drew their unofficial appellation.

⁹ *Jugo ginko enkakushi* (reorganization period—volume 2), page 52.

these two banks.

It was also not particularly unusual for a large and successful company such as Kawasaki Shipbuilding to seek, and be offered, funds for expansion. The credit offered to Kawasaki Shipbuilding and International Steamship by the 15th Bank would not, therefore, have been imprudent or unexpected were it not for the economic conditions which prevailed at the time. An impartial audit of the accounts of Kawasaki Shipbuilding in the early 1920's would have revealed that there were strong reasons for believing the company would have problems redeeming the notes which it had issued.

Kawasaki Shipbuilding was established in 1887 by Kawasaki Shozo from the plant and equipment acquired from the Meiji government's Hyogo shipbuilding facilities and Kawasaki's own Hyogo operations. It became a joint stock company in 1896 with a capitalization of 2 million yen. It expanded rapidly, probably too rapidly, and during the 1908-1909 recession it relied upon government orders of railway car engines and warships to pull it out of difficulty. This act of official largesse may have caused the company to believe that the government would always be ready to place orders in the event of overcapacity within the industry, for it repeated its earlier mistake once again during the First World War. Unfortunately, the government was not so eager to absorb excess production after the war and was, indeed, severely limited in its ability to do so after agreements on naval limitation were reached at the Washington Conference of 1921-1922. Profits began to fall almost immediately after the termination of hostilities, though the industry postponed a severe depression through a variety of means. One of the schemes concocted to serve this purpose involved the creation of an affiliated company, International Steamship, to purchase ships already built or under construction.

The International Steamship company was established in July 1919 at the suggestion of Kaneko Naokichi of Suzuki *shoten*. Companies such as Hashimoto Steamship, Ishikawajima Shipbuilding, Japan Steamship, and Asano Shipbuilding, in addition to, of course, Kawasaki Shipbuilding and Suzuki *shoten*, were encouraged to donate surplus ships to the company in exchange for stock shares.¹⁰ Kawasaki Shipbuilding held over half of the two million shares of the company's stock. This was actually Kawasaki Shipbuilding's second venture into steamship transportation as it had also founded Kawasaki Steamship in April of 1919. Kawasaki Shipbuilding held 399,315 shares of that company's 400,000 shares of stock in Matsukata Kojiro's name. Unlike International Steamship, however, Kawasaki Steamship was a viable company with its own business interests. International Steamship was a paper corporation serving only the interests of Kawasaki Shipbuilding and other affiliated shipbuilders unable to rid themselves of excess wartime production. Thus, whereas Kawasaki Steamship stock was able to muster enough vitality to bring at least 10 yen per share at the bottom of the market during Japan's inter-war depression, the stock of International Steamship during the same period was perceived of as being "less than worthless."¹¹ Unfortunately, Kawasaki Shipbuilding and International Steamship valued their assets on the basis of prices which prevailed in the market during the First World War, and the promissory notes issued by these companies looked like safe investments at those prices. The prospects for redemption of those notes looked much less bright if values were adjusted for postwar conditions.

¹⁰ *Kawasaki kisen goju-nen shi*, page 39.

¹¹ *Nihon kinyushi shiryō*, volume 24, page 495.

An examination of Kawasaki Shipbuilding's balance sheet for the last half of 1926 shows some significant problems in the valuation of assets. The company appraised its assets at almost 323 million yen, which included land valued at 49 million yen, machinery valued at 33 million yen, ships already completed valued at 42 million yen, stocks and bonds valued at 35 million yen, customers' credits valued at 24 million yen, and raw materials in stock valued at 96 million yen. However, the 42 million yen book value for ships completed was probably overstated by about 28 million yen as market prices were closer to 70 yen per ton, not the 206 yen per ton used by Kawasaki auditors. The true value of stocks and bonds held by the company was probably closer to 6 million than 35 million yen. Land values were overstated by about 30 million yen, machinery overvalued by about 10 million yen, and customers' credits were entirely worthless. This resulted in a total overvaluation of almost 120 million yen, which was in excess of 35% of the total asset valuation of the company. Immoderate accounting procedures at International Steamship produced similar results. The company's balance sheet for the first half of 1928 estimated assets at 165 million yen, of which 141 million was derived from the assessed value of its fleet of ships. Unfortunately, that assessment was also based on a wartime price of 284 yen per ton. With the price levels which prevailed at the time the ships were probably worth 35 million.¹² The company's 60 million yen of loans and 20 million yen of corporate bonds and notes issued looked much more formidable at those prices.

When the market perceived that the 15th Bank was going to have problems turning the promissory notes in its possession into cash it reacted by driving the price of the bank's stock down from a high of 110 yen per share in March of 1927 to a low of less than 3 yen per share in November of that same year.¹³ The general public was already apprehensive about the stability of the financial system after the announcement on 15 March 1927 that the Akaji Savings Bank and Tokyo Watanabe Bank would be temporarily closing. The revelation of the financial difficulties at Suzuki shoten and the Bank of Taiwan in early April heightened expectations of a collapse of the financial system and banks began to receive requests to liquidate demand deposits. Even the Imperial Household Ministry, which held a substantial portion of its funds in the vaults of the 15th Bank, submitted a request on 19 April that its money be transferred to the safety of the Bank of Japan.¹⁴ A general run on the banks was underway. By the 21st of April twenty-seven banks had closed.¹⁵ The government ordered all banks to close for the 22nd and 23rd of that month, hoping to provide troubled banks with time to strengthen their financial positions and reestablish public confidence in the financial community, and a general banking moratorium was in effect until 13 May. Nevertheless, before the 15th Bank could close its doors it lost almost one-third of its deposits to customers liquidating demand deposit accounts. The Kyoto branch of the bank, which held the majority of the promissory notes issued by Kawasaki Shipbuilding, lost over 50% of its deposits before the nationwide moratorium closed the bank. The citizens of Kyoto were not to have another chance to withdraw their funds from the bank until the following April, when the 15th Bank finally opened its doors once again following a year of planning for the bank's reorganization.

¹² *Toyo keizai shinpo*, 23 March 1929, page 647.

¹³ Takahashi Kamekichi. *Taisho Showa zaikai hendoshi*, page 596 and *Ginko kaisha nenkan*, 1928.

¹⁴ *Jugo ginko enkakushi* (Showa period—volume one), page 26.

¹⁵ A list of banks which closed at this time may be found in volume 26, page 226, of *Nihon kinyushi shiryō*.

IV. *Waiting for Its Ship to Come in: Reorganization of the 15th Bank*

Although credit extended to Kawasaki Shipbuilding accounted for a great deal of the total assets of the bank there were more than enough questionable loans to keep bank stockholders and depositors in a state of high anxiety throughout the period of restructuring. A 9.5 million yen loan to the Lhasa phosphorous mining company was jeopardized by heavy losses incurred by the company in the first half of the 1920's, which resulted in a decision to reduce that company's capital by one-half in 1924. The bank had managed to sell most of the promissory notes (*tegata*) which it held in its account from an Osaka merchant named Morishita, who was in the *jintan* (breath freshener) business, by 1928, but 3.1 million yen of Morishita's unsecured loans remained unpaid. A failure to secure sufficient collateral for loans was also in evidence in the case of Yano shoten, another Osaka merchant house dealing in sugar, grain, and cloth, which had managed to borrow 2.196 million yen with collateral of 624,000 yen in stocks and real estate. The list of problem loans continues, but it was the credit extended to the shipping industry which kept bank officers awake at night with troubled dreams of bankruptcy. In addition to the loans to Kawasaki and International Steamship there were a plethora of large and small loans made to other shipbuilding and shipping companies. The list includes, but is not limited to, 11.6 million yen of loans made to Fujinagata Shipbuilding, 2.29 million yen to Towa Steamship, 1.27 million yen to Aizawa Steel and Shipbuilding, 1.22 million to Noguchi Steamship, 849,000 yen to Harada Steamship, 661,000 yen to Kobe Steamship, 648,000 yen to Tanaka Steamship and Mining, 484,000 yen to Sanyo Steamship, 382,000 yen to Kusabe Steamship, and loans of less than 100,000 yen to Aoi Steamship, Azuma Steamship, Katsuda Steamship and Yamaji Steamship. Some of these loans were sound, others were nightmares.

Concern about the prospects for repayment of these loans would be evident at almost every meeting of the bank's board of directors for at least the next few years. References to Fujinagata and Kawasaki are particularly abundant within the reports of these meetings. The frequency of these references can be attributed to the fact that although the plans for the reorganization of the bank carried out in 1927 and 1928 could adequately provide for restructuring the bank's liabilities, it was much more difficult to deal with the bank's assets. This was particularly true in the case of credits extended to Kawasaki, as business conditions at that company deteriorated once again in 1930, following an unsuccessful first reorganization. In order to understand the extent of the difficulties involved in collecting the loans made to Kawasaki I would like to briefly discuss the problems experienced by that company in the years following 1927 before I undertake an examination of the reorganization of the 15th Bank itself.

The resolution of Kawasaki Shipbuilding's financial problems was deemed so important for the future stability of the 15th Bank that Finance Minister Takahashi Korekiyo, who had chosen Go Seinosuke to draft a plan for the reorganization of the 15th Bank, insisted that a plan for Kawasaki's reorganization be considered along with the plan for restructuring the 15th Bank. Go agreed with Takahashi's assessment of the situation and predicated his

plans for the bank's reorganization upon government relief for Kawasaki.¹⁶ Go planned to have the government provide a loan of 30 million yen to Kawasaki through the Industrial Bank of Japan and also made provisions for the retirement of portions of the secured and unsecured debt of the company. These measures would have made the reorganization of the 15th Bank itself much easier and less painful.

There was initially some optimism that the reorganization could be undertaken according to Go's plan as both Finance Minister Takahashi and Naval Minister Okada provided their backing, and the cabinet as a whole gave its approval to the plan on 31 May.¹⁷ However, on 2 June Takahashi resigned his position as Finance Minister and opposition to the relief effort began to develop from within various sections of the government. The press became involved when it asked Mizumachi Kesaroku, who was head of the government's independent audit bureau, his opinion on the relief plan and he expressed violent opposition to the use of the funds for Kawasaki's relief.¹⁸ The Industrial Bank of Japan, which was to have distributed the relief funds to Kawasaki under Go's plan, then refused to act as broker for those funds without a guarantee from the government for repayment of the loan. A previous experience, in which Kawasaki Shipbuilding and Suzuki shoten had offered a now worthless guarantee on 56.78 million yen of loans made by the Industrial Bank of Japan and three other banks to International Steamship, had left that bank with little confidence in Kawasaki's guarantees of repayment.¹⁹ Another complication arose when the new Finance Minister Mitsuchi Chuzo discussed the issue of Kawasaki debt to the Okura group with chairman Kadono Jukuro and was told that Okura was suing Kawasaki for 10 million yen of unpaid bills,²⁰ which came as some surprise to both the Finance Minister and Naval Minister Okada, who had originally provided support for Go's plan. Under the circumstances, therefore, the Tanaka cabinet finally made a decision to implement an independent reform for the 15th Bank and Kawasaki Shipbuilding, and Kawasaki was left to fend for itself.

Unfortunately, business leaders at Kawasaki did not recognize the gravity of the company's problems and the government did not have the political will to enforce the more

¹⁶ Go was, incidentally, a reluctant actor in the reorganization of Kawasaki and the 15th Bank. Iwakura Michitomo, a member of the peerage who happened to also be on the board of directors of Kawasaki Shipbuilding, approached both Go and Takahashi with a request that efforts be made to provide relief for Kawasaki and the 15th Bank so that the finances of the Imperial household not be affected adversely by the problems. Go was reluctant to become involved in the time-consuming reorganization proceedings and made the excuse that he had already planned a trip to Kyoto with his family. Iwakura insisted, however, and after receiving Go's promise to resolve the problems for the benefit of the Imperial household he then proceeded to Kyoto to extract a similar promise from the influential statesman Saionji Kinmochi. Once Go was involved in the project he devoted considerable energy and time to the reorganization and was eventually rewarded with the 2nd court rank. *Nihon kinyushi shiryō*, volume 26, pages 294–302.

¹⁷ Shiba Takao, "*Kinyu kyokoji ni okeru kei ei senryaku no hatan to sono seiri: Kawasaki zosen no ba ai.*" *Kei ei shigaku* 15 (April 1980), page 45, points out that Matsukata Kojiro departed for Tokyo for discussions with Naval Minister Okada and other government leaders almost as soon as Kawasaki's financial problems became public knowledge. Interestingly enough, when it became obvious that Matsukata Kojiro would have to step down as president of Kawasaki it was proposed that Godo Takuo assume the presidency in order to strengthen the connections between Kawasaki and the Naval Ministry. Matsukata Kojiro, however, strongly opposed Godo's appointment and the question of who would assume the presidency was debated for some time until Kashima Fusajiro was appointed in 1928.

¹⁸ *Nihon kinyushi shiryō*, volume 26, page 298.

¹⁹ *Nihon kogyo ginko goju-nen shi*, page 205.

²⁰ The amount involved in the suit was actually considerably less than indicated, but support for Kawasaki wavered when a decision in favor of the Okura group was handed down by the Osaka district court of appeals. Shiba Takao, *op. cit.*, page 47.

painful measures necessary to restore Kawasaki to financial health. The final plan formulated by the government did not really deal with the problem of the enormous debt owed by Kawasaki to its creditors, either in a manner that would have reduced the debt or at least the payments on that debt. In essence, Kawasaki was given a brief moratorium on payments of its outstanding loans and an 11 million yen loan through an affiliated company, Kawasaki Heavy Vehicles, of which only 2 million was earmarked for retiring a portion of Kawasaki's outstanding commercial paper. The management at Kawasaki, meanwhile, was unable to free itself from a fatal financial strategy which it had adopted in the years immediately before the crisis. That strategy called for Kawasaki to first issue promissory notes in order to raise capital for expansion, then issue bonds to pay off the promissory notes as they came due, thus substituting long-term obligations for short-term debt. Fixed interest payments thereby came to be a major factor limiting the options open to Kawasaki's management when planning its budget. When profits were reasonably high the company was able to meet its obligations and pay a small dividend. When operating income and profits began to fall once again in 1930 the company found itself unable to meet even the obligations on its bonds.

In June of 1930 Kawasaki informed its creditors that it was once again unable to meet its obligations. The difficulties which Kawasaki began to experience in the early months of that year were in part due to the general economic slump which hit Japan when it returned to the gold standard in January 1930, but more generally were due to fundamental weaknesses in Kawasaki's financial position. A new plan for restructuring the company was completed in October 1930 and presented to Kawasaki's creditors for approval, but they refused to accept the plan. Another plan was formulated and offered to the concerned parties in February 1931 but this plan was also rejected. Kawasaki's creditors refused to acquiesce to demands to lower the interest rates charged on loans to the company. The creditors then asked the courts to declare Kawasaki bankrupt, hoping to extract payments from the failing company. Kawasaki fought back by filing a request with the Kobe district court on 20 July 1931 to grant it protection under Japan's composition laws (*wagiho*). The petition was accepted and the concerned parties began to prepare for the negotiations which would determine the costs to be paid for Kawasaki's privilege of writing off portions of its debt.

The reasons why Kawasaki's creditors twice refused to grant relief on interest payments, though they realized such refusals might impair the company's ability to make future payments, can be found in the financial statements of those creditors. With this point we once again return to the importance of repayment of Kawasaki's debt obligations for the 15th Bank. The simple fact is that the 15th Bank could not easily afford to allow Kawasaki to reduce its annual interest charges from 6.5 or 7% to the 2% which Kawasaki requested. At the established interest levels the 15th Bank received payments of 2.3 million yen per year from Kawasaki, which was in excess of 15% of all income the bank had anticipated receiving from interest and dividends on loans, bonds, notes, and stocks when it formulated its reorganization plans. If the interest level fell to 2% the bank could expect less than 800,000 yen per year in interest payments from Kawasaki. Such a reduction in income could very easily place the bank's own efforts to implement its reorganization plans in jeopardy.

The reorganization plan which the 15th Bank finally adopted was, unlike the first Kawasaki plan, painful but complete. It was based on the recognition that drastic measures would be required to restore the bank to financial health. The bank was forced to recapitalize

at a mere 20% of its former level and a means was devised to allow it to eventually liquidate 157 million yen of deposits. The new bank would be a shadow of its former self, but it would be a viable entity.

The initial plan for reorganization of the bank, as has been previously mentioned, was devised with the intent of providing a joint solution to the problems presented by the failures of both Kawasaki and the 15th bank. Although the government eventually rejected Go's first plan Prime Minister Tanaka Giichi nonetheless decided to draft Go once again to formulate a new plan for the independent restructuring of the 15th Bank. Go was able to offer this new plan to Finance Minister Mitsuchi on the 7th of October. The plan called for the Bank of Japan to provide the 15th Bank with an 80 million yen low-interest loan, to be repaid over ten years time, and also recommended that all of the 15th Bank deposits under 1000 yen be immediately returned to depositors. Deposits over 1000 yen would be refunded in installments over a ten year period.

Go's new plan was received very coolly by Finance Minister Mitsuchi and Bank of Japan president Inoue Junnosuke, who had devised a plan to create a new bank,²¹ to be known as the Showa Bank, by merging the troubled banks that had failed to reopen after the banking moratorium ended. The board and officers of the 15th Bank, however, refused to surrender the bank's autonomy and instead continued to work on revisions to the basic plan offered by Go. Meetings at the official residence of Prime Minister Tanaka on the 21st and 23rd of November, attended by Finance Minister Mitsuchi, Bank of Japan president Inoue, 15th Bank president Nishino, and a representative of the 15th Bank's depositors, failed to resolve the differences in opinion between the concerned parties. Finally, at a third meeting on 3 December Prime Minister Tanaka announced that the 15th Bank had completed a revised plan for reorganization and urged everyone to consider it. The decision was therefore made to abandon attempts to merge the bank and to base the reorganization attempts on an 80 million yen loan from the Bank of Japan. On 13 December 15th Bank president Nishino and Go Seinosuke presided over a meeting of the bank's major stockholders to explain the provisions of the reorganization plan.

Nishino notified the bank's stockholders, and the financial community as a whole, that the 15th Bank intended to meet all debt obligations. Beginning on 3 January 1928 the bank would refund all money to small depositors with less than 100 yen in their accounts. When the bank reopened for business on 28 April 1928 the bank would refund 30% of the money in those deposits over 100 yen and then during the next ten years 2% of the remaining 70% would be refunded on a semiannual basis, with payments to be made in June and December of each year. The final payment, to be made in June of 1938, would provide depositors with a lump-sum payment of all unpaid principal. During this period, however, the bank would not be responsible for making interest payments on that principal.

Nishino then continued by saying that he expected the bank's stockholders to meet their obligations to the bank in a similar way. When the bank merged with the Kobe-Kawasaki, Naniwa, and Teiyu banks in August 1920 it had issued 670,000 shares of new

²¹ The Showa Bank was established on 29 October 1927 and began operations on 1 December of that same year. It was capitalized at 10 million yen and issued 200,000 shares of stock. Six banks were initially merged to create this bank, but five more banks eventually transferred their business operations to the bank. Japan's five major banks, the Mitsui, Mitsubishi, Sumitomo, Yasuda, and 1st banks, were major stockholders in the bank, each holding 20,000 shares of stock. In 1944 it was merged with the Yasuda Bank.

stock, with a par value of 100 yen per share. All 670,000 shares had been purchased on margin, with only 25 yen per share paid in. Nishino now asked stockholders to meet their obligations by paying the full 100 yen per share price for stock valued at one-tenth that amount by the market in late 1927. Payments could be made in six installments, on 20 January 1928, 10 February 1928, 31 July 1928, 31 January 1929, 31 July 1929, and 31 January 1930, with 12.5 yen per share being paid in on each of these dates. Go Seinosuke and 15th Bank president Nishino had hoped that the bank would be able to recover approximately 15% of its total capital through these payments, but the 6393 stockholders who had purchased stock on margin surprised the bank's officers by making full payment for over half of the 670,000 shares.²² Nishino also disclosed that the bank's board of directors and officers, in order to express their apologies for the bank's failure and to demonstrate their intentions to implement a successful restructuring, would be donating a considerable amount of their personal fortunes to assist the bank in its reorganization. Matsukata Iwao provided the bulk of this money, contributing 4.58 million yen, but the other directors and officers contributed another 3 million yen, to the extent that each individual's financial condition allowed.

The reorganization of the bank did not end in 1928 and it was not limited to the measures which have been described above. A separate company, the Horai *shokusan* company, was established to assist the bank in liquidating land and property under its control. By 1942 it had disposed of over 10 million yen of real estate. In regard to the financing for the bank's reorganization it is important to note that the 15th Bank eventually received 177 million yen in special loans from the Bank of Japan rather than the 80 million it had originally requested. These loans were not repaid in full until 1944, when the 15th Bank was merged with the Teikoku Bank. Meanwhile, problems continued at companies affiliated with the bank or in debt to it. The records of the meetings of the board of directors for the years after 1928 are therefore in large part merely reports on the progress of the bank's reorganization. The bank's reorganization is thus perhaps best seen as an ongoing process that lasted until the 15th Bank was swallowed by the Teikoku Bank shortly before the end of the war. These events can not, unfortunately, be dealt with in any detail within a paper of this length, for they are a story unto themselves.

At the first general stockholder's meeting following the bank's return to business, held on 7 June 1928, the entire board of directors, with the exception of bank president Nishino, was voted out of office. The attempt by a group of brothers to create a new *zaibatsu* with funds provided by Japan's nobility thus came to an end. The Matsukata family would no longer influence policy at either Kawasaki Shipbuilding or the 15th Bank. Yet, when the dream of turning the bank that thought it was a railway company into the financial arm of a shipping conglomerate finally ended the bank itself died. It would once again become a profitable business, pay dividends, and create the conditions necessary to push stock prices back to pre-1927 levels. The bank had, however, lost its *raison d'être*. It no longer served as a safe repository for the dwindling fortunes of the peers. Few peers, with the known exceptions of Aoyama Yuki Yoshi, Matsudaira Noritsugu, Ikeda Nobumasa, and Iwakura

²² Of the 6393 people involved in these payments, 1,179 persons holding over 100 shares of stock accounted for 539,023 shares of the stock purchased on margin and 5,214 persons holding under 100 shares of stock accounted for the remaining 130,977 shares. Only 185,735 shares of stock were eventually forfeited due to the failure to meet payment obligations, but the majority of these shares were held by small stockholders. *Jugo ginko enkakushi* (reorganization period—volume 3), page 37.

Michitomo, actually lost shares in the bank between 1927 and 1930,²³ but the total amount of stock held by the nobility in the 15th Bank and in other companies in general declined significantly after 1927. This decline in the fortunes of the nobility after 1927 is not yet well documented,²⁴ but we have in this article witnessed the decline of the bank once charged with protecting those fortunes. With that we are now able to close our account of the 15th Bank.

²³ *Jugo ginko enkakushi* (period of reorganization), volume 2, pages 137–139. This was primarily due to the fact that the peerage was able to arrange special loans for many of its members holding stock on margin. The report for the 23 October 1928 meeting of the board of directors even records a request made by Iwakura for the bank to donate 1,000 yen to a fund to be used to maintain some family treasures. Needless to say, the request sounds very much like a plea for money to make payments on stock.

²⁴ Some preliminary work on the subject includes Okabe Makio and Otabe Yuji, eds., *Kazoku zaisan kan-kei shiryō*, and Imuta Toshimitsu “*Kazoku shisan to toshi kodo: kyu daimyo no kabushiki toshi o chushin ni*,” *Chiho kinyushi kenkyu* (March 1987), 1–49.