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'Inter-regional financial networks in England and Japan, 1760-1860'

Recent studies have found that capital market integration in countries such as China (Keller, Shiue and Wang 2016) and Japan (Mitchener and Ohnuki 2007, 2009 Saito and Settsu 2006) was lower compared to Britain and suggested that this gave Britain advantage in fostering industrialisation in the 18th and 19th centuries. However, during this period, English banking system was typically fragmented, consisted of individual unit banks with single offices due to legal restrictions on branch banking. Such fragmented banking system would have made it difficult for banks to conduct business outside their vicinity and to tap financial resources that might have been available elsewhere. Yet, some recent studies have suggested that these small-scale local banks called country banks were important in improving capital financial market integration in England and Wales between late 18C and late 19C (Brunt and Cannon 2002, Hebllich and Trew 2019). What made this possible was, as these studies implicitly suggest, a correspondent relationship between country and London banks which provided banks with access to metropolitan money and capital markets, facilitated payment processing and helped them keep reserve requirements.

Despite its potential importance, our understanding of the correspondent relationship between country banks and London banks, or more generally linkages between provincial and metropolitan financial agents remains limited. Most literature has either characterised the interbank network in broad terms or relied on specific micro case studies. While it has been suggested that long distance trade linkages were important in shaping correspondent network structures in North America (Weber 2003, Calomiris and Carlson 2017), very little empirical information is available on the details of the structure of metropolitan and provincial financial linkages. Research on regions beyond Europe and North America is even more limited.

This paper presents some results from the comparative study of the emergence of nationwide metropolitan-provincial financial linkages in England and Japan during the period 1760-1860. It is based on a set of newly constructed datasets on the interlinking of provincial and metropolitan financial agents, one in England and one in Tokugawa Japan. At this time both countries, which were of geographically similar size, witnessed a marked expansion of trade over long distances and proliferation of both metropolitan and provincial financial agents. The policy environment within which Japanese merchants and financial agents operated was far more restrictive than that experienced by their English counterparts, with Japanese merchants largely confined to trade within the Japanese archipelago. The paper finds that diverse commercial policies and institutions shaped the distinct patterns of inter-regional network of financial agents in Britain and Japan. It also finds that the nature and depth of those connections varied according to the business model of metropolitan financial agents who offered financial services to provincial correspondents.