4

Outsourcing the Lord's Finance

An Origin of Local Public Finance in Early Modern Japan

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Who did provide the public goods and how did they do so in the early modern Japan? This volume emphasizes on the role of "local notables"—comprising wealthy farmers, land owners, brewers, and local merchants who emerged from *hyakushō* (peasant) status, residing outside of the castle towns. Some recent research and other chapters in part 1 revealed that such local notables often played a greater role in the provision of local public goods in the late Tokugawa era than had previously been the case (Kikuchi 2003, Yoshimura 2013). However, it is not yet clear how they established a resource for financing the public goods. Although they had achieved authority in civil administration, it was not always accompanied by a corresponding transfer of revenues from feudal lords. The creation of a new financial basis for the provision of local public goods seemingly became an important problem for them. This chapter shows a pattern on how they created financial basis for the public goods provision based on a micro case study.

This chapter focuses on the outsourcing of the lord's finance and investigates how local notables changed the lord's finance, which was not able to satisfy demands for the public goods, and utilized it as the financial basis for the public goods provision. In the late Tokugawa era, rural economy based on market-oriented agriculture and proto-industry developed dramatically compared to urban economy, and new economic surpluses were formed and accumulated in the countryside (Shinbo and Saitō 1989). For example, it is known that the population of castle towns including Edo, Osaka, and Kyoto was stagnant or declining, whereas that of villages and country towns was increasing from the late eighteenth century to the nineteenth century (Smith 1989). However, feudal lords were unable to completely capture the benefits of those new surpluses under the annual tribute *(nengu)* system.[1] Consequently, most of feudal lords suffered fiscal deficits and fell into fiscal crisis (Tsuchiya 1927), and so more and more lords entrusted their fiscal management to local notables who lived in their domain and increased the management ability or fund-raising capability starting in the late eighteenth century.

On the other hand, similar tasks of fiscal management were also outsourced to wealthy financial merchants—such as rice brokers and money changers—in the castle towns, especially Osaka and Edo, where were the financial center of Japan (Mori 1970). We should focus on a difference between fiscal management by local notables in the countryside and that by wealthy financial merchants in the Osaka and Edo. The wealthy financial merchants, who weren't domain inhabitants, took on the fiscal management as a profit-seeking business, but the local notables could not pursue only self-profit. They, who were domain inhabitants, tribute-payers, and local administrators, had a direct responsibility to sustain the other domain inhabitants and regional society and worked as substitutes for their lords. Therefore, such outsourcing to the local notables changed the fiscal system into something more beneficial to local inhabitants than that to the wealthy financial merchants.

How did the local notables change the fiscal system by intervening in their lords' finance? To whom did the change become beneficial in the relationships between the lord, wealthy merchants in the castle towns, and local inhabitants in the countryside? Focusing on these questions, this chapter clarifies that local notables converted the lord's finance into the financial basis for public goods provision.

OVERVIEW OF THE CASE

Lord Tsuda

This chapter deals with a case of the outsourced lord's finance by focusing on the case of the *hatamoto* Tsuda clan. The reason for using this case is that we can overview the lord's finance overall based on the historical materials. Although it is not easy to overview the overall fiscal management in the lord's finance because of lack of historical materials, in this case it is fortunately possible due to abundant historical materials.

Hatamoto, like the *daimyō,* was also the domain lords who were direct vassals of the Tokugawa shogun. The dividing line between the *hatamoto* and the *daimyō* was the scale of the territory (income level), such as ten thousand *koku.*[2] *Hatamoto* was one type of feudal lord in the Tokugawa era, despite the domain's relatively small size of ten thousand *koku.* From a standpoint of domain inhabitants, there was no precise difference in governance between the *hatamoto* and the *daimyō,* but *hatamoto* didn't have alternate attendance *(sankin-kōtai)* duties like the *daimyō* and they lived in the shogunal capital, Edo all the time.

Even among the *hatamoto,* the Tsuda clan had a relatively large domain and notably high number of retainers. As of 1842, Tsuda clan ruled over fourteen villages, assessed at about 6,614 *koku,* in the Kantou region near Edo.[3] The Tsuda clan held as many as ninety-six retainers and two residences at Edo.[4] They always lived in the Edo clan residence and ruled the domain without putting in local officials or a provincial office. Then, they only dispatched their vassals to their domain if necessary, and much of local administration was entrusted to the village headmen of their domain in general.

Key Players

Merchants or village headmen in Sawara village of Tsuda domain, Shimousa province, played a key role in the outsourcing of fiscal management. Sawara was legally designated as a village throughout the Tokugawa era; however, Sawara was a famous country town in which many merchants and wealthy people resided.[5] Its economy grew significantly late in that period, when it capitalized on its sake and soy sauce brewing industries and its position as a port city on the lower Tone River, and thus became an urbanized commercial hub (Ishii and Uno 2000).

In this chapter, we will deal with the three types of key players in outsourcing fiscal management, (1) the chief manager, (2) the treasurer, (3) a syndicate group. (1) The chief manager *(makanai-yaku)* bore fiscal management responsibilities and held the authority to make decisions about anything concerning the outsourcing of fiscal management duties. The post was held by two men—namely, Hidekata Seimiya and Kageharu Inō. The Seimiya and Inō families were prominent merchants in Sawara and served as Sawara village headmen during the Tokugawa era. Under these two men, (2) the treasurer *(makanai-tōban),* a position held by two Sawara merchants, held all cash and was in charge of accounts. In addition, (3) a syndicate group *(goyōtashi)* comprising approximately ten Sawara merchants provided the working capital needed to run the finance apparatus. They were the wealthiest merchants in Sawara.[6]

Other Activities of the Chief Managers

Among key players, the chief managers, Hidekata and Kageharu, had the initiative and played the most important role. What kind of the social and economic activities other than those of fiscal management did they do? Both the Seimiya and Inō families were distinguished, longtime inhabitants of Sawara. Their children and grandchildren had been since the Meiji period among the area's renowned local notables, serving as mayors of Sawara and as members of the Chiba Prefectural Assembly. Both Hidekata and Kageharu lost their fathers when they were children; at tender ages they both became managing heads of their family businesses, and through their stewardship they reversed the waning fortunes of their respective houses. As managers, they succeeded in growing their family wealth. They also served as headmen of the Sawara village administration, where they worked hard on behalf of the local government.

As a scholar of history and geography, Hidekata left behind numerous works of his own authorship, and so subsequent generations do indeed recognize his name; however, few know about his work in the government as the headman of village administration during the Tokugawa era. After the Meiji Restoration, he was in charge of implementing land tax reforms in Sawara. It is also known that he went on to establish the financial administration of the new greater Sawara area, after it absorbed the surrounding villages. In addition, he oversaw the construction and improvement of roads connecting Sawara to the surrounding regions and funneled much of his own money into these projects.[7] Furthermore, he made generous donations to the construction of the new district office and police station. He adapted well to the demands of local government in post–Meiji Restoration society.

As for Kageharu, during the Tenpo Famine of 1836, he provided food relief each morning to some two hundred impoverished people and conducted other relief activities.[8] In 1861, a group of mutineers *(roushi)* from the Mito domain participated in an armed uprising in support of a campaign to revere the emperor and expel foreigners (the *sonnō-jōi* campaign). They murdered merchants in Sawara and demanded a large sum of money to finance their military efforts. Together with Hidekata, Kageharu negotiated with the mutineers while simultaneously petitioning the feudal lord to send retainers for their protection. He succeeded in resolving the problem and maintaining peace by taking defense measures on his own initiative, including the purchase of rifles. In his final years, his most significant achievement was the flood control work he undertook on the Tone River. Flooding was a serious and widespread problem for Sawara and its surrounding area. The river project expenses disbursed from the new external fund were used by Kageharu to conduct part of this flood control project.[9] The roles and functions that the internal reserved fund and the new external fund performed for the region were as an embodiment of the actions and initiative of Hidekata and Kageharu, who worked not only as chief managers, but also as merchants, domain inhabitants, and local notables.

CHANGES GENERATED IN THE OUTSOURCED LORD'S FINANCE

The outsourcing of fiscal management took place over a twenty-three-year period, from 1842 until the Tsuda family ceased to rule Sawara, in August 1864; the outsourcing of fiscal management was generally implemented as a reform measure to address financial crisis, and this was also true in the case of its implementation in Lord Tsuda's finance. In starting, the lord and the chief managers exchanged the contract. The contract stipulated that the chief managers were given complete discretion over where and how the annual tribute rice was sold, and how expenditures were disbursed in return for supplying a designated sum of money *(goyōdate-kin)* to the lord's residence in Edo.[10] In many cases, they sold the collected annual tribute rice for bidding in Sawara.[11]

In this outsourcing of fiscal management, the chief managers made Lord Tsuda's finance more beneficial to local inhabitants in the domain than their lord or merchants in the castle town, Edo. The chief managers' strategy for giving priority to local interests was based on four measures: (1) reduction in the lord's household expenses, (2) charging the "interest" only to lord's household expenses, (3) prior repayments to intradomain creditors, (4) the creation of an internal reserved fund.[12] Let us turn to an examination of each of these measures.

Reduction in the Lord's Household Expenses

The chief managers succeeded in reducing expenditure by more than 10% by cutting the lord's household expenses. Initially, they began to survey the fiscal health of the clan and domain and to plan in a detailed manner how to reduce its annual expenditures. The chief managers then investigated the amounts of annual income (annual tribute) from the previous twenty years and estimated standard annual revenues as about 1,931 *ryō* after considering changes in the rice price rate.[13] On the other hand, the chief managers lowered the salaries paid to retainers, maids, and servants working in Edo residences.[14] More importantly, following close inspection of the lord's daily life, he compelled the lord to accept changes that would lead to reductions in his living expenses. To achieve the objective of lowering annual expenditures, for example, the chief managers made the following demands of his lord.[15]

1. Anywhere the lord travels for the next three years must be by horse, and not by palanquin.
2. The lord, his family, retainer, and even his maids and servants must be dressed in low-priced clothes made of cotton.
3. The lord must take no more than fifteen baths per month.
4. Daily shopping is prohibited.
5. The sumptuous New Year's dinner must be served for no more than three days.
6. Firewood and charcoal must not be purchased in quantities exceeding those dictated by regulations.
7. One horse must be abandoned.
8. The lord and his family must live together on a single residence.
9. When a living residence can be sold at a high price, the lord must move to another residence, even if doing so is inconvenient.

By enacting these changes, the chief managers succeeded in reducing the lord's household expense by two hundred *ryō,* an amount equivalent to 10% of total annual expenditures (2,020 *ryō*). Consequently, they could estimate the standard annual expenditure as 1,820 *ryō* and generate fiscal surplus.

Charging the "Interest" Only to the Lord's Household Expenses

The chief managers separated lord's household expenses from domain administrative expenses, and seemed to treat the former as an unfavorable expense and the latter as a favorable one. This is because they consistently added a 10% extra charge, called "interest" *(rigin),* only to lord's household expenses in spite of not doing so to the domain administrative expense. In other words, they deducted about 10% from the lord's household expense.

What is "interest"? Why was it added? "Interest" was consistently recorded in tandem with the lord's household expense in the budget, account statement, and account book. For example, on April 2, 1855, the chief managers paid and remitted thirty *ryō* to the lord in Edo. In the account book, thirty *ryō* and forty-five *monme* (equivalent to 0.75 *ryō*) were accounted as the lord's household expense for October and the three months' worth of "interest". It is thought that "three months" refers to the time period extending until the December 31 fiscal year end.

The reason why the "interest" was added is that the lord's household expense was advanced to the lord before the annual tribute income came in. The lord's household expense was paid every month, but annual tribute income was received only between October and the following March. This time lag was covered by short-term debts from the syndicate group and so on. Strictly speaking, the chief managers borrowed the money needed for the lord's household expense to remit it to the lord and repaid it with "interest" after annual tribute income came in. It is thought that the "interest" was charged because it was the cost of financing the lord's household expense.

However, it should be noted that no such "interest" was added to the domain administrative expenses when the expenses were made in the same way prior to the fiscal year end. For example, in the account book, 1.0625 *ryō* was recorded on April 24, 1855, as the expense for planting the seedling needed to maintain the forest in the domain, but no interest was charged on this expense.

Why did such a difference arise between household expenses and administrative expenses? Unfortunately, the chief managers did not tell us the reason directly, but we need to consider for whom these expenses were used. The lord's household expense on which the interest was charged was used primarily to maintain the lord's daily life at the Edo residence—something that would not have been considered a domain administrative expense. The details of the lord's household expense could be revealed by the estimate of the standard expenditure, which the chief managers made at the beginning of the outsourcing. According to the estimate, of the standard expenditure of 1,820 *ryō,* salary wage paid to retainers, maids, and servants accounted for 35.2%, gifts or party expenses for 9.2%, and clothing, food, and other living expenses for 55.4%.[16] These were a cost needed for the lord, his family, retainers, maids, and servants, not for the domain inhabitants. Now, we should turn our attention to the sense of interest. In general, interest is something that occurs when different economic agents share a lending relationship.[17] Therefore, the existence of an extra charge called "interest" indicates that the chief manager separated the lord's household from civil administration and considered the former as a domain outsider (external affair).

Prior Repayments to Intradomain Creditors

The chief managers strove to cut expenditures related to the lord's household, while at the same time actively repaying and greatly reducing the debt load. It is noteworthy that they paid off debts to intradomain creditors first, to others later. To understand the scale and trends of the long-term debt obligations that the Tsuda clan faced, see figure 4, which shows its total outstanding debt as of 1852: it amounted to 7,009 *ryō.* As its annual income in 1854 was approximately 2,000 *ryō,* this means that the long-term debt in 1852 was about 3.7 times greater than its annual income. However, in 1864, its total outstanding debt was reduced by half, to 3,794 *ryō*—an amount roughly 1.4 times greater than the annual income. We can see clearly that the chief managers' handling of finances resulted in a consistent decline in long-term debt.

However, in examining the pattern of debt reduction by region, one can see that these debts were not uniformly reduced. The historical source for figure 4 is a document written by the chief managers themselves, and it classifies the debt obligations as intradomain (Sawara and Izu)[18] or extradomain (Edo). Of these, debt owed to villages that are intradomain, aside from an increase of about 639 *ryō* in 1857, consistently declined as well. With average annual repayments of approximately 170 *ryō* over thirteen years, as shown in figure 4, by 1864, the size of the debt shrank to one-fourth of the initial outstanding long-term debt.

In contrast, debts owed that are extradomain were repaid at a rate of 50 *ryō* per year. Allowing for increased borrowing due to new loans in 1853, 1854, and 1856, this repayment rate is lower than that at which debt owed to areas within the domain were paid back. Furthermore, although old debts can be considered very long-term debt, they were frequently amalgamated with the debt owed to creditors in Edo. It is therefore estimated that the majority of debt was owed, in regional terms, to the extradomain. Accordingly, when such old debts are factored in, the subordinate status of the debt to the extradomain in relationship to that owed to others becomes even more prominent. In examining the trends in outstanding long-term debt, one can surmise that the chief managers prioritized the repayment of debt owed to intradomain creditors over that of debt owed to extradomain creditors.

The Creation of an Internal Reserved Fund

The chief managers allocated fiscal surplus not only to debt repayment, but also to creating a fund separate from a general account. This, referred to as Betsukado Tsumioki-kin, was the internal reserved fund (IRF) formed by depositing the

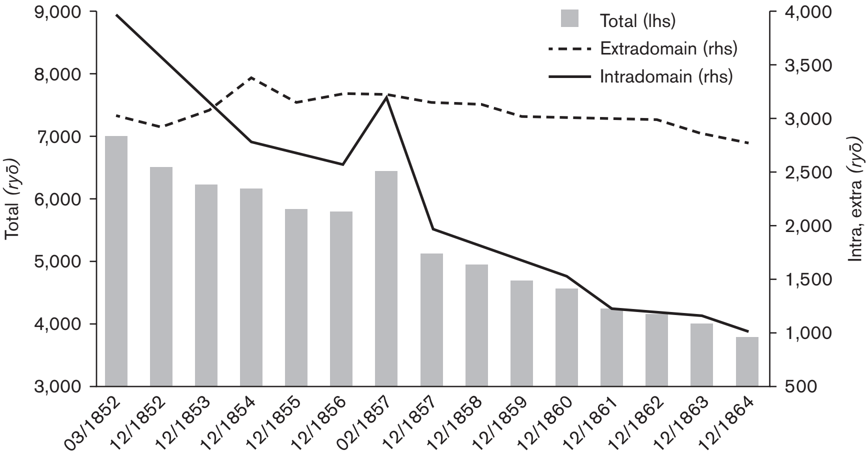

FIGURE 4. Outstanding Long-Term Debt
Source: The Archives of Seimiya Family, Bun 24–16.
Credit: Sakai 2014.

fiscal surplus, and kept and managed by the chief managers. This IRF had two roles: (a) lender who provided working capital needed to finance the lord's household expenses, (b) payer who spent on public goods for inhabitants living in the domain. Among these two roles, (a) is shown in figure 5 and figure 6, and (b) will be described in detail in the later section.

Figure 5 schematically illustrates the flow of funds in Lord Tsuda's finance. Referring to figure 5, let us further looking at figure 6. Figure 6 shows the quarterly balance of the cash flow statement on the general account of Lord Tsuda's finance in 1862. Importantly, the cash flow statement included the short-term debts, which were repaid within a fiscal year and were not accounted in the statement of account. An examination of figure 6 reveals that the remittances needed for the lord's household expense were paid every month in advance of the annual tribute income, which was received only between October and the following March. We can confirm that this time lag was covered by short-term debts from the syndicate group and the IRF. The syndicate group and the IRF were both repaid with interest of 10% per year when the annual tribute income came in. Strictly speaking, the short-term money from the syndicate group and the IRF was borrowed by the chief managers to send the lord's household expenses. In short, the syndicate group and the IRF financed the lord's household expenses through the chief manager. In examining the total amount of short-term debt paid each year from 1860 to 1864 from both the syndicate group and the IRF, we see that the syndicate group paid 72% of the total amount (9,628 *ryō*), and the IRF did 21%.[19] The syndicate group and the IRF played a critical role in providing the short-term money

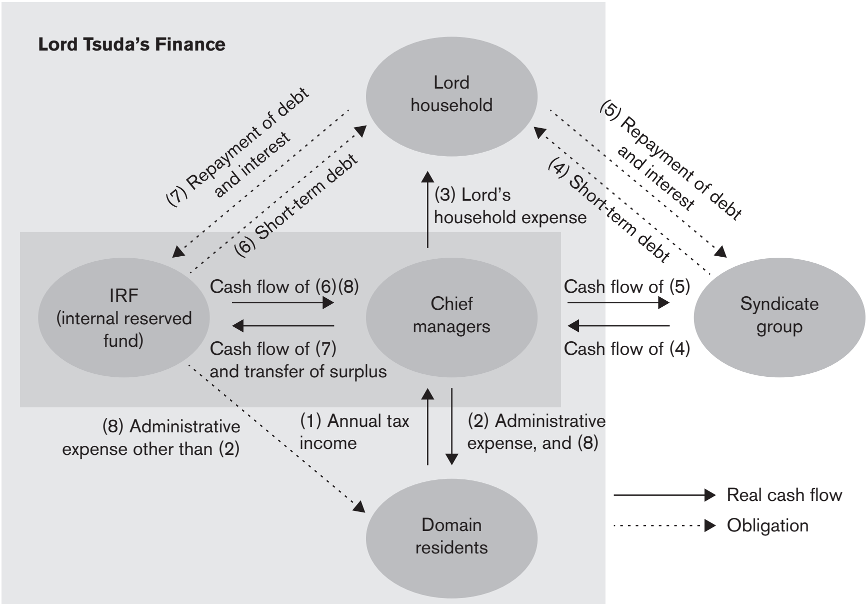

FIGURE 5. The Conceptual Diagram of Lord Tsuda's Finance
Credit: Sakai 2014.

needed to cover the lord's household expenses. In other words, the IRF formed in Lord Tsuda's finance functioned as a fictitious lender separately from the lord's household.

CREATION OF THE LOCAL "PUBLIC" FUND FOR PROVIDING PUBLIC GOODS

The Founding Source and Function of IRF

Then, what is the IRF used for? Where did the funds come from, and how were they used? In principle, it was the lord's deposit with the chief managers, but it was an involuntary deposit that the lord didn't have a free hand to control. Substantially, the IRF had the characteristic of the fund profitable for not only the lord but also local inhabitants. This will become apparent from the management and contents of the financial statements of the IRF. The asset and ledger of the IRF were kept by the chief managers. That ledger details the daily inflows and outflows of cash from 1842 until Sawara was no longer part of the Tsuda domain, in August 1864. Therefore, that ledger can make the balance sheet and profit and loss statement for the IRF. Table 4 shows balance sheet and profit and loss statement from 1842 to 1864.

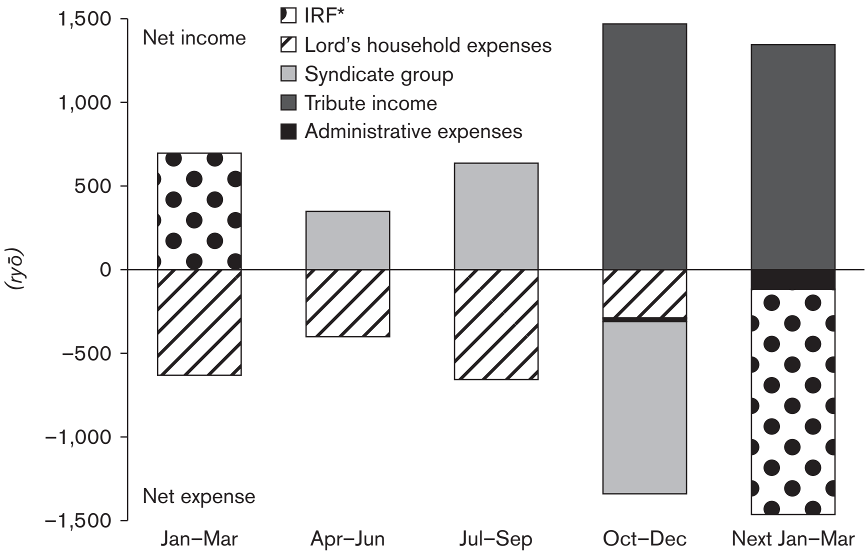

FIGURE 6. The Quarterly Balance of the Cash Flow on the General Account in 1862
Note: IRF includes the prior year fiscal surplus.
Source: The Archives of Seimiya Family, Bun 23–4.
Credit: Sakai 2014.

The net assets column of the balance sheet shows transfers from a general account surplus, as well as profit from the partial sale of rice deducted from the revenues in the general account statement. These were the primary funding sources of the IRF. Additionally, the assets and income columns show loans to the account for the lord's household and local merchants, suggesting that this was a money-making endeavor. The borrowers were primarily merchants like brewers and pawnbrokers in Sawara and wealthy farmers from the surrounding villages.

On the other hand, from the income statement you can see what the IRF was used for. The expenses column in the profit and loss statement of table 4 shows that 72.5% of the total revenue was spent from 1842 to 1864. Furthermore, in examining the breakdown of the expenses column 52.8% of the total expenses was used for long-term debt repayment, 23.3% was used for purchasing the military goods, and 20.4% was used for subsidies for the famine relief and civil engineering project in domain villages. This subsidy was obviously a public expense for the domain inhabitants, but what about other expenses? Based on the earlier-mentioned pattern of the long-term debt repayment, much of this repayment seems to be carried out against the intradomain creditors. In addition, the military goods were needed by the lord and retainers when they prepared for the defense against the arrival in 1853 of US Navy ships led by Matthew Perry,[20] and by the chief managers when preparing for the defense against the attack in 1861 of mutineers from the Mito domain. These expenses were omitted from the general account statement

TABLE 4. The Financial Statement of the IRF

Balance Sheet (August 1864)			
(unit: *ryō*)			
Assets		Liabilities	
Cash	66	Deposit payable	50
Short-term loans to the lord's household	1,152	Total liabilities	50
Long-term loans to the account for lord's household	100	Net assets	
Loans to local domain merchants	643	Fiscal surpluses from 1841 to 1863	789
Advance receivable	36	Profit from the sale of dedicated rice *(nengu)*	354
		(unknown)	500
		Net income	304
		Total net assets	1,947
Total assets	1,997	Total liabilities and net assets	1,997

NOTE: The unspecified loan had been recorded in the source at the beginning of a period. Thus, the author shows the loan as (unknown) in the net assets column.

Profit and Loss Statement (from June 1841 to August 1864)			
(unit: *ryō*)			
Expenses		Revenues	
Interest expense	22	Interest income gained from loans to the lord's household	175
Military goods	186	Interest income gained from loans to local domain merchants	903
Subsidies for the famine relief	143	Others	26
Subsidies for engineering project in domain villages	20		
Long-term debt repayment	422		
Others	7		
Total expenses	800		
Net income	304		
Total expenses and net income	1,104	Total revenues	1,104

SOURCE: The Archives of Seimiya Family, Bun 24–38, 24–40, 24–23, 24–41

and disbursed independent of the IRF. Considering the existence of the aforementioned expenses, it is likely that the IRF comprised fiscal surpluses generated by the chief managers during the fiscal management process, and that the fund was used to support the military activity and the civil administration.

From IRF to the Local Public Fund

What happened to the IRF after 1864? In August 1864, when Lord Tsuda ceased to rule Sawara the relationship between the chief managers and Lord Tsuda ceased to be one between a feudal lord and his subject. Thus, after that time, no new entries were made in the IRF ledger, which the chief managers kept. One concludes that the IRF left the hands of the chief managers and reverted to the lord. Is it true that the accumulated IRF money had disappeared in Sawara? The answer is no. Rather, a new local fund was restructured using the IRF as the funding source. In other words, the IRF effectively continued as a new local fund external to Lord Tsuda's finance, under a different name—namely, Sunshu-okatte Ingaikin.

In January 1865, the former lord Tsuda deposited seventeen hundred *ryō* (approximates to the net asset of the IRF, nineteen hundred *ryō*) with an annual 4% interest with the former chief managers, Kageharu and Hidekata.[21] They exchanged a contract for the deposit. This deposit became the founding source of the new local fund.

Why such a vast sum of money was deposited with former chief managers, instead of being invested elsewhere? The reason seems to be that Lord Tsuda could not take away this money from Kageharu and Hidekata due to their relationship built up over many years. As before, the former chief managers were still entrusted with the task of converting the annual tribute rice into money, which was primarily done in Sawara and in Choshi, the largest town in Shimosa province.[22] The direct funding source of the deposit was a portion of the money obtained from selling annual tribute rice extracted from the former Lord Tsuda's newly bestowed holding. Accordingly, they were the ones responsible for generating the seventeen hundred *ryō* in the first place. Had the outsourcing of the fiscal management system continued as before under the same framework, the seventeen hundred *ryō*—which was the annual tribute income—should have been returned to the IRF as a payment of short-term debt for remittance. It was better to keep the funds in the hands of the former chief managers. Wealthy farmers and merchants in the local domain were entrusted with these finance duties. In the process of performing these duties, they generated surpluses that they themselves oversaw and managed as a local fund. This historical experience shaped the former lord's subsequent financial management activities.

The deposit from the former lord had further increased to twenty-two hundred *ryō* by 1867.[23] However, it began to decrease after 1871 when the feudal domain system was abolished, and it shrank to one hundred *ryō* by 1875. From 1875 onward, the cumulative investment gains, which can be said to be equity capital, became major funding sources.[24] This fact indicates that the new local fund was external to the lord's finance.

The funds were used first to provide working capital to local merchants, and second to finance local public construction projects, including buildings and a civil engineering project on the rivers. Looking at the assets of the new local fund, somewhere from almost 70% to over 90% of them were allocated as loans to merchants in Sawara and the surrounding region;[25] this leads to the conclusion that this was the fund's primary purpose. Interestingly, the fact that most of the original capital for these loans came from deposits from the former lord was widely known among the merchants who were the recipients of this funding,[26] even well into the Meiji period in the 1880s. The existence of such financial basis seemed to be significant in providing liquidity and avoiding the shortage in the supply of working capital in the first half of Meiji period, when new financial institutions such as banks were established, while demand for funds was increasing due to the expansion of regional markets.

According to the detail of expenses, the new local fund was used to pay for the construction of Sawara's new police station in 1883. As one of Chiba prefecture's major towns, Sawara established a post office in 1872, the Katori district office in 1878, and the Kawasaki Bank in 1880 (Sawara town 1931). Sawara merchants made major contributions to these public building projects, in the forms of both land and money (Kawajiri 2003); however, the new local fund also played a role in subsidizing these projects. Furthermore, direct expenses related to a civil engineering project on the river were financed by the new local fund, between 1874 and 1881. This project rerouted the Tone River and constructed levies to prevent flooding. The river was dredged to allow ship access, and piping was laid and wells were dug to secure clean drinking water for the populace in the surrounding area. More than a total of 476 *ryō* had been spent for this project within seven years. Until a modern local administrative and financial system was established, the new local fund that was created by deposits from the former lord during the Edo period played no small role in the funding of the provision of local public goods, such as basic infrastructure. That is to say, this functioned as the local "public" fund.

We can confirm that the local notables to which the lord outsourced their fiscal management had structurally changed the fiscal system from something profitable for the feudal lord to something profitable for local inhabitants and regional society. This conclusion is supported by four notable findings—(1) reduction in the lord's household expenses, (2) charging the "interest" only to the lord's household expenses, (3) prior repayments to intradomain creditors, and (4) the creation of an internal reserved fund (IRF) generated by fiscal surplus.

With respect to (1) and (2), it was found that local notables had divided the lord's finance into two sectors—namely, the lord's household finance and the civil local (domain) finance—and tried to restrict the former. Furthermore, they reduced the lord's household expense, that is, salary wage, gifts or party expenses, and clothing or food, as well as other living expenses of the lord, his family, retainers, maids, and servants in the Edo residence.

Then, as the (3) finding indicates, all of this resulted in generating a fiscal surplus and local notables allocated most of the surplus to the active repayment of debts. However, they prioritized debt repayments to intradomain creditors, and repaid only a little money borrowed from extradomain creditors. In other words, these changes can be regarded as the local notable's attempt to prevent outflows of money to extradomain areas, including merchants in the castle town (Edo) and the lord's household, and instead retain them to accumulate money within the local domain.

This attempt also relates to (4). Some of fiscal surplus was reserved in local notables' hands to create the IRF: a deposit that was controlled and managed by them, and augmented by reinvesting in local merchants and their lord, rather than increase fiscal expenditures. In addition, this fund, which was managed separately from the general account and the lord's household, also provided the money needed to finance the military activities, civil engineering, or relief projects for domain inhabitants. That is, this fund worked to finance public goods provision.

As the IRF also had certain benefits for the feudal lord, its academic evaluations have not necessarily been uniform. However, the current study emphasizes that the lord did not have a free hand in managing these funds, which served as an involuntary deposit. The lord's ownership and use of this fund were restricted, and its management was strongly controlled through the will of local notables.[27] In this respect, the IRF had the characteristic of a local fund, rather than the lord's household fund. Therefore, even after the feudal lord–subject relationship was dissolved, a new local fund was re-created outside Lord Tsuda's finance, and the large amount of money accumulated within the old fund (IRF) was retained in the reginal society, well into the Meiji period. Furthermore, this money played more significant role in the provision of local public goods, such as public building projects or civil engineering projects.

On the other hand, feudal lords often entrusted some tasks of managing their finance to the wealthy financial merchants in Osaka or Edo, and some of these merchants also created reserved funds like the IRF (Takatsuki 2014). However, the fund created by them didn't finance local (domain) public goods and were never preserved in their hands after the Meiji Restoration. This difference in two reserved funds can be recognized as the difference of statue and purpose between wealthy financial merchants and local notables. Whereas wealthy financial merchants were only fiscal managers, local notables were not only fiscal managers but also local inhabitants and local administrators. Local notables had a direct responsibility to sustain the other local inhabitants and regional society and worked as substitutes for their lords in providing public goods.

In summary, local notables' intervention into the lord's finance draws a clearer distinct line between the lord's household finance and the civil local (domain) finance, and then generates a fiscal surplus by reducing the amount of money supplied to the lord, instead reserving it to create a local fund for providing public goods. Through this process—which may be understood as a silent conflict between the feudal lord and the local notables—they converted the lord's finance to a financial basis for the provision of public goods for the local inhabitants. This diversion can be recognized as one of the paths to the formation of the local public finance in the early modern Japan.

NOTES

1. In recent research, the effective national (Tokugawa shogunate) tax rate per gross agricultural product is estimated to decrease from 40% to less than 30% during the period from the mid-seventeenth century to the mid-nineteenth century, and per gross domestic product (GDP) from 30% to 16%–17% during the same period (Imamura and Nakabayashi 2017).

2. The size of a domain was measured in the income it was expected to produce, which was calculated in units of rice (i.e., *koku,* which is equal to one hundred liters of rice).

3. The archives of Seimiya family, Bun 4c–18. (This copy is preserved in Chiba Prefectural Archives.)

4. Seimiya, Bun 4c–12.

5. In 1810, the number of households is 1,301, the population is 5,335 people; in 1873 the number of households is 1,415, the population is 6,411. Generally, it is said that in Tokugawa Japan the average number of households in the village is one hundred and the average population is four hundred people (Watanabe 2008). The number of households and population of Sawara village is quite large compared to that of a standard village.

6. In 1864, as the lord levied a bond of about ten thousand *ryō* upon Sawara, they expended 75% (Sakurashi-shi Hensan Iinkai 1971).

7. Hidekata was awarded by Nīhari prefectural government in 1889 (Seimiya, Butsu7–54–14).

8. The archives of Inō family (Now preserved in National Museum of Japanese History), C-19.

9. Kageharu was awarded a type of medal with blue ribbon (for distinguished service in social and public works) by Meiji government in 1889 (Inō, E26–3).

10. Seimiya, Bun 4c-63–4.

11. The primary purchasers of the annual tribute rice—which constituted the bulk of this income—were Sawara's sake brewers and rice merchants (Seimiya, Bun 22–15, Bun 34–3–3, Bun 34–3–9, Bun 34–3–13, Bun 3–13–18, Bun 13–3–23). Aside from the chief managers, the existence of the Sawara merchants was extremely important to the outsourcing of fiscal management duties within the Tsuda domain.

12. If you want to confirm the detail and evidences, refer to Sakai 2014.

13. Seimiya, Butsu 2–57–4.

14. Seimiya, Butsu 4–57–1.

15. Seimiya, Bun 4c–63–4.

16. Seimiya, Butsu 2–57–1.

17. As compared with the contemporary corporate accounting, we can recognize this charge as the "internal interest" of the divisional performance. In addition, "internal interest" and the divisional system were observed in the accounting of wealthy merchants in early modern Japan (Nishikawa 1995).

18. Both Sawara and Izu were villages in Lord Tsuda's domain, but the chief managers didn't live in Izu. Therefore, they wrote in a distinction between Sawara and Izu.

19. Seimiya, Bun 23–5, Bun 23–6.

20. The Lord Tsuda and retainers armed themselves for the battle against the US Navy by the shogun's order (Inō, C–19).

21. Seimiya, Bun 3–10–32–4.

22. Seimiya, Butsu 2–44–1.

23. Inō, A42.

24. Inō, K369–1.

25. Inō, K369–1.

26. Inō, K539–2.

27. The recent studies in *daimyō* lord's finance has also revealed the existence of an IRF (Itō 2014). However, the IRF of *daimyō* lord's finance was controlled not by local notables (the governed) but by samurai (the governor).

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