The Origin of the Corporation in Meiji Japan

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Abstract

The joint stock company system in Japan was a system transplanted from the West approximately 130 years ago under the economic policy of the Meiji government. The paper examines the process of the introduction and establishment of this system, particularly focusing on the concept of "shareholders' limited liability" which is an indispensable prerequisite of joint stock companies. By the shareholder's limited liability system, stocks can be freely bought and sold, which in turn serves to separate ownership and management on the joint stock company. The paper analyzes the actual stock trading of companies representative of Japan at that time. In that time Japan didn't have modern general law include commercial law, but by about 1887 many ordinary firms, in addition to the banks and companies formed by government decrees and orders, adopted the joint stock company organization both in name and in reality. As a result, it is clear that the joint stock company system was firmly taken root several years before the enactment of the Commercial Law in 1893.

In Britain, approximately 600 years had been required for the transition from merchants' guilds to the birth of joint stock companies (The English East India Company, etc.). But in Japan companies that provided for shareholders' limited liability were set up as a system in the short span of twenty years following the first transplantation of the concept to Japan in 1869.

In addition, the paper examines the development of the organization of management in Meiji Japan.

1. Introduction

In this paper I will examine the background against which the joint stock company system of the west was transplanted to Japan, and the sequence of events following the transfer until the system was firmly established. While looking at these events I will elucidate the process that established one of the most important prerequisites for the joint stock company = the concept of limited liability = by examining the actual conditions of stock transactions. In addition, through an investigation of factors such as rules and regulations and companies' articles of association I will shed light on the process by which management organizations, another prerequisite for the joint stock company, were formed.

The joint stock company system that has become the pillar of Japan's manufacturing system was not formed and developed from Japan's traditional business practices. It was a western system transplanted to Japan by policy of the Meiji government, in order to build a modern nation. To achieve the national policy of "Fukoku kyohei" (rich country strong military), the Meiji government chose to a create an industrial nation based upon capitalism, the economic system of the leading advanced nations of the west. For its purposes the government decided to adopt the "Gappon" (joint stock company) for the manufacturing industries that had to be established with large amounts of capital raised from joint stock issues.

The process of transferring this system to Japan can be divided into an introductory phase, an initial transplantation phase, and a second transplantation phase, which were followed by a development phase. The introductory phase spanned the final days of the Tokugawa government and initial years of the Meiji era, when details of western companies were introduced by pioneering individuals and tentative steps were taken to establish a joint stock system. The initial transplantation phase was the period when Kawase Kaisha (exchange bank) and Thusho Kaisha (trade company) were established under the instruction and guidance of the Meiji government (began in 1869) in imitation of structure of western banks. The second transplantation phase was the stage in which the government enacted the Kokuritsu Ginko Jourei (National Bank Regulations) (1872), based upon the national banking law in the United States, followed by the establishment of the Daiichi Kokuritsu Ginko (Daiichi National Bank) (1873) in accordance with the same regulations. The final phase was the period between the establishment of the Daiichi Kokuritsu Ginko and the enactment of the Commercial Law (1893), when private banks and ordinary companies grew at their own expense while studying the systems found in Europe and the U.S. These banks and companies paralleled the trend to set up a Kokuritsu Ginko (national bank) in each region of the country.

A voluminous amount of research has been conducted in the past regarding this process of introducing and transplanting the joint stock company to Japan, and the history of this period is well understood. In contrast, however, it cannot be said that the sequence of events regarding the introduction and establishment of "shareholders' limited liability", one of the indispensable prerequisites of the joint stock company, has been well understood. In this paper, therefore, I will examine the process that occurred following the transplant of joint stock companies to Japan until such companies were firmly established, by focusing on shareholders' limited liability. Legally, regulations governing shareholders' liability first appeared in the Kokuritsu Ginko Jourei (National Bank Regulations) enacted in 1872. Research concerning shareholders' liability, for companies founded during the period following the establishment of Kokuritsu Ginko (national banks) according to these regulations until the passage of the Commercial Law in 1893, has mostly been confined to investigations concerning provisions found in articles of association.

Shareholders' limited liability and the free buying and selling of stock shares are separate but interdependent concepts. The fact that this relationship between the two concepts is organically reconciled is an essential precondition for maintaining the joint stock company mechanism. By creating the shareholders' limited liability system, stocks can be freely bought and sold, which in turn serves to separate capital (ownership) and management. We should think that by first laying this groundwork as the basic prerequisite for the joint stock company, the first two premises have a separate but interdependent and the third premise has a mutually logical relationship with the first two. Accordingly, in this paper I will investigate the course of events during the period from the final days of the "Tokugawa" regime until the creation of the Daiichi Kokuritsu Ginko, using documents and various historical materials to examine the presence of the shareholders' liability concept. Next I will clarify the separate but interdependent relationship between shareholders' limited liability and the free purchase and sale of stocks by analyzing the actual circumstances of changes to shareholders (stock shares) of large enterprises following the establishment of the Daiichi Kokuritsu Ginko. Finally, I will elucidate the process by which the shareholders' limited liability system = that is to say, the joint stock company system = became entrenched. As noted earlier I also will show the process by which management institutions were formed through an examination of regulations and articles of association.

In this research I will assume that the basic prerequisites of the joint stock company are (1) management by the board of directors, (2) free selling and buying of shares, and (3) shareholders' limited liability. I will advance my research based upon these concepts. But because the limited liability system in particular does not stop at provisions in the articles of association, I will extend my analysis to examine how it formed from within company management as well as the actual circumstances of transactions. As the time period for my research I will use the years of explosive business formation from the final years of the Tokugawa government (1850s) until the time when the limited liability system was firmly established about 1887. As the subjects of my research I will use various pioneering companies from the end of the Tokugawa period and various companies that were established with the direction and assistance of the Meiji government. In particular I will examine primary historical materials from the Daiichi Kokuritsu Ginko, the Tokyo Kaijo Hoken Kaisha (Tokyo Marine Insurance Company_and the Nippon Yusen Kaisha (Nippon Yusen Company), companies that were representative of Japan during these years and that received considerable attention from the Meiji government.

2. The Study and Introduction of Information Concerning Western Economic and Businesses

2-1. The introductory phase

Although Japan had long continued a closed-port policy of national isolation, based upon the Treaty of Peace and Amity between the United States of America and the Empire of Japan in 1854 and the Treaty of Amity and Commerce between the United States of America and the Empire of Japan in 1858, the government changed its policy to opening the country and concluded similar treaties with Great Britain, France, the Netherlands and Russia. Based upon the Treaty of Amity and Commerce between the United States and the Empire of Japan, the ports of Kanagawa, Hakodate and Nagasaki were opened to the various countries in 1859. Because Japan until this time had maintained a closed-port policy with the exception of trade with China and the Netherlands, which was confined to the port of Nagasaki, scant opportunities existed to absorb accurate knowledge about western economics and businesses. Countries such as Great Britain, France and the United States, on the other hand, that were among the western nations pressing Japan to open its ports, had already completed their industrial revolution and were seeking world markets for the large quantities of manufactured goods pouring out of their factory base. Japan was pulled in as one country in their global market. Foreign businessmen who arrived by ship in Japan and engaged in commerce based on large amounts of capital from joint stock organizations turned Japan into another of their profit-making territories. Although wealthy merchants such as the House of Mitsui and the House of Ono that pooled the capital of family clans existed in Japan, without exception these merchants followed of a "single family, single business" philosophy. There was no business tradition of pooling capital with the capital of other individuals.

It was under such conditions that introductory texts of western economic conditions and joint stock companies were published between the last years of the Tokugawa government and the early Meiji (1869) by such pioneers as Yukichi Fukuzawa, Joun Kurimoto, and Jiro Yoshida, all of whom traveled to the United States or Europe as members of the diplomatic missions at the end of the Tokugawa era. Although these texts were based on the observations of young men with no deep specialized knowledge of their topics, the books were favorably acclaimed by individuals who wanted to learn about the situation in the west.

2-2. The introduction of the "Gappon" (joint stock companies)

The first efforts to establish "Gappon" (joint stock companies) in Japan like those observed in the west were undertaken in the final years of the Tokugawa government and the first year of the Meiji era. Let us examine the organization and other characteristics of these companies by looking at an actual example.

(a) Hyogo Shosha (June, 1867)

In preparation for opening up the port of Hyogo, a company called Hyogo Shosha was established in June 1867 under the initiative of Tadamasa Oguri, the Tokugawa government's "Kanjo Bugyo" (Magistrate of the Treasury). The company was a joint stock association formed mainly by wealthy merchants in Osaka to engage in trade and finance. The objective for creating the company was to establish a joint stock organization similar to western companies in order to compete with well-capitalized foreign merchants, plan the promotion and control of trade, and provide capital to open Hyogo harbor by using for the wealthy merchant families in Osaka to supplement the inadequate financial resources of the Tokugawa government.

In return for the capital provided to open the port, the company was authorized to issue convertible paper notes as business capital. Because the government was dissolved before the company began trade and other operations that accompanied the opening of the port, however, the company was unable to engage in business and disbanded. The officers of the company including the "toudori" (president), the "kimoiri" (director), and the "sewayaku" (executive manager) were all nominated by government order. At the time the company was established 20 individuals were nominated, including Zenemon Yamanaka, Kyuemon Hiraoka, and Sakubee Nagata as the "toudori" (president), Heiemon Tonomura, and 5 others as the "kimoiri" (director), and Shobee Nakahara and 10 others as the "sewayaku" (executive manager).(1) All of these individuals were wealthy merchants, being mainly merchant bankers in Osaka, and were appointed to positions according to the amount of money that they provided for the business. The management at the time the company was established, however, was to be carried out according to the instructions of Saburobee Isagawa, the representative of the government who took orders from Tadamasa Oguri. (2)

Moreover, the point of the convertible paper issue that provided the business capital was that it was not issued in the company's name but in the name and responsibility of each merchant according to the amounts of money provided. Therefore nothing prevents us from thinking of this as a concept whereby the business was to be conducted by pooling the capital of all individuals who made up the same trading company. Accordingly, I may conjecture that the function of all officers, beginning with the "toudori" (president),was no more than performing activities such as negotiating with the government about the funds to be provided and the proportion of money the government would receive. Judging from these facts, the concept of management based upon a management structure did not exist at this company, nor can the concept of free buying and selling of stock and shareholders' liabilities be observed. Given this situation I may state that this company was merely a "Nakama kumiai" (guild-like union) formed by merchants to provide funds to open up the port.

(b) Shoho Kaisho of the Shizuoka han (January 1869)

At the advice of Eiichi Shibusawa following his return from Paris, a Company called Shizuoka Shoho Kaisho was established in January 1869 by pooling the Shizuoka han's (feudal clan) funds and subscription funds raised from within the domain based upon loans from the government. The focus of the company was loans to growing businesses to increase output, savings, and the purchase and sale of staple products of the inside and outside of the clan's area of jurisdiction. Although the capital structure was partly public and partly private, in addition to successfully pooling capital it was also a business success. The fact that the company's methods of purchase and sale, profit distributions, rate of interest on savings, loans and other information were codified as the "Shoho Kaisho Kisoku" (Shoho Kaisho Rules)(3) in the first year of the Meiji era can be highly regarded.

As the company's officers Shiro Hiraoka and Naosuke Oguri were nominated as the "okanjokumi kashira" (president) and Eiichi Shibusawa was nominated as the "kanjokumi kashirakaku" (deputy president) at the order of the clan. (4) Although regulations concerning the officers' work functions were not set forth, Shibusawa presided over most of the actual business. Because of the fact that management was carried out by Ichioh Ohkubo, the "churo" (senior retainer) with the most important role in the Shizuoka clan (5), however, it is hard to claim that management was not colored by management of the clan or that management was conducted under a management organization. Moreover, there existed no concept regarding the buying and selling of shares, the activity lacked the principal of constant capital because anyone was permitted to withdraw his funds during the business' existence, and shareholder liability was unlimited. The concept of limited shareholder liability can still not be found.

3. The initial transplantation phase

Osaka Kawase Kaisha (Osaka Exchange Bank) (August, 1869)

Based upon the direction and instructions of the Meiji government's "Tsushoshi" (Magistrate of Trade and Finance) around May and June of 1869, Kawase Kaisha (exchange bank) and Tsusho Kaisha (trade company) were established in the eight open ports in Japan. These companies were founded for the purpose of promoting domestic business and foreign trade and to improve the flow of capital. The Kawase Kaisha specifically were established in imitation of western banking system. Wealthy merchants were the principal source of capital for these companies in their respective port cities. The relationship between the Kawae Kaisha and the Tsusho Kaisha was much like two wheels on a cart = the equity capital of the Tsusho Kaisha was deposited with the Kawase Kaisha, which in turn provided loans for the various companies operating under the umbrella of the Tsusho Kaisha. Following management failures at both organizations, these companies were disbanded when the Kokuritsu Ginko (national bank) were established beginning in 1873. Because the Kawase Kaisha and the Tsusho Kaisha that were established in each open port had been founded in accordance with the regulatory manual published by the government (6), their organizations were the same. Let us examine that organization now, taking up the actual example of the Osaka Kawase Kaisha (Osaka Exchange Bank) (founded in August 1869), for which many original resources are extant. Although the bank managed businesses such as deposits, loans and foreign exchange in the manner of present-day banks, like special banks it issued convertible notes to raise its business capital.

The management of the Osaka Kawase Kaisha included the "sou toudori" (president), the "toudori nami" (deputy president), and the "kawasekata" (director), all of whom were nominated by official orders. Ten individuals including Motonosuke Mitsui, Zensuke Ono, Zenemon Yamanaka and Hachirozaemon Shimada were nominated as the "sou toudori" (president). Of these, Mitsui, Ono and Shimada were nominated in their capacity as the "bantou" (manager) of their respective business houses (e.g., the House of Mitsui). The business functions of the officers were not stipulated by regulations. But all of the presidents jointly signed for important matters of the company and were collectively responsible. Each president individually decided upon all other matters that were his direct responsibility. The deputy presidents and directors were mainly responsible for business activities within the company. For each of the three top positions indicated above, ten individuals were selected from officers each month to carry out business. Those individuals among the "toudori" (president) who were not selected to be present acted in a capacity as "tedai" (assistant manager) of their respective house.

Among the employees "torishimari" who was equivalent to the section chief manager was assigned to the top position. Individuals such as the "tedai" (assistant manager) of the "sou- toudori" (president) were appointed to this position and were responsible for the various activities classified as in-house regulations, supervision of bank note production, supervision of gold note conversion procedures, lending supervision, and so on. In addition, an in-house council equivalent to a general meeting of shareholders was convened as the organ for deliberating important matters. (7) Because of the fact that all of the "sou-toudori" (president) and all of the "torishimari" (section chief manager) signed and put their seal impression on the accounting reports (Record of Accounting) presented to the government (8), this can be viewed as the equivalent of the "sou-toudori" (president) signing and putting his seal on the document as the head of the company and each "torishimari" (section chief manager) signing and putting his seal on the document as the person in charge of the various activities they supervised. Although the three top levels of officers such as the "sou- toudori" (president) were nominated by Government's order and performed their duties on the basis of monthly rotations, this doesn't prevent us from regarding the functions listed above and the accounting report form as indicative of a management organization within the company.

The responsibilities of the shareholders were not touched upon in the "Kawase Kaisha Kisoku" (Exchange Company Rules)(hereafter, Rules). A background check when an individual entered the company (i.e., when a new person provided capital) (Rules, Article 14) and prior approval from the company for selling and buying shares (Rules, Article 8) were required, however. Because of the fact that these formalities can be regarded as an investigation into whether the person had the ability to make payment for the company's liabilities, I may conclude that the company shareholders' liabilities were unlimited. Moreover, with regard to the reform of the Kawase Kaisha that accompanied the official announcement of the "Kokuritsu Ginko Jorei" (National Bank Regulations), in Article 2. (9) of the contract agreement "Kawae Kaisha no Hentai nikansuru Keiyakusho" (Amended Rules for Exchange Companies) entered into by Government's high officer Kaoru Inoue in 1873 as well, the liability of shareholders was unlimited.

We should not regard the three important prerequisites of the joint stock company = the existence of a management organization, the free trading of shares and shareholders' limited liability = as characteristics independent of one another. Rather we should think of them as having a mutually logical relationship. Accordingly, although the existence of a management organization at the company was noted earlier, given the fact that the free trading of shares was restricted and the fact that shareholders' liability was unlimited, I still cannot say that the company had reached a pure join stock company form.

4. The second transplantation phase

4-1. The enactment of the Kokuritsu Ginko Jorei (National Bank Regulations)

The smooth circulation of capital funds was an indispensable prerequisite for designing the national policy of "Fukoku kyohei" (rich country strong military) and "Shokusan kogyo"

(encouragement of new industry). For this reason, following the failure of the Kawase Kaisha (exchange bank) that imitated western banking system under the direction of the Meiji government, the creation of a modern bank in order to reform the currency system and provide capital to manufacturing became an urgent matter.

Based on the aggressive proposals of Government high officer Hirobumi Ito, the "Kokuritsu Ginko Jorei" (National Bank Regulations) (hereafter, Regulations) were enacted in November 1872 based on the American national bank system model with its joint stock company structure. Because it was similar to the special rights law (commonly known as the National Currency Act) that established the same kind of bank system in the U.S. and enacted the same regulations, it simultaneously transplanted the banking system and the joint stock corporation system to Japan from the U.S.

The "Shihei Jorei" (Paper Currency Regulations), the rough draft of the Regulations that were adopted, was based on the original text of the U.S. National Currency Act of 1863 (10), with portions revised to fit the national conditions in Japan. Comparative research on both documents shows that in the U.S. Act, shareholders' liability was regulated by a guarantee limit to twice the total investment balance (Article 12). In contrast, in the Shihei Jorei shareholders' liability was regulated in principle to an obligation in proportion to the total investment balance, making shareholders' liability unlimited. With regard to the election of management officers and the free buying and selling of shares, the Shihei Jorei were similar to the American act.

In the Regulations, however, a provision was attached (Article 5, Section 3) requiring prior approval from the "toudori" (president)and the "torishimariyaku" (director) when buying or selling shares, and the following three types of responsibilities as well were enumerated with regard to shareholders' liabilities.

(a) The obligation to bear bank profits and losses in proportion to the total investment balance. (Regulations, Article 5, Section 5)

(b) With regard to mistakes in the conversion of notes, taking deposits, and in relation to exchange bills and written bills, shareholders must temporarily pay in proportion to their total investment balance. (Regulations, Article 11, Section 5)

(c) In the event of bankruptcy of the bank, shareholders will be responsible to the extent of their total investment balance. (Regulations, Article 18, Section 12)

With regard to shareholders' liability as stipulated by these Regulations, some scholars have expressed the opinion that these create limited liability. Others are of the opinion that the provisions in (b) set restrictions on limited liability to a certain extent, and still others assert that the provisions contain contradictions that make it difficult to recognize limited liability and thus resulted in unlimited liability. With regard to how the above shareholders' liability provisions were understood by the parties they regulated, I will make this clear in the next section by taking up and analyzing the actual changes in the shareholders of the Daiichi Kokuritsu Ginko (Daiichi National Bank), which was established in accordance with these regulations. Furthermore, with regard to the prior approval terms and conditions for the stock as well, I will clarify how this was handled under actual management conditions.

As the management organ of the Kokuritsu Ginko (National Bank), three top levels officers were nominated as the "toudori" (president), the "fuku toudori" (deputy president), and the "torishimariyaku" (director). According to the stipulated nominating procedure for these individuals, five or more individuals from among those shareholders with thirty or more shares were nominated as the "torishimariyaku" (director) at the general meeting of the shareholders. (Regulations, Article 3, Section 2, Article 2, Sections 4 and 5). One individual each would then be elected as the "toudori" and the "fuku toudori" through consultation among the "torishimariyaku" . (Kokuritu Ginko Seiki_Enforcement of National Bank Regulations (hereafter, Enforcement), Teikan Bunrei_Form of Articles of Association, Article 6). In addition, provision was made for the "torishimariyaku" to elect managers such as the "shihainin" (chief manager) and the "kaikeiyaku" (accountant) to handle the actual duties of the bank. (Regulations, Article 4, Section 3)

The following provisions were made regarding the professional ability of the officers and the "shihainin" (chief manager).

_The limitations on the official authority of the "toudori" (president) and the "torishimariyaku" (director) will be stipulated in the Articles of Association and the Moshiai Kisoku (Rules of respective bank). (Regulations, Article 4, Section 7)

_The "toudori" will be responsible for the overall operation of the business of the bank. However, matters such as new business proposals and expenditures of an unprecedented nature shall be decided based upon consultation among the "torishimariyaku" . (Enforcement, Form of the Rules of respective bank, Article 8)

_The "fuku toudori" (deputy president) will act to fulfill the president's duties when the president himself is unable to do so. (Enforcement, Form of Articles of Association, Article 6)

_The "torishimariyaku" are authorized to appoint managers for work under the "shihainin" (chief manager) as described earlier and administer personnel matters, in addition to being responsible for their duties according to the Regulations. (Regulations, Article 4, Section 3. Enforcement, Form of Articles of Association, Article 6)

_The "shihainin" shall have the responsibility for money and valuables deposited with the bank, and shall carry out disbursements according to the directives of the "toudori" and "torishimariyaku" or the instructions of someone who has received such directives. (Enforcement, Form of Rules of respective bank, Article 7)

Normally the "shihainin" occupied the highest position of all employees and was selected from among individuals having a great deal of knowledge and experience in the actual business. His salary was the highest after that of the "toudori" , exceeding the salaries of the "torishimariyaku" . The "torishimariyaku" who served at the time were merely the large shareholders, and their positions did not mean they possessed specialized knowledge concerning the business or even that they worked full time. On the other hand, even if not stipulated in the Articles of Association or the Rules of respective bank, the "shihainin" was in fact advisor to the "toudori" and can be regarded as having responsibilities for management of the business in the same manner as the full-time directors. From the fact too that both the "toudori" and the "shihainin" signed and put their seal impressions on the convertible notes issued by their bank, we can see the serious responsibilities related to the "shihainin's" actual work. From these duties we can grasp that a management structure did exist at the Kokuritsu Ginko (national bank) established in accordance with the Regulations.

The "shihainin" system did not have any relationship with capital funding under the commercial family management of the Edo period. Rather it grew from the custom of leaving the entire management of a store to a "bantou" (manager) who had special knowledge and a wealth of experience concerning the family business. Moreover, in a manufacturing business the "gishichou" (chief manager of engineering) was selected as the person responsible for technical matters. Following enactment of the Commercial Law in 1893, it became possible for directors to use their autonomous authority to select someone from among themselves to act as the "senmu torishimariyaku" (full-time managing director) (Commercial Law of 1893, Article 185). This selection of "senmu torishimariyaku" was a change intended to allow a director to act under the president to take responsibility for all of the top activities of the company. (11) With this, the "shihainin" system was developed, and a system that included the "shachou or toudori" (president), the "senmu torishimariyaku" (full-time managing director), and the "torishimariyaku" (director) was formed as the organ of management. This provision for the "senmu torishimariyaku" was eliminated with the new Commercial Law in 1899, and made a fixed item of each company's articles of association. Around the end of the Meiji era (which ended in 1912) the position of "joumu torishimariyaku" (managing director) was set up, and a management structure consisting of the "shachou or toudori" (president), the "senmu torishimariyaku" (senior managing director), the "joumu torishimariyaku" (managing director) and the "torishimariyaku" (director) soon proliferated and still exists today. Today it is the general practice for companies to set up a "joumu kai" (board of managing directors), consisting of the president, senior managing directors and managing directors, as well as a "torishimariyaku kai" (board of directors), comprised of the president and all of the directors, as the organizations for deciding a company's intentions with respect to business.

Finally, I would like to touch upon the significance of the Regulations. As noted earlier, because of the fact that the regulations was a special law providing the specifics for both the banking system and the joint stock company organization in an age when there was no modern commercial law, the Kokuritsu Ginko (national bank) established in every part of Japan were regulated and protected by these regulations. As a result, until 1979 all of the 153 banks that were established in the principal regions of every prefecture have the same joint stock company form, and played an important role as a model for the organization of commercial and manufacturing companies set up afterwards in each region. In an age when the communication of information was inadequate, the fact that Kokuritsu Ginko were set up as working examples in every part of the country was, I believe, extremely effective for setting the course of manufacturing at the start of the Meiji era. On the basis of this one may say that the Regulations was a special rights law that had tremendously important significance for delineating one phase in the history of Japan's financial system and legal system and the history of Japan's social and business development.

Moreover, although one might assume from the name "Kokuritsu Ginko" (national bank) that these were banks established with government funding, in fact private individuals established the banks in compliance with national regulations. The national banks in the U.S. that were copied in Japan were banks with a joint stock company structure, established by national law in contrast with to state banks that were founded according to the laws of each state in the U.S. Accordingly, when the Regulations was enacted and the words "Kokuho Ginko" (national law bank) where translated, the phrase was translated as "national bank" and the banks christened Kokuritsu Ginko (national bank).

4-2 Daiichi Kokuritsu Ginko

The Daiichi Kokuritsu Ginko (Daiichi National Bank) was established in July 1873 as Japan's first national bank. The House of Mitsui and the House of Ono each provided one million yen in capital, and together with nearly \500,000 raised by public subscription the bank had equity capital of \2,440,800 (\100 per share, total of 24,408 shares). The bank had 71 shareholders, from all parts of Japan. Although the character of the Kokuritsu Ginko was largely regional in nature, we should nevertheless note the fact that in contrast the bank did business throughout Japan immediately after it opened its doors. The number of shareholders grew each year, reaching 309 shareholders by the end of 1879.

The bank had dual characteristics as a special bank that issued convertible notes and as an ordinary bank that conducted business such as taking deposits, making loans, and handling foreign exchange.

In this section, I will explain how the Kokuritsu Ginko Jorei (national bank regulations --hereafter, Regulations) posed problems in the form of shareholders' liability and the actual limitations on the buying and selling of shares, based on the following reasoning and procedure.

The unlimited obligation to guaranty the liabilities of the partner using all of one's personal assets is in reality an extremely heavy burden. What is more, in the case where the partner that guarantees those liabilities is a company conducting a business, in many situations it will be impossible to estimate the financial amount. In addition, in a period of instability and rapid change like the beginning of the Meiji era, we can surmise that no one would buy or sell the shares of an unlimited liability company except for individuals who had some special relationship with the company or some special purpose. Moreover, in order to maintain the principle of no negative change in capital, when share trading is approved as an alternative to not returning paid-in capital a system to limit the liability of shareholders and allow the free trading of shares will be required whenever someone wishes to withdraw (Regulations, Article 5, Section 7). At the start of the Meiji era when knowledge about joint stock companies was still not widely known, trying to determine from the small number of stock trade precedents whether or not there existed any concept of shareholders' limited liability is problematic. But when companies authorized the trading of their shares through regulation or their articles of association, and stipulated provisions to limit shareholders' liability, and there were numerous examples of the buying and selling of its shares throughout Japan by various special interests, then I believe that nothing prevents us from concluding that the concept of shareholders' limited liability was understood between the parties involved. The fact that shares were bought and sold at a stock exchange serves as a system to given testimony to the fact that shareholders' limited liability and the free buying and selling of shares had a relationship that was separate but interdependent.

Based upon the above line of reasoning, I investigated the previously mentioned form of shareholders' liability and the actual circumstances surrounding the system for buying and selling stocks (prior approval) by analyzing actual changes in shareholders (shares) based upon management documents in the possession of Daiichi Kangyo Ginko (Daiichi Kangyo Bank, Limited.) The task in this research was to substantiate the process of understanding regarding shareholders' limited liability between related parties, the changes as the shareholders' limited liability concept took hold, and the free buying and selling of shares. I undertook this task by examining the actual changes in shareholders (shares).

During the six and one-half years between August 1873 and December 1879, changes in the number of shareholders (shares) of Daiichi Kokuritsu Ginko show that trades of 20,107 shares were completed involving 701 shareholders. Although equity capital increased in the year following the bank's founding to \2.5 million by March 1874, this subsequently declined to \1.5 million in February 1876 with the collapse of the House of Ono. Because this resulted from a decrease in the special shares held by individuals with relations to the House of Ono, there was no effect on the special shares held by other shareholders.

The results from analyzing the changes in the bank's shareholders (shares) point to the following characteristics during the six and one-half years following the bank's founding. First, a large number of individuals = 351 persons = became new shareholders through stock share trades. Second, the number of shareholders owing five or fewer shares of special stock increased from 14 persons (19.7%) at the time the bank was founded to 175 persons (56.6%) at the end of 1879 = shareholders became more fragmented. Third, While many of the parties who traded stock shares traded within the same prefecture, traded with someone in a nearby prefecture, or traded between Tokyo and the cities of Kyoto, Osaka and Kobe, trades were also made between regional cities and Tokyo. When I consider that the shareholders tended to become dispersed throughout Japan, it's possible to see that trades in the bank's shares were conducted on a nationwide scale.

Moreover, based upon the fact that a review of the management documents uncovered no records of prior investigations of buyers or prior approval when the shares were traded would lead me to conclude that in reality this provision was not implemented.

From this analysis of the actual changes in shareholders (shares), it is clear that changes to the bank's shareholders (shares) were conducted freely, in all regions of Japan, among various holders of the special shares, and with some frequency.

Changes can be seen in the bank's shareholders (shares) beginning immediately after its establishment. I have avoided trying to draw year-by-year conclusions, however, because of the fact that during the first year there was only one trade within the House of Mitsui, and trading records for the second and third years are imprecise. Accordingly, in the actual circumstances it is possible to see the concept or understanding of shareholders' limited liability beginning to take hold from about the fourth year (January _ June 1875).

According to the "The Fifty Year History of the Tokyo Stock Exchange", trading of the shares of the bank on the exchange began from September 1878, with 13 shares recorded in 1878 and 32 shares recorded in 187912. Because of the fact that, in contrast, the management documents of the bank show 4,755 shares traded in 1878 and 324 shares in 1879, even in 1878 and 1879 after being listed on the exchange almost all trades were mutual consents of related persons.

Given that the management organization was well-established following the founding of the bank, I can say that the bank's organization fulfilled the important prerequisites of a joint stock company = that is, (1) the existence of a management organization, (2) free trading of stock shares, and (3) shareholders' limited liability. Therefore we can say that the bank was Japan's first joint stock company.

5. The final phase (joint stock companies established after the Kokuritsu Ginko, up until enactment of the Commercial Law)

Companies established with joint stock structures in the initial years of the Meiji era were of two types. The first were companies established according to the special rights law, such as banking regulations or government order. The others were companies established not according to regulation or directive but by individual effort following research on western systems and the precedent of the Kokuritsu Ginko (national bank). In the case of the latter, most examples of companies that did not resemble banks (such as private banks, etc.) = that is to say, ordinary companies = were insurance, railway and so on. Generally these companies were established by following mutual consent of related parties without a formal license, until a general company regulatory system set up, because there were no general laws concerning commercial activity, despite the fact that the regional authorities or government received applications and directed their articles of association and rules. With regard to companies that resembled banks, they received a government license following application through the regional authorities and an analysis by the Ministry of Finance.

5-1 Companies established based upon various regulations proclaimed after the Kokuritsu Ginko Jorei

Kome Shokaisho (Rice Exchange Company) and Kabushiki Torihikisho (Stock Exchange Company)

On August 1, 1876 the Kome Shokaisho Jorei (rice exchange company regulations_here after, Rice Regulations) were issued by the government, approving the establishment of Kome Shokaisho (rice exchange company) with a joint stock structure. Although these regulations did not touch upon the issue of shareholders' liabilities, the Osaka Dojima Kome Shokaisho adopted a guarantee limited liability system restricting a shareholder' liability to three times the amount of total investment balance. This measure received the government's approval.

The government followed this by promulgating the Kabushiki Torihikisho Jorei (stock exchange company regulations_here after, Exchange Regulations) on May 4, 1878, which approved the establishment of stock exchanges with joint stock structure. In Exchange Regulations, the government made provisions regarding shareholders' liability by separately specifying unlimited and limited liability in the Contract between the Government and the Company. Based on this the Tokyo Kabushiki Torihikisho (began operations on June 1, 1878) and the Osaka Kabushiki Torihikisho (began operations on August 18, 1878) both adopted a guarantee limitation restricting a shareholder' liability to two times the amount of total investment balance. This measure received the government's approval.

Both the Kome Shokaisho and the Kabushiki Torihikisho required prior approval for the buying and selling of their shares (Rice Regulations, Article 7, Section 4. Exchange Regulations, Article 13). But because shareholders carried the burden of two times or three times the total investment balance, this made the prior investigation of a shareholder's assets a matter of necessity. Accordingly, this prior approval was something related to the guarantee limitation and should not be regarded as meaning it restricted the so-called free trading of stock shares.

The officers of the Kome Shokaisho consisted of the "toudori" (president), the "fuku toudori" (deputy president) and the "kimoiri" (director). Officers were elected by nominating five or more individuals who held ten or more shares as "kimoiri" at the general meeting of shareholders. And then these "kimoiri" elected a "toudori" and a "fuku toudori" from among themselves. (Rice Regulations, Article 3, Section 2, Article 5, Section 3)

The duties of each officer were stipulated as follows.

_Stipulated that the "toudori" (president) had the overall responsibility for the business of the exchange, and was responsible for leading the other officers, and stipulated the division of duties among the "kimoiri" (directors).(Rice Regulations, Article 6, Sections 1 and 2)_The "fuku toudori" (deputy president) advised the president and acted on the president's behalf in the president's absence. (Rice Regulations, Article 6, Section 3)

_The "kimoiri" (director) carried out the election of all managers from the "shihainin" ____(chief manager) down, and specified the division of duties and remuneration. (Rice Regulations, Article 6, Section 4)

The officers of the Kabushiki Torihikisho (stock exchange company) consisted of the "toudori" (president), the "fuku toudori" (deputy president), and the "kimoiri" (director). Officers were elected by nominating five or more individuals who held thirty or more shares as "kimoiri" at the general meeting of the shareholders. And then these "kimoiri" elected a "toudori" and a "fuku toudori" from among themselves (Exchange Regulations, Article 19).

The Exchange Regulations and the Articles of Association stipulated each officer's business functions. Furthermore, the Articles of Association for the Tokyo and Osaka Kabushiki Torihikisho had the following provisions identical to those of the Kome Shokaisho.

_Stipulated that the "toudori" (president) had the overall responsibility for the business of the exchange, and was responsible for leading the other managers, and stipulated the division of duties among the "kimoiri" (director) .(Exchange Regulations, Article 21.

Articles of Association, Article 4, Sections 1 and 2).

_The "fuku toudori" (deputy president) advised the president and acted on the president's behalf in the president's absence. (Articles of Association, Article 4, Section 3)

_The "kimoiri" (director) carried out the election of all managers from the "shihainin" (chief manager) down, and specified the division of duties and remuneration. (Articles of Association, Article 4, Section 4)

Although the business functions of the offices of the Kabushiki Torihikisho were identical to those of the Kome Shokaisho, the articles of association clearly stated that the duties of the offices were "entrusted" . (Kabushiki Torihikisho Articles of Association, Article 1, Section 3) This made the existence of a management organization even more distinct. In the Kome Shokaisho, the authority and responsibility of the officer except the president were not definite, but in the Exchange Regulations the only authority and responsibility for the president was stipulated, authority and responsibility of all other officers were stipulated by the articles of association. (Exchange Regulations, Article 4, Section 23)

From the above functions for officers, I can ascertain the existence of a management organization at both the Kome Shokaisho and the Kabushiki Torihikisho. Furthermore, because there was a guarantee limit on the liability of the shareholders, and shares were listed on the stock exchange and free buying and selling carried out as will be discussed below, at both types of exchanges a joint stock company was created in both name and in fact.

One point we should note here is that the shareholders' limited liability in 1876 was a guarantee limitation of three times the total investment balance, which by 1878 had changed to two times the total investment balance.

5-2 Ordinary companies that were not based upon regulations

Tokyo Kaijo Hoken Kaisha

On August 1, 1879, the Tokyo Kaijo Hoken Kaisha (Tokyo Marine Insurance Company) began doing business as an ordinary company that was not based upon regulations or government directive. Seeing the need for property and casualty insurance for shipments of tribute rice to big cities that accompanied the cash payments of land taxes and documentary bill financing, the company raised capital mainly from Japan's nobility and Mitsubishi family and also from a broad public subscription. Established as Japan's first property and casualty insurance company, the company had equity capital of \600,000 (\100 per share, 6000 shares total). When it was founded the company had 203 shareholders.

The company's articles of association clearly specified the existence of a management organization, the free trading of the company's stock shares, and the limited liability of the shareholders, making it a complete joint stock company. The officers consisted of the "toudori" (president) and the "torishimariyaku" (director), who were elected at the general meeting of the shareholders. Anywhere from 3 to 7 "torishimariyaku" were elected from among shareholders with 30 or more shares, and the "torishimariyaku" then elected a "toudori" among themselves. (Articles of Association, Articles 52, 32, 69)

The functions of the officers were stipulated as follows.

__The "toudori" (president) presided as the chairman of the board of directors. (Article 69)

__The "torishimariyaku" (director) was responsible for representing the company, nomination of managers from the "shihainin" (chief manager) down, and administering business actions. (Article 54)

The Articles of association stipulate that all of the directors represented the company and expressed as well the shouldering of liability, and the functions of the president and directors were more clearly specified than was the case with the Kokuritsu Ginko (national bank), the Kome Shokaisho (rice exchange company) and the Kabushiki Torihikisho (stock exchange company).

The company liability was stipulated as limited to the total investment balance according to Article 4 of the founding documents, and with regard to the shareholders' liability Article 32 of the articles of association stipulated that there be a limit of no more than the total investment balance.

With regard to the buying and selling of shares, Article 11 of the same document authorized the free trading of the shares.

With the above provisions, the articles of association were so improved that all of the important joint stock company prerequisites were fulfilled. Because there were no large amendments accompanying the enactment of the Commercial Law in 1893, it has been conjectured that from the time of its founding the company received government guidance for spreading the complete joint stock company system and that detailed investigations were conducted regarding the company's system. (13) With regard to whether these various regulations were understood between related parties as the actual circumstances and whether or not they were implemented, I analyzed the actual changes in shareholders (shares) using management documents in the possession of Tokyo Kaijo Kasai Hoken Kabushikikaisha (Tokyo Marine & Fire Insurance Company, Limited.).

During the six and one-half years from directly after the company's establishment and before stock certificates were created until the end of 1885, there were 256 trades involving 3,481 shares of stock.

The changes to the companies shareholders (shares) were characterized by the fact that half of the shareholders who sold were shareholders from the time the company was founded, the shareholders who sold their shares were almost entirely individuals residing in regions throughout Japan, the trading was carried out on a nationwide scale, and regardless of the changes every year to the shareholders (shares), there were no changes in the distribution of the special shares. Accordingly, at the end of 1885 the number of shareholders had increased by four individuals since the time of the company's founding to 207 individuals.

Because of the fact that with the exception of a 6% dividend in the first business year (August _ December 1879) the company paid dividends of 9% or more every year until 1895, I believe that the related parties recognized the company's shares as dividend-bearing negotiable securities that could be traded. The fact that this resulted in active trading also accelerated the understanding of the shareholders' limited liability, and the concepts or understanding can especially be said to have taken firm root with the company's listing on the Tokyo Kabushiki Torihikisho (Tokyo Stock Exchange) in April 1884. Despite the fact that the company establishment was not legally supported by government decree, that fact that the company achieved a joint stock company structure, both institutionally and substantially, is worthy of special mention in the history of business enterprise development.

Because the company was not based upon government regulation or directive, this meant that the limited liability of stipulated in the company's articles of association was not legally guaranteed. Accordingly, the limited liability was publicized by the use of the word "Yugen" ("Limited") in the company's seal as well as by the company's name, which was the "Yugen Tokyo Kaijo Hoken Kaisha" (Tokyo Marine Insurance Company, Limited).

In 1880, the year after the Tokyo Kaijo Hoken Kaisha was founded, the Maruya Shosha (Maruya Trading Company), a company that resembled a limited partnership, was reorganized under a joint stock company structure as the "Sekinin Yugen" (Limited) Maruzen Shosha (Mruzen Trading Company, Limited). the Meiji Seimei Hoken Kaisha (Meiji Life Insurance Company, Limited.), established in 1881, also limited the company's liability and publicized this by adding the words "Limited" to its name. In England, where the Limited Liability Law

(commonly known as the Limited Liability Act of 1855) (14) was enacted in 1855, limited liability companies with 25 or more shareholders and certain conditions such as three quarters of their nominal equity capital being raised through public subscription were required to attach the word "Limited" or "Ltd." to the end of their company name. Although a translation of this act still had not been published in Japan when the Tokyo Kaijo Hoken Kaisha was founded, it's likely that the word "Limited" or abbreviation "Ltd." was displayed on the envelopes or documents of English limited liability companies and that individuals at the Tokyo Kaijo Hoken Kaisha who saw this were naturally interested because they thought the concepts were similar.

Moreover, we should note the fact that the Ministry of Justice published translations of western company laws at this time. Translations of English laws were published in 1871 and translations of French laws in 1875. The fact that shareholders' liabilities at English joint stock companies and at French Société Anonyme (= joint stock company) were limited to the amount of the total investment balance became known at this time. In 1875, the House of Mitsui submitted a request to the government for approval to establish a bank with a joint stock company structure that limited shareholders' liability, similar to the French Société Anonyme. The government, however, refused to authorize a private bank with limited liability. The structure was amended to unlimited liability and the company received approval to begin banking operations in July 1876.

In addition to the actual examples of Kokuritsu Ginko (national bank), Kome Shokaisho (rice exchange company) and Kabushiki Torihikisho (stock exchange company) based upon regulations that were mentioned earlier, I will argue in Section 6 that the number of ordinary companies that met the joint stock company prerequisites _ management organization, free buying and selling of stock shares, and shareholders' limited liability _ began to increase following the mastery of western business law and the establishment of Tokyo Kaijo Hoken Kaisha (Tokyo Marine Insurance Company).

5-3 Companies established by government decree

Nippon Yusen Kaisha.

On September 29, 1885, the Yusenkisen Mitsubishi Kaisha (Mitsubishi Mail Steamship Company) and the Kyodo Unyu Kaisha (Kyodo Transport Company) merged under a government decree based upon the government's ocean transport policy to establish the Nippon Yusen Kaisha (Nippon Yusen Company)._The former company was a proprietorship run by the Iwazaki family (= the House of Mitsubishi), while the latter was a firm organized as a joint stock company that had been established by government decree that raised capital through public subscription throughout Japan. Total equity capital of the new company was \11.0 million (\50 per share, total of 22,000 shares), with \5.0 million from the Mitsubishi side and \6.0 million (including \2.6 million of government funding) from the Kyodo Unyu side. It was the largest company established by national government policy to receive a large equity investment. In accord with the government's decree, the company's articles of association made provision for a complete joint stock corporation as follows.

_Officers included the "shachou" (president), the "fuku shachou" (deputy president) and the "riji" (trustee or director),who received special appointments from the government when the company was initially founded.

_The "shachou" , the "fuku shacho" and the "riji" were entrusted with the management of the company (Articles of Association, Article 9).

_The company liability and the shareholders' liability were limited liabilities, up to the value of the total investment balance (Article 3).

_Buying and selling of stock shares was free (Article 32).

In addition, the officers' functions were stipulated as follows.

__The "shachou" (president)had responsibility for the entire company, appointed all managers from the "Shihainin" (chief manager) down, determined their salaries, and oversaw their business activities (Article 22).

_The "fuku shachou" (deputy president) advised the president, and acted on the president's behalf in the president's absence (Article 23).

_The "riji" (trustee or director) received orders from the president and the deputy president, and were in charge of and had responsibility for the various activities of the company (Article 24).

_The "shachou" , the "fuku shachou" and the "riji" were to determine important matters such as the establishment and closing of branches and agent offices, the establishing and altering of routes, and the setting and altering of fares and rates by open discussion and consensus (Article 28).

In reviewing the above-listed officers' functions, one's attention is drawn to those points that indicate _ in contrast to the other company examples cited earlier _ various rights including control of personnel matters for employees from the chief manager level down were concentrated in the president, provision was made for the trustees to receive orders from the president and supervise business activities, a system of lateral orders was clarified, and officers' special stock terms and conditions were eliminated and ownership and management were separated. Furthermore, our attention is also drawn to the fact that although in the past directors' responsibilities were vague, with this company the burden of responsibility for each allocated activity is regulated, and the responsibility of the trustees (or directors) is made clear. In addition, although there were no provisions in the company's articles of association, there were several "shihainin" (chief manager) who were placed below the responsible "riji" (trustee or director = acting section officer) and exercised jurisdiction over the work in question. This was different from the so-called "shihainin" who had complete responsibility for all of the business activities.

Given the above information, we can state that the company's articles of association that were based upon the government decree did arrange for the existence of a management organization, the free trading of stock shares, and the limited liability of shareholders needed as a joint stock company.

With regard to whether the free buying and selling of stock shares between individuals associated with the company and shareholders' limited liability were understood and implemented as stipulated by the government decree or the articles of association, I corroborated that this was the case as with the Tokyo Kaijo Hoken Kaisha by analyzing the actual changes in the company's shareholders (shares).

According to Nippon Yusen Kabushiki Kaisha 50 nensi (The Fifty Year History of Nippon Yusen Company Ltd) at the end of December 1885 a total of 4,610 shareholders 15) were registered. Because very few of these were members of the Iwazaki family or related individuals, there is nothing to prevent us from concluding that most of the registered shareholders were shareholders of the Kyodo Unyu Kaisha. Kyodo Unyu

Company's register of member shareholders is no longer extant, but a review of Nippon Yusen Kaisha's register of member shareholders after its founding shows the shareholders who are thought to have been from the Kyodo Unyu Kaisha were located throughout Japan from Hokkaido to Kagoshima.

Nippon Yusen's registry of stock purchases and sales for each year and the list of shareholders no longer exist. But the Imperial Household granted 20,690 shares of Nippon Yusen Kaisha's stock in August 1886 as hereditary assets to 86 peers (16), and the changes after that can be understood based on the register of member shareholders on the end of October 1892 (17).

At the end of October 1892, six individuals had increased the number of shares they owned, four had decreased their holdings, and 32 names are no longer on the list. The total number of shares held by these individuals was 9,604 shares, or 46.4% of the imperial grant shares, which tells us that the members of noble families engaged in active trading of the stock shares.

Furthermore, in an article about the founding of Nippon Yusen Kaisha in "Tokyo Keizai Zattshi" (Tokyo Economic Magazine) Issue No. 286 (October 10, 1885), a transaction market for the stock of Kyodo Unyu Kaisha is listed together with the market for shares of the Nippon Ginko (the Bank of Japan), the Nihon Tetsudo (Nihon Railways), the Yokohama Shokin Ginko(Yokohama Specie Bank), the Tokyo Kabushiki Torihikisho (Tokyo Stock Exchange Company), the Daiichi Kokuritsu Ginko(Daiichi National Bank), the Daini Kokuritsu Ginko (Daini National Bank), the Daisan Kokuritsu Ginko (Daisan National Bank), etc. This issue was the first in which a market for the shares of Kyodo Unyu Kaisha was listed, so during the first year after the Nippon Yusen Kaisha was founded its shares were being bought and sold as shares of Kyodo Unyu Kaisha.

Following the listing of Nippon Yusen Kaisha's shares on the Tokyo Kabushiki Torihikisho on March 8, 1886, its shares were traded as shown below.

1886	331,035 shares
1887	496,562 shares
1888	207,036 shares

We can see from the above statistics that the number of shares traded in the market each year exceeded the number shares issued. A comparison with the case of Tokyo Kaijo Hoken Kaisha during the latter half of the decade from 1877 makes clear that in the case of Nippon Yusen Kaisha trading was carried out in much larger quantities and with great frequency.

From this information it is obvious that in Nippon Yusen Kaisha's case, the concept of shareholders' limited liability and the free buying and selling of shares was widely and sufficiently understood by the individuals involved from the time the company was founded, and that the company was established with a structure to completely meet the prerequisites for a joint stock company. In the establishment of Nippon Yusen Kaisha, I can see the firm rooting of the joint stock company system in Japan.

Furthermore, given the fact that directly following the establishment of Nippon Yusen Kaisha trading in the shares of Kyodo Unyu was reported in that company's register of member shareholders, we may believe that trades of Kyodo Unyu Kaisha's stock were being carried out by mutual agreement even before that date. Kyodo Unyu's shareholders' liability was limited as specified in the company's articles of association, and that this was recognized among related persons, accordingly I can surmise that the Kyodo Unyu Kaisha (founded 1883) as well appears to have met the prerequisites for the joint stock company form.

6. *The establishment of Kabushishiki Torihikisho and joint stock companies*

As noted earlier, I now will consider the fixed relationship between the Kabushiki Torihikisho(stock exchange company) established in Tokyo and Osaka in accordance with the Kabushiki Torihikisho Jorei (Stock Exchange Company Regulations_hereafter, Exchange Regulations) promulgated on May 4, 1878 and the joint stock company system.

As noted earlier, the fact that the Tokyo Kabushiki Torihikisho (Tokyo Stock Exchange Company) and The Osaka Kabushiki Torihikisho (Osaka Stock Exchange Company) were joint stock companies that also guided the listing of various stocks and the stock markets was an epoch-making change in the history of the development of companies and business in Japan.

Initially upon their founding, both exchanges mainly functioned as trading markets for various public bonds that were issued at the beginning of the Meiji era. The Tokyo Kabushiki Torihikisho in 1878 traded the Torihikisho's own shares and shares of the Kabutocho Kome Shokaisho (Kabutocho Rice Exchange), the Kakigaracho Kome Shokaisho (Kakigaracho Rice Exchange), and the Daiichi Kokuritsu Ginko (Daiichi--first-- National Bank). In 1879 the Torihikisho began trading shares of the Daini (Second), the Dairoku (Sixth) Kokuritsu Ginko, the Yokohama Yogin Torihikisho (Yokohama Western Silver Exchange Company, in 1880 the name was changed to the Yokohama Kabushiki Torihikisho), and the Osaka Kabushi Torihikisho. The transactions on the Exchange in its early years, however, almost entirely involved the buying and selling of government bonds that were issued during the early years of the Meiji; only 253 stock shares were traded in the latter half of 1878 and 11,632 shares during 1879. In 1881 the shares of the Yokohama Shokin Ginko (Yokohama Specie Bank) were listed on the Tokyo Kabushiki Torihikisho, and in 1883 the shares of the Daisan (Third), the Daihachi (Eighth), the Daijusan (Thirteenth), the Daijusi (Fourteenth), the Daijuku (Nineteenth), the Dainijushichi (Twenty-seventh), the Daisanju (Thirtieth), the Daisanjuni (Thirty-second), the Daisanjuku (Thirty-ninth), the Daishiju (Fortieth), the Daishijugo (Forty-fifth), the Dairokuju (Sixtieth), the Daihyaku (Hundredth), the Daihyakushichi (Hundred and Seventh), and the Daihyakusanjuni (Hundred and Thirty-second) Kokuritsu Ginko were listed. In 1884 the Nihon Tetsudo (Nihon Railway Company) and the Tokyo Kaijo Hoken Kaisha (Tokyo Marine Insurance Company) listed their shares, and in 1886 the shares of the Tokyo Basha Tetsudo Kaisha(Tokyo Horse-train Company), the Nippon Yusen Kaisha , the Tokyo Gasu Kaisha (Tokyo Gas Company), the Daishichijushi (Seventy-fourth), the Daishichijushichi (Seventy-seventh), and the Daikujugo (Ninety-fifth) Kokuritsu Ginko were listed.

In 1887, the first year of the second decade of the Meiji government, railway companies that listed on the Tokyo Kabushiki Torihikisho included the Ryomo Tetsudo (Ryomo Railway),the Mito Tetsudo (Mito Railway),the Kobu Tetsudo (Kobu Railway), the Sanyo Tetsudo (Sanyo Railway), the Kansai Tetsudo (Kansai Railway),the Usui Bashatetsudo (Usui Horse-train), the Kyushu Tetsudo (Kyushu Railway), and the Chikuho Tetsudo (Chikuho Railway). In the spinning industry (company), the shares of the Kanebuchi Boseki (Kanebuchi Spinning), the Mie Boseki (Mie Spinning), the Nihon Orimono (Nihon Textile), the Owari Boseki (Owari Spinning), the Tokyo Boseki (Tokyo Spinning), and the Hokkaido Seima(Hokkaido Hemp Spinning) were listed in 1889. Besides railroad and spinning companies, between 1889 and 1893 the Nihon Semento (Nihon Cement), the Nihon Biiru (Nihon Beer), the Nihon Konbu (Nihon Kelp), the Tokyo Seihyo (Tokyo Ice Manufacturing), the Tokyo Itagami (Tokyo Cardboard) and the Fuji Seishi (Fuji Paper Manufacturing) were listed (18). From the order in which companies were listed we see that the railroads were the first industry to rise to power, followed by investor interest in spinning and then general manufacturing such as beer. In Britain, transportation industries such as railroads grew quickly in the final stages of the Industrial Revolution, but in Japan we can see the industrial revolution in industries such as cotton yarn and spinning were carried out simultaneously with the revolution in transportation.

A look at the actual trading activity on the Tokyo Kabushiki Torihikisho for stocks and government bonds shows that from 1878 until 1886, bond trades accounted for the overwhelming majority of activity, then declined dramatically from 1887 on. In contrast to this, beginning in 1886 buying and selling of stocks grew rapidly, which resulted in stock trading becoming the principal business of the exchange. Following the establishment of the exchange, it took nearly 10 years for the level of stock trading activity to exceed the level of bond trading activity. This reflected the fact that, because the development of joint stock companies had only just begun and the number of stocks that had marketability were few in number, the exchange continued its function as a bond exchange for 10 years after the establishment of the stock exchange.

Permission from the national government was required for the listing of a stock (Kabushiki Torihikisho Articles of Association, Chapter 1, Article 2). As can be seen from the correspondence between the national government and the Tokyo city government at the time Tokyo Kaijo Hoken Kaisha's stock was listed, because of the fact that as the terms for such permission a company was required to be a company that was actually in business and the shareholders' liability was limited (19), many companies amended their prerequisites to provide shareholders' limited liability.

As a final step, I examined the relationship between the Kabushiki Torihikisho (stock exchange company) and the joint stock company during the period of initial exchange operations. The stock public offering procedure during this initial joint stock company period was one in which the company offered its shares directly through means such as using the human relations of promoters of a company, newspaper advertising, etc., with the stock exchange having no relationship whatsoever to the issuance of stocks. The Kabushiki Torihikisho was involved only for facilitating stock trading once a company was established. In other words, the Kabushiki Torihikisho functioned not as a marketplace for issuing stock but as a market to provide liquidity for speculative buying and selling of stock shares. In order to ensure smooth distribution of shares, however, companies were required as a premise to any trade to provide information on matters such as the companies' actual results, actual dividend payments, and the market stock price. This was the reason companies had to spend effectively and reduce unnecessary expenses such as personnel expense and continuous technological innovation to achieve effective manufacturing, and how companies came to have a market stock price that was an evaluation of operating results based on strict management or ratings. Accordingly, through the stock trading function of the Kabushiki Torihikisho, the managers at listed companies were required to constantly plan for continuously improving management effectiveness and business growth, and unlisted companies strove to improve their performance so they could be listed. In this way the Kabushiki Torihikisho provided a stimulus to the management of joint firms during this initial period and contributed to the companies' development, in addition to helping solidify the joint stock company system.

As a result, during the period from 1883 through 1887 the number of firms that satisfied the prerequisites for the joint stock company increased. By about 1887 many ordinary firms, in addition to the banks and the companies formed by government decrees and orders, adopted the joint stock company organization both in name and in reality. As a result, it is clear that the joint stock company system was firmly taken root several years before the enactment of the Commercial Law in 1893.

7. Characteristics of the period between the transplantation of the joint stock company concept and its firm establishment in Japan

In conclusion, let me point out the features that were characteristic of the period between when the joint stock company system was transplanted and when it became firmly established in Japan.

The first characteristic is that the government was constantly in the lead from the very start, giving guidance and instructions on everything from the plan to found a company and subscription for the equity capital to management policies. This was because the joint stock company system did not arise from Japanese business customs but was a western system transplanted as one of the government's economic policy. During this initial period, a small, limited number of pioneering bureaucrats such as Kaoru Inoue, Hirobumi Itoh and Eiichi Shibusawa were involved in the decisions on important matters. Because businesses in Japan at that time had no experience in joint stock organizations and the management principle of "one family, one business" was firmly entrenched, to achieve some of the actual cases of business joint stock combinations in the initial years the government applied pressure that was nearly a threat. _Nevertheless, one can say that this government initiative resulted in the joint stock company system becoming firmly established during a short period of time.

The second characteristic is that in order to ensure the success of its industrial policy and social policies, for enterprises related to the national interest such as mining, ocean transport, and railroads the government provided support and planned its economic development based upon the joint stock company system taking hold. _Examples of support measures included supplemental interest income for equity capital, guarantees of stock dividends, and fixed sums of aid money. These kinds of support policies assisted businesses during this initial period, provided stable stock dividends for shareholders, spread knowledge about joint stock company and the advantages of investing in stocks, and promoted the establishment of joint stock companies in later years. Of the companies given as examples in this paper, the Yubinkisen Mitsubishi Kaisha (Mitsubishi Mail Steamship Company) (fixed amount of financial support), the Nippon Yusen Kaisha (dividend guarantees, followed by fixed amount of financial support), and Nihon Tetsudo Kaisha (Nihon Railway Company) (supplements for interest payments on capital funds until construction was completed, followed by net profit guarantees once operations began) each received government assistance. These assistance measures by the government were measures the government had to take in order to make its policies for companies successful. They were also necessary to ensure that knowledge concerning the three basic prerequisites of the joint stock company (existence of a management organization, free trading of stock shares, and shareholders' limited liability) became widely known.

The third characteristic is that faced with a situation without any general laws concerning companies, companies that did not receive a government decree or order developed at their own expense by studying joint stock corporations in Europe and the U.S. and adding the words "Yugen" ("Limited") to their company name. As a result joint stock companies were well established as a system before the Commercial Law was enacted in 1893. Approximately 600 years had been required for the transition from merchants' guilds to the birth of joint stock companies in Britain. But in Japan companies that provided for shareholders' limited liability were set up as a system in the short span of twenty years following the first transplantation of the concept to Japan in 1869. Moreover, in the case of Japan we can also note the special characteristic that companies organized as the joint stock structure began simultaneously in the trading business and financial business. In Britain's case, the joint stock structure appeared to meet the needs of trade with the Far East, with the Bank of England being established with a joint stock company structure a half century later in 1694.

By retracing this route, we are able to see the developments that led to joint stock companies in various sectors of Japan's modern industry in the years after 1887.

Notes

(1) Manabu Yuhki, (1960), "Hyogo kaiko to Shosha no Setsuritsu" (The Opening of Hyogo Port and the Establishment of Trading Companies), *Keieigaku Ronkyu*, Kansei Gakuin University, Vol. 13, No. 4, p.130.

(2) Wataroh Kanno, (1931), *Nihon Kaishakigyo Hattseisi no Kenkyu* (Research in the History of the Rise of Companies and Firms in Japan, Iwanami Shoten, p.105.

(3) Shibusawa Seien Kinen Zaidan Ryumonsha ed., (1955), *Shibuzawa Eiichi Denki-shiryo* (Eiichi Shibusawa Biographical Materials), Vol. 2, pp. 104~106.

(4) Satoshi Sasaki, (1994), "Shibusawa Eiichi to Shizuoka Shohokaisho"(Eiichi Shibuzawa and the Shizuoka Shohokaisho", *Shibuzawa Kenkyu*, No. 7, Shibusawa Shiryokan, pp. 65~66.

(5) Shibusawa Seien Kinen Zaidan Ryumonsha(ed), *op, cit.*, p.108.

(6) Sakuzo Yoshino ed., (1929), *Meiji Bunka Zenshu* (The Complete Works of Meiji Culture), Vol. 9, Nihon Hyoronsha, pp. 478~485.

(7) Wataroh Kanno, *op, cit.*, pp. 172~174.

(8) Hyohe Ohuchi and Takao Tsuchiya ed. (1964), *Meiji-zenki Zaisei Keizai Shiryoshu-sei* (Compilation of Historic Materials on Government Finance and the Economy in the First Half of the Meiji Era, Vol. 21 (Kaisha Zensho--Gekan), Meiji Bunken Shiryo Kankokai, pp. 414~429.

(9) Ohuchi and Tsuchiya ed. (1964), *Meiji-zenki Zaisei Keizai Shiryoshusei,* Vol. 15 (Kaisha Zensho--Jokan), p.473.

(10) The formal name is An Act to provide a national Currency, secured by a Pledge of United States Stocks, and to provide for the Circulation and Redemption thereof. Feb. 25.1863 (full text 65 Articles). Also called the Sherman Act.

(11) Tsunehiko Yui (1979), "Meiji jidai ni okeru Juyaku soshiki no Keisei" (Formation of the Board of Directors Organization in the Meiji Era), *Keieishigaku*, Vol. 14, Keieishi Gattkai, p.16.

(12) *Tokyo Kabushiki Torihikisho 50 nenshi* (The Fifty Year History of the Tokyo Stock Exchange), (1928), Tokyo Kabushiki Torihikisho, Chapter 15, Statistics, pp. 240~241.

(13) *Tokyo Kaijo Kasai Hoken Kabushikikaisha 100 nenshi (*The 100-Years History of Tokyo Marine & Fire Insurance Company, Ltd.,) (1979), Vol. 1, Tokyo Kaijo Kasai Hoken Kabushikikaisha, p.65.

(14) The formal name is An Act for limiting the Liability of certain Joint Stock Companies. Cap. 133. 18 & 19 VICT. 1855.

(15) *Nippon Yusen Kabushikikaisha 50 nenshi* (The 50-Years History of Nippon Yusen Company, Ltd.,) (1935), Nippon Yusen Kabushikikaisha, p.569.

(16) *Ibid*., pp. 550~553.

(17) Nippon Yusen 100 nenshi Shiryo, (The 100- Years of Historical Materials of Nippon Yusen), (1988), Nippon Yusen Kabushikikaisha, pp. 17~22.

(18) The names and listing years of listed companies cited in this paper were taken from the previously cited *Tokyo Kabushiki Torihikisho 50 nenshi* (The 50-Years History of the Tokyo Stock Exchange), (1928), Chapter 15, Statistics, "Table 5: Meigarabetsu Sohba Kohtei-hyo -Chohkitorihiki-Kabushiki, (Table of High and Low Market Prices by Company (long-term stock transactions), pp. 130~255.

(19) *Meiji Taisho Hoken Shiryo* (Meiji Taisho Insurance Historical Materials), (1935), Vol. 1, Dai-2-hen Dai-1-rui & Tsuiho, Seimei Hoken Kaisha Kyokai, pp. 245~256.