

Building a Bank Accounting System under New Regime in Modern Japan: from a Japanese Cultural Perspective

Eiichiro Kudo

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I. Introduction

Japan experienced a significant social revolution in the middle of the 19th century. It is called the Meiji Restoration. The Tokugawa Shogunate Government ended about two hundred and sixty years of history. The new administration, Meiji Government, was established and needed to create Japan as a modern nation similar to the Western countries. The main two factors caused this revolution. One is fatigue of the Tokugawa Shogunate system (it has been succeeded by fifteen successive shoguns – the top of the samurai class). The other is fear of aggression by the Western countries. Therefore, much information about the advanced society of the West was collected through a translation of a lot of books and documents; at the same time, many young and excellent people as students staying abroad were dispatched to Europe for catching up with Western culture, technology, and social system from the last years of the Tokugawa Shogunate times. In other words, Japan would take in knowledge about the West to positively reinforce their own country in its modernization process.

This paper discusses some topics about Daiichi Kokuritsu Ginko. This bank is the first established modern bank, which means in the Western-style, and they introduced the Western-style double-entry bookkeeping (DEB) as their accounting system. It is the first organization that introduced DEB in Japan.

Also, this bank is the first joint stock company in Japan. To become a modern nation, the new Japanese Government imported an economic system, an administrative procedure, an education system, and many social systems from the Western countries. The banking system and accounting technology are also included. It must be noted that the assimilation process of the social system is unique in Japan.

The purpose of this paper is to clarify the following points. First, the reason why the modern banking system was required, second, how the system had been constructed, third, why was chosen the Western-style accounting method and technique and how to be introduced, and last, how was it diffused in Japanese economic society.

Some previous studies are focused on technology transferring or institutionalization of accounting regarding the United States, Australia, and other countries. However, Japan has a qualitatively different historical experience with these cases. Because the Japanese modernization process consists of more complicated factors, this paper would contribute to the historical study of building up a bank in the Western-style as a new financial institution and its accounting system.

In discussing introducing a new system to an organization, a theory called the "new institution theory" is used as an explanatory theory. Meyer and Rowan (1977) which applies this to the organization theory, insists on the reason why formal organizations spread as the mainstream one in the modern society when it depends on an "institution myths" that is "the formal organizations are effective" (Meyer and Rowan (1977) pp.347-348). Thus it is considered to be the organization, which has social legitimacy so that there are the myth characteristics when a myth of the system is formed once. Therefore the organization is designed with myth characteristics. As a result, they argue that all organizations will have a similar structure. This theory is called an isomorphism. And well-isomorphismised organization would be

recognized as a socially valuable fair organization.

DiMaggio and Powell (1983) refines this theory. They show three types of isomorphism (DiMaggio and Powell (1983) pp.151-153). The first is "coercive isomorphism". This is the isomorphism performed forcibly by pressures from such as the government or the law. The second is "mimetic isomorphism". It is explained that in transferring an institution under an uncertain situation, the organization would imitate or copy the model organization, which already has a successful experience. And the final type is "normative isomorphism". This theory tells if the organization would accept the norm by profession, the isomorphism could be achieved. DiMaggio and Powell point out that all three types of institutional isomorphism do not improve the effectiveness of the individual organization.¹ It is essential to an organization that the organization has the structure and behavior recognized to be right, rather than to improve its efficiency. As a result, the organization becomes a homogeneous one to acquire legitimacy.

This paper will not describe the Japanese bank in the Meiji era how it acquired social legitimacy. Our interest is focused on establishing a Japanese banking system, which was emulated the success of the United States' experience, which could be explained by the isomorphism theory. Then add to the theory of isomorphism we are going to apply another theory, the concepts of "*kasane*" (かさね: layer, multilayer) and "*zurashi*" (ずらし), which clarifies the characteristic of the Japanese culture. When Japanese people say *kasane*, for example, two or more paper those have different color are piled up. Moreover those papers are slightly shifted from each other, which state is expressed *zurashi*. Then those two pieces of paper can create a brand new outlook. The ceremonial dress called *junihitoe* is expression of the Japanese traditional beauty with *kasane* and *zurashi*. The *junihitoe* started to

1 Irvine (2008) is the study that discusses the adoption of IFRS into the new economic country with the theory of institutional isomorphism.

appear around the 10th century during the Heian era. The various layers are silk garments. The innermost garment is made of white silk, followed by other layers which have various names, which are finally closed off by a final layer or coat. The colors and the arrangements of the layers are very important. The colors have poetic names, such as "crimson plum of the spring". The only place where the layers are discernible is around the sleeves and the neck. The arrangements of the layers and their colors were a good indication to any outsider what taste and what rank the lady had. The arrangements of the layers and their colors were a good indication to any outsider what taste and what rank the lady had. The concept of *kasane* and *zurashi* is also applicable not only to culture but also to some social systems namely institutions. In other words, in building an institution *kasane* means that makes a new institution while the old and the new still maintaining both special qualities.

We will not discuss the legitimacy of a modern bank system introduced for the Meiji period. Interestingly, the theory of isomorphism couldn't be applied to introducing the modern bank system as an institution into Japan. In addition to the isomorphism theory, by using the concepts of "*kasane*" and "*zurashi*" which express the nature of Japanese cultural notion, we are going to analyze the building of the modern banking system and its accounting method.²

II. Society, Economy, Management, and Education in Early Modern Japan

The Japanese social system in the pre-modern period, which began at the beginning of the 17th century, was a feudal society with a rather complicated structure in which many *daimyo* or feudal lords, held their territories, and

2 Okano (2015) discusses the cultural characteristics of Japanese management accounting practices using the concept of *kasane*: かさね, *awase*: あわせ, *kisoi*: きそい, *soroe*: そろえ, *zurashi*: ずらし and some other native senses in Japan.

to a certain extent, exercised independent authority over some areas, even while the *Edo Bakufu* (the Tokugawa Shogunate) was the supreme ruling body (Gordon (2003)). One of the distinguishing characteristics of this period was the policy of a "closed nation" (*sakoku*). This policy severely restricted diplomacy and trade and was enforced for over 200 years from the 1630s until the 1850s. This policy's objects were to prohibit Christianity (the Catholic Church) and preserve the feudal system. However, not all intercourse with other countries was cut off. Trade and diplomacy were continued with Yi Dynasty Chosun and China (both the Ming and Qing Dynasties). Before the "closed nation" policy was enacted, trade had been widely conducted with Spain and Portugal. Still, because they pursued the proselytizing of Christianity along with the pursuit of economic profits, it was eliminated. However, economic relations were supported with the Netherlands (speaking precisely, with the Dutch East India Company), which only desired trade. Yet even the Dutch who had come to Japan to trade were restricted to living in a reservation built on a small artificial island in Nagasaki Harbor. Nevertheless, although points of contact were minimal, the Tokugawa Government of the time is thought to have grasped at least to some extent the events happening in other countries through their relationships with the Chinese, the Koreans, and the Dutch.

Due to this "closed nation" policy over such a long time, Japan was isolated, especially from Western civilization and culture, and received almost no influence from the social changes that occurred in other countries. From the 17th to the 19th century, there was an Industrial Revolution in Europe and a bourgeois revolution during this period. This was when the colonization of the New World was advanced. It was also a period in which the United States had become independent of Great Britain, and nearly 70 years had passed, and it was now on the verge of Civil War. This means that during this period, which was stamped with significant and decisive historical changes in the West,

Japan lived in space and time, isolated from the world's changes.

However, that is not to say that as a result, during the closed nation period, Japanese society was stagnant. Instead, one can say this was a period of development in which a self-sufficient economic system was built while a unique culture was formed in Japan (Morishima (1982)).

The Tokugawa Shogunate firmly established political power. Through the achievement of a stable society in which there were no conflicts with other countries, at various places in Japan, there flourished cities and commerce on a scale not seen before. The population increases are proof of that. The population of Japan around the year 1600 was 12 million; by 1720, it was 31.3 million, so in 120 years, it had expanded almost threefold. Behind this explosive increase in the population, it is clear that there was an increase in production that could support it. During this same time frame, the land area under cultivation approximately doubled. Still, in addition to that, another factor that should be pointed out was the remarkable improvement in agricultural techniques. After that, for a time, a slowdown could be seen, but from the 19th century on, once again, there was an increase, with the population growing from 31.9 million in 1822 to 32.3 million in 1846, and to 36.5 million in 1875 after the modern period had begun.

Japanese economic development in the pre-modern period brought about the formation of commercial cities (castle towns) in various places. It brought about the construction of large-scale cities such as Kyoto, Osaka, and Edo (Tokyo). Distribution networks developed between cities. Commercial functions were also concentrated in these big cities, and of necessity, organizations emerged with large-scale business operations. The representative of these was the great commercial houses of Mitsui, Konoike, Daimaru, Shiroki-ya, Sumitomo, Nakai, and so on. While these houses engaged in the kimono fabric trade or the brewing of sake, at the same time, most of them also dealt in financial services as money changers.

These tremendous commercial houses opened up branch offices in various regions through the distribution networks. Thus, mechanisms were devised to effectively manage the complicated business dealings between the main office and the branch offices or individual branch offices. In other words, systems came to be developed for financial management, merchandise management, and labor management. The accounting system was also one of these business management systems.

The accounting records techniques were not limited to the great merchant houses but could be utilized even by small-scale merchants. What allowed that to happen was that education for the ordinary people had spread fairly widely during the early modern period in Japan. The development of commerce, the formation of cities, and the penetration into the written word society meant that literacy and numerical reckoning ability were demanded of even the ordinary people. At that time, there were no public educational institutions for merchants or common people, but instead, there were private educational facilities called *tenarai shinanjo* (penmanship academies) or *terakoya* (temple-run schools) that had spread across much of the country. Incidentally, it is said that at the end of the pre-modern period, Japan had one of the highest literacy rates in the world (Dore (1965)). One could say that early modern accounting practices were made possible through this widespread practical education. However, much of this consisted of simple things like debits and credits or records to remind daily trade dealings.

Nevertheless, on the other hand, an organized accounts system that was carefully put together to execute efficient business management was put into practice at a number of the great merchant houses. For example, at the houses of Konoike, Mitsui, and Nakai, the recording method of "double classification" bookkeeping was adopted, and through flow accounting of revenue and expenses, and comparative stock accounting of assets, liabilities, and capital, a method of calculation that measures profits or net assets along

two tracks was firmly established (Ogura (1982); Takatera & Nishikawa (1984)). This was due to the desire for a periodic income determination in order for the great merchant houses with lots of branch offices to evaluate their results fairly. Simultaneously, in the great merchant houses with a hierarchical management organization, they developed internal reporting (Nishikawa (1993)).

Thus, highly sophisticated accounting systems already existed in pre-modern Japan. They could be said, in principle, to be approximately equivalent to the double-entry bookkeeping of the Western-style (Takatera (1980); Nishikawa (1993)). However, the truth is that these superior accounting systems were not widespread in the business society. The practical commercial education system for the common people was substantial, but such knowledge was not written down in textbooks concerning high-level accounting techniques. Thus, while it was possible for simple accounting techniques such as records of debits and credits to penetrate society widely, high-level accounting techniques for big organizations were not codified into manuals and taught. As a result, they were not disseminated in society.

III. Meiji Restoration and Westernization of Social Systems

As mentioned above, the event that demarcates Japan's early modern and the modern period was the revolutionary reformation of the social system in the mid-19th century known as the Meiji Restoration.

With the opening of the 19th century, the economic and military advance of Europe and America's great imperialist powers into the countries of East Asia began in earnest. From the mid-19th century onwards, the United States repeatedly attempted to open up contact with Japan, and in March of 1854, the Tokugawa Shogunate concluded the Japan–U.S. Amity Treaty. They opened the floodgates, and similar treaties were signed with Great Britain

in August of the same year and with Russia in December. In 1858, Japan–U.S. Friendship and Trade Treaty was concluded with the United States, and Japan's policy of a closed nation that had lasted more than 250 years came to an end.

This change ultimately resulted in a remarkable transformation in which the Tokugawa Shogunate relinquished its political power to the Emperor, and the long feudal period in which the warrior class ruled that had lasted for 650 years since the Middle Ages (including 260 years of the Tokugawa period) came to its end. The newly established the new government (the Meiji Government) resolutely pushed through a variety of reforms that were aimed at transforming Japan into the first modern nation in Asia (Gordon (2003)). This policy was a project of constructing a completely new nation that extended across the realms of centralized authority, the legal system, the class system, local government, the financial system, economic policy, the educational system, diplomacy, religious policy, and so on. And these reforms were intended by all means to introduce things from the West into Japan. That is to say, and the new Government thought it could achieve the country's modernization through the Westernization of the social system. It was not only the new Government that intended to realize the modernization of the nation through Westernization. Most Japanese leaders of the time in the economic and educational realms had the same kind of ideas. In other words, all of the reformers blindly believed that Westernization was good.

To adopt the advanced technology and knowledge of Europe and the United States of America, many foreigners came to Japan as teachers. The Government paid high salaries to them to work in a broad range of fields, such as law, diplomacy, medicine, architecture, engineering, transportation, industry, education, the arts, the military, etc.

But the modernization of these social systems should be careful about not being copied from the Western. Besides, it is not only about the 19th century

that Japan learned from foreign countries. Japan has strong geographical independence because the country is preserved in the sea. That is why the nation and people had been adopting foreign innovation positively since ancient times. For example, ancient Japan did not have an original letter, but they imported the *kanji* (Chinese character) from Mainland China in the fifth century and used it via Korea. Furthermore nevertheless, the Japanese people have had their original religion Shintoism, Buddhism was imported from overseas. The new faith was put as a result that the Japanese Emperor asked for the transmission for King of Kudara (Baekje) in the Korean Peninsula formally in the middle of the sixth century.

However, these advanced foreign civilizations and religions were not just received as original ones by Japanese society. For example, the *kanji* as a Chinese character was given its own Japanese reading (sound) by applying the Japanese concept that there had been already the meaning that a *kanji* had. Furthermore, a *hiragana* and *katakana*, which are original Japanese letter, was derived from *kanji*. That is an invention of the Japanese. Now, "the *kanji*" developed in Japan exists, and some are even reimported by China. The Shintoism, which is Japanese native religion, was not abolished by Buddhism, was newly introduced. In the process when Buddhism spread in the Japanese society, Shintoism and Buddhism were combined and had been built as a new faith system.³

In this way, Japan and the Japanese people have superimposed or reduplicated the new technique and systems that were imported from foreign countries on their customs, tradition, and culture that they have had. Such as Japanese thinking or behavior could be explained in the concept of "*kasane*". It does not mean that taking in a new culture or things overwrite the existing

3 Syncretism of *Kami* (Japan native Gods) and Buddhas or jumbling up or contamination of *Kami* and Buddhas, is the syncretism of Buddhism and kami worship, Japan's only organized religion.

sense of values or culture entirely. In being superimposed or reduplicated on the traditional thinking ways or institutions, the new ones might be slipped away a bit (*zurashi*). In other words, old things are not completely thrown away, and both of them still exist. As a result, a new value can be created (Fujiwara (2008)). A richer letter expression system was realized with the *hiragana* and *katakana* letters created by the Japanese into the Chinese *kanji*. In addition, the Shintoism did not change in quality by being transmitted to Buddhism. Shintoism and Buddhism maintain religious independence mutually, but both coexist in the Japanese consciousness without being distinguished in particular. Because both coexisted, a new religious sense of value was created in the Japanese.

As for this, when two pieces of paper or cloth are layered with a little shift, while the parts are not piled up still express their native character, we can see or feel the situation that fuses on the part which is piled up. Japan built a new way of thinking and society while using an idea of *kasane* and *zurashi* from ancient times.

In order to build up the modern nation, the political and economic leaders of the early period of Meiji were going to transplant Western social systems. They translated many Western books and documents into Japanese and absorbed knowledge, went to Europe and the U.S. for inspection, and employed the expertized foreign advisors with high salaries and received instruction. However, in this process, the concept of *kasane* and/or *zurashi* functioned even if they were not conscious.

IV. Industry Promotion Policy

Fukoku kyohei is that the slogan was the central objective of the leaders in the Meiji era. “*fukoku*” means making a wealthy nation, and “*kyohei*” means having a strong armament. *Fukoku kyohei* entailed the formulation

of far-reaching policies to transform Japanese society in an all-out effort to catch up with the West. However, the Government played a major role in providing industrialization, discarding old institutions that proved obstacles to industrialization and creating new social systems that would facilitate economic and political modernization. Afterward, the Japanese Army was founded in modeled on the French and German, and the navy was modeled on the U.K. But the strong economic proof was indispensable to have strong armaments. Therefore, a concrete policy called "*shokusan kogyo*" (the promotion of industry) was necessary to realize this slogan.

This policy had two aspects. One is the abolition of old systems to become the disincentive of industrial modernization. For example, *kabunakama*⁴ which is one of the merchant guilds was dissolved, *sekisho*⁵ which is a barrier put in the point of the traffic for tax collection and the inspection were removed, the old class system⁶ was abolished, and the occupation freedom of choice was accepted. These were the old economic control policies that were taken to maintain feudalism.

Another aspect of the promotion of industry policy is advanced industrial transplant and development. The Government believed that it must accomplish this problem as possible to build the modern nation. Therefore, not waiting for voluntary action by the private sectors and industrial modernization should be completed under the Government's strong leadership

4 *Kabunakama* were merchant guilds in the Edo period, which developed out of the basic merchants' associations known as *nakama*. The *kabunakama* were entrusted by the shogunate to manage their respective trades, and were allowed to enjoy a monopoly in their given field. The *kabunakama* were all dissolved. However, in 1870 as the economy modernized and new forms of business associations appeared.

5 46 *sekisho* (barriers) were put in Japan for the last years of the Edo era, but all of those were abolished in 1869.

6 The four occupations or "four categories of the people" was a hierarchical social class structure developed in ancient China by Confucian or legalist scholars. In Japanese, it is called *Mibunsei* and is sometimes stated as "*shi, no, ko, sho*" (*shinokosho*). In descending order, these were the *shi* (gentry scholars), the *no* (peasant farmers), the *ko* (artisans and craftsmen), and the *sho* (merchants).

and supervision. The Government let many Japanese people go abroad and conduct research about advanced techniques, employed the foreign advisors as leaders and teachers, and translated Western knowledge and social systems into Japanese and introduced and enlightened nation-wide, built the Western-styled factories run by the Government, and held industrial exhibitions for enlightenment.⁷

V. Stock Company and Banking System

I. Stock Company

In carrying out the promotion of industry policy, the Meiji era leaders realized the two critical problems. One was to adopt the modern company organization (corporation), and another was to sort out a stable financial system. These are indispensable as an infrastructure of the modernized industrial society. Very interestingly, these two were realized at the same time in a particular Japanese organization.

In 1871, two pamphlets titled *Kaishaben* (About Company or Corporation) and *Ryukai Ryakusoku* (Concise Guide for Corporation) were published by the Ministry of Finance. *Kaishaben* is a translation from Elements of Political Economy (1837) of Francis Wayland, who is an economist and educator of the United States. And *Ryukai Ryakusoku* is a commentary book of *Kaishaben*. To introduce the system of stock company, these two pamphlets were distributed to all local governments.

Shibusawa Eiichi, who wrote *Ryukai Ryakusoku*, was a Ministry of Finance bureaucrat. He became a great businessman called "father of the Japanese modern capitalism" afterward. In *Ryukai Ryakusoku* Shibusawa writes about

⁷ Besides, the Government emphasized the maintenance of transportation, communication, and the spread of the modern education system as infrastructure for industrial development.

commerce and stock company's significance (Fukuchi (1872)).

A company is an essential element in running commerce.

It is not desirable the interference of the Government for the development of company and commerce.

It should not be denied that a company pursues profit.

However, at the same time, the commercial activity of the company should respect the public interest.

This is the philosophy of Shibusawa aiming at "Confucius and abacus," which expresses the harmony of economic development and economic ethics

Also, when Shibusawa participated as a member of the Tokugawa shogunate government at the International Exposition at Paris in 1867⁸, he got knowledge about the Western stock company system and banking system.

2. Banking System

The Meiji Government was born in an abysmal financial situation. In addition to having just succeeded in the weak finance of Tokugawa Shogunate, the new Government had to pay enormous expenditure for supplying to people in the samurai class and expending civil wars expenses. The Government was going to overissue a lot of government notes to outlay expenses of such a large amount. As a result, the value of the paper money issued by the Government declined, and the government creditability decreased. It was necessary to retire mass government-issued money for establishing stable finance. Therefore it was an urgent problem to install the new financial system.

The Government was researching and studying the fiscal system,

8 One of the purposes of the Shogunate at this international exposition is the financing from the Western countries.

financial system, and banking system in Western countries. Hirobumi Ito⁹, a government official of the Ministry of Finance, was dispatched in the United States to investigate the currency system and financial system until November 1870 to May 1871. Ito submitted a proposal about adopting a gold standard system and establishing the banks that can issue paper money (banknote) to the Government at the end of December 1870; it was just after the dispatch. Ito suggested the banking system assumed the National Bank Act, which the United States of America promulgated in 1863 and 1864 during the Civil War. It is a bank system to have a function to issue the unified national banknote that the commercial bank which is under the regulation of the Government by assuming a public bond as collateral (Davis (1980)).

Separately from Ito, the Government dispatched Kiyonari Yoshida, another Ministry of Finance bureaucrat in the U. K. for the investigations such as national finance. He insisted on establishing the central bank system as Bank of England and offered his opinion to the Government. The Bank of England is the central bank issuable a gold convertible banknote.

A controversy occurred within the Government that should be chosen national bank system in the U.S. or central bank system in Britain. As a result, the Japanese modern bank system's foundation was planned based on the national bank in the U.S. model that Ito insisted on. The Meiji Government adopted an American style banking system because not only a large amount of inconvertible paper money issued by the Government would be retired.

However, it must be noted about a Japanese bank system not having been completely copied from a national bank system in the United States. As mentioned above, two groups, one supported the American type banking system and another supported Bank of England type, argued the point of introducing it into Japan. With considering people intending the central

9 After that, Ito was appointed the first Japanese Prime Minister in 1885, and he was in the same position four times more.

bank's establishment, the banking system would be introduced as required to hold a higher ratio of gold coverage because the people-oriented central bank system like the Bank of England regarded the stability of the value of money. As a result of such harmonizing, the bank system would introduce into Japan was decided (Meiji Zaiseishi Hensankai (1905b) Vol.13, p.28).

VI. Establishment of National Banks

I. National Bank Act Japan (1872)

Once the foundation of the bank system that made a model of the United States style's national bank was decided, the Government started the drafting of *Kokuritsu Ginko Jorei* (the National Bank Act Japan). The Act was enacted with reference to the laws about a currency and the bank in Western countries, not only to the U. S. act. The Ministry of Finance Japan set up a department called *Honyaku-Kyoku* in the Ministry in June 1872. The documents and materials regarding the systems of finance, fiscal and currency of Western countries were collected as possible, and they were translated into Japanese, and thorough research was performed.¹⁰ On 15th November 1872, *Kokuritsu Ginko Jorei* (National Bank Act Japan) was promulgated. This Act is comprised of twenty-eight articles and one hundred sixty-one sections. It is summarized as follows: (Meiji Zaiseishi Hensankai (1905b) Vol.13, pp.31-57)

Organization Form: This organization takes the form of a stock company consisting of more than five stockholders.

¹⁰ In a modernization process in the Meiji era, translation has enormous significance. Not only in receiving the Western knowledge and techniques were very effective and quick, but also Japan's original interpretation might be added to them. Regardless of whether they intended, in the process of translation, an original property might be changed, and as a result, "Japanization" could be accomplished skillfully. See, for example, Maruyama and Kato (1998) and Revy (2011).

Face value per stock is 100 Japanese yen.

The stockholder has a right equivalent to the number of stocks owning.

The stockholder elects the president and directors.

(Article 1 Section1, A.2 Se.2, A. 5 S.1 and 2, A.6 S.1)

Business Outline : National Bank has three functions, namely, deposit, loan and banknotes issued.

(Article 10 Section1, A.11 S.1, 3 and 6, A. 15 S.1, A.25 S.4)

Bank Note Issue: National Bank delivers the notes issued by the Government of the sixty percent of the amount of its capital to the Ministry of Finance, and receives the public bond (securities for convertible paper currency).

National Bank deposits the public bond in the Ministry of Finance again and receives the banknotes of the same amount as a mortgage.

National Bank is required to accumulate forty percent of the capital in standard money for exchange preparations for issued banknotes.

National Bank must always hold in specie money of two-thirds of the amount of issued banknotes.

The Government recognizes only this banknote as an official currency.

(A. 6 S. 2, 3 and 5, A.8 S. 3 and 5)

As mentioned before, the Meiji Government schemed the spread of stock company organization for industrial development. It is prescribed that a bank established under the National Bank Act Japan is a "stock company."

It was almost at the same time that the Ministry of Finance published two enlightenment pamphlets of *Kaishaben* (About Company and Corporation) and *Ryukai Ryakusoku* (Concise Guide for Corporation) and Japanese banks should be installed in a stock company form in the National Bank Act Japan was decided. In other words, two indispensable elements to push the promotion of industry policy, namely the modern banking system and stock company system, are included in the National Bank Act Japan together.

The process to issue banknotes for the retirement of the paper money issued by the Government, which was for one of the national bank setting's primary purposes, is shown as follows.

- (a) National Bank would be established in JP¥1,000,000 issued paper money by the Government as capital

| asset | | liability | |
|-------|-----------|-----------|-----------|
| CASH | 1,000,000 | CAPITAL | 1,000,000 |

- (b) paper money by issued Government JP¥600,000 would be exchanged for a public loan, and remaining JP¥400,000 be exchanged for cash in gold for exchange reserve for conversion

| asset | | liability | |
|------------|---------|-----------|-----------|
| G. BOND | 600,000 | CAPITAL | 1,000,000 |
| CASH(GOLD) | 400,000 | | |

- (c) National Bank receives bank notes JP¥600,000 as a mortgage by the government bond

* the Government bond is pledged as a mortgage, there are not any changes in assets and the debt at this stage.

(d) National Bank issues the bank notes JP¥100,000 by loan

| asset | | liability | |
|------------|---------|-----------|-----------|
| G. BOND | 600,000 | BANK NOTE | 100,000 |
| CASH(GOLD) | 400,000 | CAPITAL | 1,000,000 |
| LOAN | 100,000 | | |

2. Daiichi Kokuritsu Ginko and Other National Banks

The first bank founded under National Bank Act Japan is *Daiichi Kokuritsu Ginko*.¹¹ The Mitsui and the Ono (sometimes referred Ono-Gumi) were strongly requested to establish a bank together by the Government. Both of them were very wealthy merchants from the Edo period and served to control the government funds from the beginning of the Meiji era.

The recruitment of Daiichi Kokuritsu Ginko's stockholders was carried out as soon as the National Bank Act Japan was promulgated. According to the application guideline, the bank's capital at 3,000,000 yen, the price is 100 yen per share, the issue number of shares is 30,000 shares. The total amount of the capital of 3,000,000 yen, the Mitsui and the Ono funded by 1,000,000 yen each, it would have been decided to public offering 10,000 shares for the remaining 1,000,000 yen. Despite more than 30 times in the advertising on newspapers, the total number of shares subscribed by the public offering was only 4,408, not reached on the number of half of that had been originally planned. As a result, the Daiichi Kokuritsu Ginko as the first modern banking organization in Japan, was founded with 71 people shareholders, and the amount of capital stock paid-in was 2,440,800 yen. On 20th July in 1873, the Daiichi Kokuritsu Ginko was opened.

In addition to the Daiichi Kokuritsu Ginko, other national banks had been established in various places. Namely, Daigo (the fifth) Kokuritsu Ginko

11 This name in Japanese of a bank is the first bank of national banks. Afterward, over one hundred and fifty national banks were established over the nation until 1879. Each bank of those has the number in the name. They show the order of setting as a national bank. Some banks have the title at the time still now.

(opened in Osaka, on 10th December 1873), Daiyon (the fourth) Kokuritsu Ginko (opened in Niigata, on 1st March 1874), and Daini (the second) Kokuritsu Ginko (opened in Yokohama, 15th August 1874). Thus only four banks were established under the National Bank Act Japan. And the acceptable amount of banknotes issued by these banks was only 2,034,480 yen in total. In such a situation, the Government could not retire inconvertible paper money that had been issued. It should be impossible that this banking system would be able to serve the developing industry and build a modern economic society.

So, it was considered the revision of the National Bank Act, and the revised National Bank Act was promulgated on 1st August in 1876. The critical points of this revision are as follows (Meiji Zaiseishi Hensankai (1905b) pp.219-220):

- (1) a national bank can issue three different kinds of stocks, which face values are 100 yen, 50 yen or 25 yen
- (2) the minimum amount of capital of the national bank is 10 million.
(however in the case of the city which has more than 10 million people, 200,000 yen or more)
- (3) a national bank deposits the government bonds denoted by the year more than 4 percent interest as a mortgage, which corresponds to 80% of the capital to the Ministry of Finance, and receives the same amount of banknotes
- (4) a national bank has to hold in the currency for 20 percent of the capital for the exchange for preparation of the banknotes. A national bank is required to reserve 25 percent for the amount of issue

This revision means a substantial easing regulation for the national banks. As a result, the number of newly established national banks was continued to increase, 12 in 1876, 27 in 1877, 109 in 1878, and 5 in 1879, and at last the total number of the national banks became 153, after only four years from establishing of Daiichi Kokuritsu Ginko. Also, the amount of circulation of the banknote, a national bank-issued, was 1,420,000 yen at the end of 1875 but increased rapidly to 34,040,000 yen at the end of 1879.

At the beginning of the Meiji era, the modern banking system introduced for finance reform in Japan was built in imitating the United States of America's national bank system. However, in introducing this system as an institution, with careful opinion adjustment in the Government, some correction was given to the U. S. model. Furthermore, as a result of the national bank system in Japan version initially introduced not work well, regulatory content was relaxed. It was amended to comply with plans to the more actual situation.

3. Adoption of Western-style Double Entry Bookkeeping

In setting up the modern banking system, on the 8th July in 1872, Alexander Alan Shand, a Scotsman who had worked at the Bank of Hong Kong and Shanghai, was hired by the Japanese Government as one of *oyatoi gaikokujin*¹². *oyatoi gaikokujin* means the foreign government advisors in Meiji Japan.¹³ Japanese Government hired them for their specialized knowledge to assist in the modernization of Japan. The technical area of employment had been foreign advisors is widespread. It covers agriculture, medical science, law, administration, military, engineering, natural science, mathematics, liberal

12 Tsuchiya (1969) mentions Shand's life and his works.

13 The foreign advisors were highly paid; in 1874, they numbered 520 men, at which time their salaries came to JP¥2,272,000, or 33.7 percent of the national annual budget. Despite the value they provided in Japan's modernization, the Japanese Government did not consider it prudent for them to settle in Japan permanently. After training Japanese replacements to take over their places, many found that their contracts (typically for three years) were not renewed.

arts, humanities, education, art and music, missionary activities, etc. The goal of hiring the foreign advisors was to obtain technology and advice transfers on systems and cultural ways. Shand was hired for teaching management for banking.

Any Japanese did not know the Western banking system and its management. Therefore, a person who has rich experience and becomes a teacher was required. In April 1874, Shand let establish an organization called *Ginko Gakkyoku* (school for bankers) to educate about bank business in the Ministry of Finance. He was teaching the banking practice in general to officials of the Ministry of Finance and some other people, for example, officials of local governments there.

The double-entry bookkeeping in the Western style was included in the knowledge brought by Shand. By the way, in the early modern period, Japan was a rich economic country. Naturally, it is not difficult to imagine that the merchants should have had their rational accounting system. For example, one of the great commercial houses the Mitsui, who became the major shareholder of the Daiichi Kokuritsu Ginko, had a precise accounting system that was already able to enable large-scale management in the Edo period (Nishikawa (1993) McKinnon (1994)). The accounting system has a similar function as Western-style double-entry bookkeeping (Takatera (1980)). It is not only a great merchant's family like Mitsui, but it is also relatively easy to imagine that most small and medium-sized merchants were engaged in their accounting practice. Moreover, accounting skills were needed for other people in any classes. Samurai was a kind of official or bureaucrat in the Edo period. They had to control finance. Even some people peasant farmers needed to manage their businesses. The ratio of literacy of any Japanese people classes was so high, and not was hard to understand the importance of accounting practice. Very strangely, we cannot find any pieces of evidence about accounting education in formal institutions in early modern Japan. In

individual merchants' houses or organizations, it is thought that the training of the accounting knowledge was done, of course. But social wide, it might not exist. In this meaning, it may be said that Ginko Gakkyoku where Shand taught, is the first accounting educational institution in Japan.

His lecture was translated into Japanese and published as a textbook titled *Ginko Boki Seiho (Method of Bank Bookkeeping)* in 1873. This is the first accounting textbook and the first description of double-entry bookkeeping in Japan. This textbook described knowledge of the Western double-entry bookkeeping was beyond *Ginko Gakkyoku* was spread nationwide. Shand released accounting knowledge that had been closed in the Edo period to Japanese commercial society. In fact, the expression "*Shando-shiki boki*" ("bookkeeping in Shand's manner") became common in those days Japan, besides the method of accounting record and reckoning was used widely in modernizing other industry as well as the banking industry afterward.

Thus the knowledge about the Western style double-entry bookkeeping spread rapidly all over Japan. The reasons are considered as follows. First, the Japanese had higher literacy and reckoning ability, even in the pre-modern. Therefore it was easy to absorb new techniques and knowledge from the West, unknown to them. Second, they had a society whose economic activities are brisk and lively. The commercial activity that is the object of accounting practice had developed enough. Most people, not only merchants, might have had their accounting skills for management and control. Third, as early in the Meiji era, a modern school system was established, though the schools, especially many business schools, were either in public or private. It made it easy to diffuse and spread knowledge and skill about commerce and/or accounting widely.

With Kokuritsu Ginko's (national bank) establishment, the Western-style double-entry bookkeeping brought into was a piece of new knowledge for Japan. Still, Japanese people and society have already had a foundation for

acceptance.

VII. Conclusions

In the middle of the 19th century, Japan, to catch up with the Western powers, speaking more precisely, to dispel the fear of slavery to the West, aimed at the construction of a strong and modern nation. For the new Government and leaders of the time, modernization of the nation is believed to be achieved quickly by imitating or copying the West's social systems. Therefore Japan and Japanese people were trying to acquire the Western advanced technique and skill and social institution by translation, overseas inspection, foreign advisors' employment eagerly.

Japan made a model of the United States on building a modern currency system and a bank system. The United States needed to rebuild the financial system after the Civil War, and this is because the situation was similar to Japan. In this context, "isomorphism" (DiMaggio and Powell (1983)) theory can show an appropriate explain because Japan imitated the United States to have a successful experience.

However, the actual condition of the institution introducing into Japan was more complicated. Japan has already had sufficient cultural and industrial foundation for accepting a modernized institution in the pre-modern period.

First, the financial system and a settlement system on the national scale were established in the Edo period. There were many wealthy money changers in main cities, and they developed their businesses nationwide. And some of them were involved in the establishment and operation of modern style banks, and they already had a rich experience of the financial transactions even in Edo period.

Second, the embryonic form of the stock company and some great merchant's families had enough capital for big business. The company

organization did not exist, which collected money widely from society. But in the commercial world before modern times of Japan, there was a company which capital is jointed from multiple proprietors or a company where possession and management were already separated.

Third, the double-entry bookkeeping in the Western style was introduced into Japan for the management of the bank at first. The education based on it was offered in school, and it became the social knowledge and spread in a short time. However, most organizations or commercial people have been practicing their original accounting, and many Japanese had literacy necessary for accounting.

The most significant factor of transferring the modern banking system from Western and that has been achieved in a short period successfully was, for the above reasons. Japanese people and society created their own and new social institutions by putting the Western system upon their native system and culture.

The sound of the word of *kasane* can be written in some different of *kanji* (Chinese letter)'s "重 *kasane*" means 'lapping over', 'piling up', 'overriding', 'superimposing', 'layer' and so on. On the other hand, "襲 *kasane*" which has the same reading, has a meaning of inheriting from the past and present. Japan is a society constituted by repeating the cultural editing of "*kasane*" (Matsuoka (1996)).

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