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YUKICHI FUKUZAWA'S VIEWS OF STOCK EXCHANGE SPECULATION AND INVESTMENT

BY TOYOJI KOTAKE

I. BACKGROUNDS

The swelled circulation of government's paper money and inconvertible bank notes, which began in the moment of the Seinan War, an eight-month civil war from mid-February to the end of September, 1877 (the tenth year of Meiji era), caused rises in *yôgin* (silver coin of Mexican dollar) quotation, falls of paper-money value, higher prices of rice and other commodities, increases in imports, and outflow of Japanese specie pieces. This inflation gave an impetus to speculation on *yōgin*, rice and stocks. The *yōgin* market in Yokohama presented a state of boom. Dealings increased in the Rice Exchange Houses of Dōjima, Kabutochō and Kakigarachō (all opened in 1876), while prices of shares of Tokyo and Osaka Stock Exchanges (both incorporated in 1878) as well as Kakigarachō Rice Exchange House, incorp. took upward course. The wave of inflation, accompanied by excessive speculation and evils, held out as long as three years from the end of 1878 to the autumn of 1881, in the process of which newly-born exchanges of stocks and commodities achieved a rapid progress, sailing before the wind of inflation. The specualtive situation was equal to that in the South Sea Bubble of 1720 in Britain and that in the period between the early autumn of 1790 and mid-1792 in America motivated by the foundation of the First Bank of U.S. and Hamilton's funding policy of public debt. Incidentally alike in the three countries a speculative boom played up the role of primitive capital accumulation.

The Meiji government found that the inflation, symbolized in paper-money depreciation, was caused by the outflow of specie money due to the excess of imports over exports and the accompanying rise in *yōgin* price. Contrastively banker circles held that such specie outflow was derived from increasing issue of inconvertible bank notes and government paper money. There came to be a strong opposition between the two views. The government took measures to curb inflation from its viewpoint, including various reforms and regulations on stock and produce exchanges, but all in vain. The check of inflation was rendered possible only by Seigi Matsukata's taking office as Finance Minister, who took a view that the cause of inflation lay in the swelled issue of bank notes and government paper money, which were in turn the result of deficits in the public finance. His budget readjustment policy brought about a deflation. The deflation policy affected exchange establishments too, involving a new tax on brokers, a "compulsory security system" to make exchange itself responsible for brokers' default, and an event of exposing unfair tradings in Kitahama and Dōjima Exchanges with an arrest of more than one thousand brokers.

It was in this period of inflation and subsequent years up to the end of 20's of Meiji era, in other words in the early period of stock exchange development that Yukichi Fukuzawa, the founder of Keio Gijuku University and a leading figure in the cultural and economic development of the Meiji era in Japan, publicated numerous illuminating articles on the issues of speculation and inflation.

II. "SPECULATION" IN MINKAN KEIZAI ROKU, ETC.

Fukuzawa's basic thoughts on price, market and speculation are seen in his *Minkan Keizai Roku Shohen* (Private Economic Considerations, Ist Part) published in December, 1878, when inflation was going to accelerate. He says: "The price of goods should be conceived as the compensation for toil taken in the production and transportation."(1) Such toil is to mean average labor. As goods-to-goods barter is unpractical in a civilized society, a medium for goods exchange is used, that is, "currency taking form of gold or silver or copper metal cut into square or round shape. The currency is exchangeable for other goods because the labor expended during mining and coinage is equivalent to that for producing goods."(2)

However, prices of goods fluctuate on the measure of such currency. There are two laws which cause this fluctuation of prices. The first law concerns suplpy and the second demand. Laws of supply and demand penetrate also through money-exchange, *yōgin* and rice quotations. "Quotation of money-exchange also follows this rule. When, according to situations, many persons wish to transfer money from Tokyo to Osaka, the price of exchange in Tokyo rises, and vice versa. When exports amount high in Yokohama generally, the quotation of *yōgin*, foreign trade money is lowered."(3)

"Often villains come into market, preparing a lot of money, to gain profits by speculation. If some one limitlessly buys rice in an exchange the market position is biased to excessive buying, which inevitably pushes up the price regardless of the current price outside the market. The seller's side, of course being well aware of buyer's intention, opposes this with selling also regardless of the current price. This is, after all, the struggle between big and small money resources, the stronger twisting the weaker down."(4) He accuses such "villains conducting rice speculation," concluding: "Speculation equals gamble. However big its scale may be, it does not produce even a grain of rice. One's loss makes other's comfort."(5)

In *Minkan Keizai Roku*, 2nd Part (August 1880), he further blamed speculation and warned managerial personnels of banks and other undertakings against engaging in speculation. Then prevalent *gengetsu baibai* (three-monthly settlement bargain) is, he said, an extreme case of speculation, nothing more than a gamble. Since our law does not ban it, it is free for gamblers to play the game at their own

(1) Fukuzawa Yukichi Zenshū (Collected Works), Iwanami Shoten, 1959, vol. 4, p. 306.
(2) *Ibid.*, pp. 320–321.
(3) *Ibid.*, p. 326.
(4) *Ibid.*, p. 326.
(5) *Ibid.*, p. 326.

will. The result, loss or gain is entirely the consequcnces of their own deeds. Speculation of short selling or long buying shall be left to them; bank or enterprise personnels should not be engaged in them."(6)

It is to be noticed that in the above argument Fukuzawa made no distinction between speculation on commodities and that on stocks. His attack was directed mainly against speculation on commodities, among others on rice. This was due to the fact that most speculators of those days were concerned with rice market, which was fluctuant, and beside it the stocks and shares listed on new-born stock exchanges were unfamiliar to people. Indeed there were listed only a few number of issues including Exchange-shares of Tokyo and Osaka Stock Exchanges, Rice Exchange Houses and some banks; industrial companies in general had not developed yet.

In this connection Fukuzawa made specifically mention of banks: "The utmost prohibition to banks is speculation."(7) This was because banks were the representative of joint stock companies at the time and among some bank officials there was seen an inclination toward speculation. "A bank is," remarks Fukuzawa, "a company which men of social credit and honor undertake to collect idle funds in the hands of various circles of society in order to utilize them in the interest of industry and commerce."(8) "Managerial personnels of banks, with such public function, as well as those of other companies, are particularly responsible persons, to whom other people's fortunes are entrusted. Even though some one may randomly call this business (speculation) a praiseworthy task of our world, it should not be allowed for them to be engaged in it, as long as their special duty is taken into considerations."(9)

Bad effects of speculation on gold and silver pieces, which was unavoidably incidental to inflation, were futher discussed in *Tsūka Ron* (An Essay On Currency), an editorial essay on *Jiji Shimpō* (a newspaper founded by Fukuzawa), in March 1882. After illustrating data on the rises of gold and silver coins, he comments: "Now there is the fluctuation of paper-money value, how can it be expected that speculation should not take hold of merchants who naturally seek personal profits? How could such spare time for ordinary business be found for those who are flocking to speculation places—coming from every corner and dispersing with gains or losses—, with a thought that more pleasure may lie in taking easy money by a day's speculation rather than accumulating it by long years' toils?"(10) Such flock of crowds to *yōgin* market is the result of inflation; no rises in coin value bring forth inflation.

And the effect of inflation is not confined to speculators. For example, even to ordinary merchants engaged in foreign trade, pre-estimate of profit or loss be-

(6) *Ibid.*, p. 361–363.
(7) *Ibid.*, p. 361.
(8) *Ibid.*, p. 360.
(9) *Ibid.*, p. 363.
(10) *Op. cit.*, Zenshu, vol. 8. p. 42.

comes difficult under a severe fluctuation of the value of currency, which is to make the medium and base for business. So: "Of course ordinary merchants neither intend speculation nor are fond of it, rather want to keep away from it as far as possible. But also in the world of commerce they cannot establish themselves without regard to monetary changes beside trading itself; so to speak, two minds in a body. How can we expect flourishing commerce under such a condition?"(11)

Then what is the fundamental of inflation? He judges: "In the final analysis the cause lies in excessive issue of paper money or its inconvertibility. In either case the responsibility is with government."(12) To try to oppress speculation on gold and silver pieces, which is a result of inflation, is a reversal of causal relation. A readjustment of inconvertible paper money should be the basic cure for inflation. He blames the government's self-contradiction of not carrying out its own proclamation of May 1871 which states: "If in this moment of today we do not try to restore paper-money value to its proper position, equivalent to fine coins, the foundation of a prosperous nation will be difficult to attain.... The government is responsible for the task, and this is an urgent affair." Fukuzawa argues: "Indeed the disposition of currency is fully under government's power; it must be taken up without losing even a day."(13) By the time of this essay Finance Minister Matsukata's measures for paper money readjustment and budget reform had been already on their start. Thus Fukuzawa encouraged Matsukata's counter-inflation policy.

III. "SPECULATION" IN BEISHŌ RON

The government attempted by way of the Act of Exchange of 1887 (so-called Bourse Act) to transform Exchanges from joint stock company to membership organization, to separate broker's own-account dealing from customer-entrusted one, to reform speculative term-dealing nearer to spot-dealing for controlling bad effects, and to regulate both commodity and stock exchanges by a singlw law. This Act, drafted by Karl Friedrich Hermann Roesler, was a compromise of British and German institutions and brought about a serious controversy. In April 1890 Fukuzawa publicated *Beishō Ron* (An essay on Commodity Exchange), in which a criticism against the act was set forth.

He says: "It is reported that the government circles are intending to put restraint upon activities of Rice Exchange Houses as a device to curb price rise of rice. Their measures are said to enforce various regulations on the gorund of the Act, so that merchants may get intolerant of worries in rice-dealing, will give up rice speculation and be engaged in bond or stock speculations. If so, they are going to use the Act for the aim of paralysing rice trading—because they themselves have expressed

(11) *Ibid.*, pp. 42–43.
(12) *Ibid.*, p. 43.
(13) *Ibid.*, p. 43.

that it is very obvious for the Act to make an obstacle to commerce."(14) It is hardly understandable that the government wishes to rely on implicitly planned devices in order to paralyse rice trading, instead of utilizing more simple methods, say, a tax raise on the Houses. "However, such a report seems to tell that the officials have now come to the same view with ours that the Act is not suitable to the real situations nor in line with protection of merchants. Yet the government wants to utilize it to dull the trade, while we are hoping that it will be removed; here is the difference."(15)

He further criticizes: "Also it is awfully astonishing to hear that the officials take a view that, although their speculation is not to blame, merchants had better play at stocks or bonds rather than at rice; we agree that merchants' speculation is not to punish; so we think that it may be smart to leave alone what cannot disappear if prohibited."(16)

It might be possible, he maintains, to force open dealings to decadance or extinction by use of the Bourse Act, to depress market through implicit and indirect devices, or to prohibit it under direct restraints such as tax. However, such result may be only superficial, only driving it an other way. Consequently "under the open sky and on public roads in-pocket dealings will take place, the quality of trade will be lowered, and most important product of our country will turn to a play-tool of real gamblers," as was illustrated by a scene in Yokohama where market-speculators, in order to evade a new broker taxation enforced as from April 1883 as a financial source for armament expansion, left the Exchange House and gathered on a Minaminaka Street to play game by gripping each other's fingers in pocket, trading a huge amount a day."(17)

In short Fukuzawa's view on speculation is: "In commercial world speculation is not to be prohibited. Even when prohibition is enforceable through artificial devices, the resultant injurious effects may go far beyond the case of non-prohibition."(18) Then on what grounds "speculation is not to be prohibited?" He finds them in "big promotion of self-interest" which is a law of economics, or "natural law of economy" or "human mind of self-interest."

"Individually seen, human activities are very type-less"—unselfish, harsh, insatiable, tolerant etc., and tough vs. soft, clean vs. spolied, slow vs. hasty, just vs. unjust. But "when these type-less human activities are gathered into one, and their movements observed, it will be found that a rule governs them, without any exception. What makes such activities in the economic world is the human mind of self-interest. Just as water flows toward a lower direction, so human mind tends to go to a profitable place."(19) "This is right the natural law of economy, which no one can break, whatever devices or influences he may rely on. Whole history of

(14) *Op. cit.*, Zenshū, vol. 12, p. 418.
(15) *Ibid.*, p. 418.
(16) *Ibid.*, p. 420.
(17) *Ibid.*, p. 422.
(18) *Ibid.*, p. 423.
(19) *Ibid.*, pp. 417–418.

the world attests to this."[20] Speculator's buying-up is nothing but a part of this law. "Buying-up is not a particular, personal act of the buyer. There is something that induces him to it, that is to say, he is acting in line with the big rule of self-interest, the law of economics. Whereas low-priced purchase and high-priced sale is a normal business, a buying-up merchant places high-priced purchase because he expects something in it.... Amid the wide current of commerce no single man can carry all things at his will. A profiteering buyer may find an opposing profiteering seller. Both are not unrestrained, and the market will soon get back to a normal situation, owing to the natural law of economy."[21]

Often some one tries to break the law mainly due to ignorance. For example:" A government devises numerous kinds of laws and regulations, bringing forth abnormal and disturbed phases of economy. Such phases could be maintained for some length of time, but in the end must return to normalcy because they are contrary to economic principles."[22] In respect of such law it is an unrecommendable idea for government "to try to shift the vigour of rice market to bond and stock market." "It suffices to take measure of revising laws, rules or regulations only so far as it is necessary, leaving buying or selling to the people concerned."[23] Thus he clarified the reasoning of applying the principle of *laisser faire* to speculalation on exchanges as well as commerce in general. Herein, it may be pointed out, was not yet so clearly made a distinction between speculation in general trade and speculation in transactions on exchanges.

IV. "RAILROAD INVESTMENT" IN SHIHON NO YŌHŌ

In his *Shihon no Yōhō* (Methods of Capital Investment), September 1892, Fukuzawa recommended investment on railroad securities: "Railroad seems most reliable and sound to me compared with such as land estate and bonds. Experiences all over the world prove the stability and security of railroad undertaking. Especially in Japan, where it has been only recently born, there exists little fear of competition, whether on existing lines or future enterprises—almost a position of free-hand monopoly. Its profit will doublessly be large."[24] Of late it has not been popular among people and said to be profitable, only because of too-far dazzling advertisement and acts of speculative stock-jobbers. But: "Railroad is a business on land, less dangerous than shipping or others. Fluctuation of profit is small, compared with ever-changing mining or others. It prospers in peaceful days; in unforessen emergencies the need of transport becomes more urgent, deriving extra profit. It is not too much to say that its profit survives so long as people live on a land regardless of political vicissitudes. No enterprise of more stability

(20) *Ibid.*, pp. 417–418.
(21) *Ibid.*, pp. 417–418.
(22) *Ibid.*, p. 417.
(23) *Ibid.*, p. 423.
(24) *Op. cit.*, Zenshū, vol. 13, p. 515.

could be found among hereditary properties of rich families."[25]

By 1892, the year of this publication, the brisk boom of enterprises had been cooled down by the panic of 1890. Bubble companies in the fields of railroad, spinning and other industries, had been liquidated. But Fukuzawa believed in the prospect of railroad industry, which was to play essential part in the development of home-market for capitalism. It was a desirable affair to make long-term investment in railroad, as Fukuzawa urged, which was an uprising industry requiring huge capital. Also it was a short way to a quick recovery from recession.

However, such investment could not be expected so long as stock markets were indulging in gambling bull-and-bear speculation, the stronger preying upon the weaker. Stock exchanges had to be transformed into long-term investment markets as Fukuzawa advocated. For this end they had to make a further advance toward the market of railroad and industrial stocks, having as background of more dealings of stocks than public bonds beginning from 1886. Also actual state of commission receipts, depending chiefly on sales of exchange-shares (so-called *tōsho-kabu*), had to be abandoned, while real progress was required of stock brokers who had been accustomed to injurious speculative practices from the start of exchanges. This course of proper logical development, which was to be naturally required by capitalism in the process of industrialization, was being met by stubborn resistance of that character of gambling, which had been nurtured at the time of foundation and was still persisting. A great inconsistency existed in the fact that the germ of this inevitable logic was unable to grow unobstructedly on the soil of real world. The solution of this inconsistency perpetually worried the government. The Bourse Act was enacted as a solution supported by capitalists in the process of industrial uprising; the Act, however, was not appropriate to the underdeveloped situations those days. In face of strong opposition by brokers, the government took a back step and enacted the Exchanges Law in March, 1893.

The Exchanges Law, inclusively covering both commodity and stock exchanges, stipulated dealings in three forms: *jiki torihiki* (spot dealing of 5-day settlement), *nobe torihiki* (settlement within 150 days) and *teiki torihiki* (term dealing, margin settlement of 3-month term). Foundation of exchange was permitted either by membership system or joint stock company system. This law, being in effect substantively till a big revision of 1922, served to establish Japan's exchange structure. True it transplanted the idealistic germ of the Bourse Act to the ground of real world. As the joint stock system seemed more profitable to undertakers, the mushroom exchanges at various places over the country were all on this system. There were 24 exchanges at the end of 1893. At the end of 1894, there were 102 exchanges. Most of these numerous small establishments were, however, hardly more than speculation markets depending on the Tokyo and Osaka Exchanges. They had to experience severe disturbance by the break-out of the Nisshin War in June, 1894.

(25) *Ibid.*, p. 516.

V. "SPECULATIVE BUSINESS" AND "ORIDINARY BUSINESS"

An editorial essay of *Jiji Shimpō* by Fukuzawa titled "Fugo Taika Nanio Kurushinde Shōbai Sezaru" (What worries do prevent millionaires from trade business?) appeared in the issue for September, 1894, under such situations of exchanges as above observed. In this essay he at first made clear a distinction between speculation in ordinary business and that in exchange. He explains: "Speculation means to gain profit by taking good opportunities of trade. Since the principle of trade business consists in gains by margin between buying and selling—between low and high prices—standing on forecasts of supply and demand, everything of a merchant concerns speculation. However, in a narrow sense of the word primarily there is a difference between speculation business and ordinary one."(26)

In a wide sense all trades are speculation, but in a narrower sense two kinds of trades, speculative and ordinary, must be distinguished. Then, what is the said ordinary trade? "A commodity is being smoothly traded at a current price. But some merchants expect that there will be the rise in price in the future and others expect that there will be the decline. The former will go to buying and the latter to selling, both expecting results in the future."(27) This is ordinary trade.

Speculative trade is explained as below. Even within ordinary trade, "When an extreme form is taken, the business turns itself to sale of 'goods not in hand' and purchase with 'money not in hand', the actual transaction being only appointed at a later date, say a few months later. Both on seller's and buyer's sides, the bargain is merely of empty voice. They just expect that there will come good chances of market change during the term. Transaction of actual goods is of course outside the aim; so the bargain disproportionate to one's fortune is made by depositing only a small amount of margin. When at times goods are transferred from one person to another, the goods are used as security for another borrowing of money, all actions thus revolving between left and right, from empty to empty. Such a trader is to be called a speculator." Both speculative and ordinary merchants are alike trading for the aim of profit but a difference lies in the point that the one runs a risk of over-ability transactions whereas the other depends on his own resources, risking no accidental adventure; the one is ordinary business and the other is speculation. "The difference depends on the "strength or weakness of resources."(28)

Fukuzawa, however, is not always opposed to speculative trade as some "stubborn fellows often do. "Trade is naturally of adventuous nature; few successful men have not dared any dangers. All speculative merchants are not to be rejected.

A self-contradictory thing—to Fukuzawa's eyes—is that "many millionaires usually regard speculation markets as immoral, evil places, assume a lofty air

(26) Zenshū, vol. 14, pp. 557–558.
(27) *Ibid.*, p. 558.
(28) *Ibid.*, p. 558.

and respectable attitude, yet feel uneasy when some fluctuations are observed there. They are never indifferent to profit-taking, often rather too much concerned, yet they do not touch those markets where speculators are operating. Whatever changes or turns may arise there, they keep calm indifference as if matters were of a foreign country."[29] To him this appears a big mistake. He repeatedly asserts: as speculation is to be distinguished from ordinary business only by the strength of money resources, selling or buying on the base of one's judgement is an ordinary business, not speculation. It is not understandable: "What worries do make millionaires neglect this kind of trade?"[30]

Millionaires, seeing sudden changes in the market, are used to discuss and express fears on them. But "markets are liable to fluctuation caused by groundless rumours of the public, only because little-money speculators are governing there and are running top risks to full extent. So, if many millionaires of the nation come to take complete command of the markets and show unaffected attitude against unappreciable fluctuations, the whole picture of the commercial world will become more stable." He concludes: "It is now the time for millionaires to change mind in line with the tide of the world, publicly go to speculative places and exert influences there. Then petty-soldier fellows will gradually be cowed into silence, flare of unreal speculation will be calmed and consequently the order of commercial world will be maintained. This must be a pleasant task for respectable people, I believe."[31]

It should not be errorneously taken that, in view of the time of publication, the above argument purported, by urging much-money capitalists to participate in speculative business, to lever up stock prices that had been showing drastic decline since the break-out of the Nisshin War. Generally speaking this essay was written to encourage securities investment by the rich. Probably increased investment by the rich might serve to support temporarily declining stock prices, but this was not the aim of his discussion; it would be merely an incidental effect of long-term investment. This is clear from his remark: "In the course of big-scale investment by the most influential persons there may be a good chance of fruitful results, even though such is not the aim."[32] His wish was to mobilize big investors, to stabilize stock prices and to make this the ground for fresh investment to industries.

In connection with this, he did not forget to mention that such profits, if gained, might give worries to the millionaires, because the public naturally envy them, so the millionaires "with boldness and willingness contribute money to public undertakings or benevolencies, to manifest the rich people's personallity, to ease public feelings, and secure peace and safety of the society as well as of their own."[33]

By the by, Fukuzawa most clearly and concretely discussed the distinction between

(29) *Ibid.*, pp. 558–559.
(30) *Ibid.*, pp. 558–559.
(31) *Ibid.*, pp. 559–560.
(32) *Ibid.*, p. 560.
(33) *Ibid.*, p. 560.

securiites investment and speculation—a problem still remaining in confusion within the theories of securities economy. His logic points out that securities trade on exchanges by millionaires with sufficient money for actual transactions comes under speculation in a wide sense, but not speculation-business in a narrow sense, i. e., securities-speculation; it is an ordinary-business, i. e., securities-investment. He has not used the words of securities-speculation and securities-investment. But in the general usage of exchange dealings, his "trade with no intention of actual transaction" is called securities-speculation, and his "sale of goods in hand and purchase with enough money to receive goods" is securities-investment. In other words, regarding exchange dealing, "ordinary-business" is securities-investment and "speculative-business" is securities-speculation. In the wide sense both are "speculation" as Fukuzawa argued. Indeed in the capitalists' society the movement of capital phenomenally pursue price difference. Putting aside its original resource, profit is pursued as price defference. The speculation in a wide sense in Fukuzawa refers to this point.

Fukuzawa has stated, as above cited, that if millionaires deal securities-investment or ordinary-business in exchanges "petty-soldier fellows will gradually be cowed into silence and flare of unreal speculation will be calmed." He anticipated a transformation of the then prevalent "gamble market" to "investment market." This is nothing but a logic which a historical development of capitalism inevitably requires the securities market to have. Powerful investors conquer powerless speculators. However, the realization of this investment market, with speculation as a secondary affair, has long been obstructed by the resistance of active speculative elements, which were continued after the period of foudation of stock exchanges. Even today, almost seventy years after Fukuzawa's exposition, more or less, this "investment market with speculation as a secondary affair" is making one of the most important, lively issues that Japan's capitalism has faced.