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Liverpool Merchants versus Ohmi Merchants: How and Why They Dealt with Risk and Insurance Differently

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Abstract

The purpose of this paper is to intensively discuss and carefully compare the Liverpool Merchants of Britain and the Ohmi merchants of Japan in a historical perspective. The question of much interest is how and why those two merchants dealt with risk and insurance differently.

In his later years, J.R. Hicks did a great contribution on the theory of economic history. He paid a special attention to the rise of the market in which the merchant played as the main actor of the history theater. According to the Hicks doctrine, the relation between theory and history should not be one-to-one, but rather flexible to a certain degree. Therefore, it would be quite interesting to compare the Liverpool merchants of Britain and the Ohmi merchants of Japan. It will be seen that they were engaged in their respective triangular trade, producing their respective socioeconomic systems.

In short, we have to take a pluralistic view in order to fully understand the concept of risk and insurance from the viewpoint of economic history.

Keywords Liverpool merchants, Ohmi merchants, risk, insurance, triangular trade

JEL Classification F14・N10・N70

I Introduction

This paper intends to intensively discuss and carefully compare the Liverpool merchants of the United Kingdom and the Ohmi merchants of Japan in a historical perspective. The question of much interest is how and why those two merchants dealt with real and insurance differently.

The United Kingdom and Japan have many things in common. First of all, they are both typical island nations: the former is located off the western edge of the European Continent, and the latter off the eastern edge. Second, both nations are the constitutional monarchies which are "rare species" in the modern times. The British people cheerfully song the national anthem "The God save the Queen" whereas the Japanese people song the one "Long live Our Emperor." Third, both countries are the advanced nations which have long history and unique cultures, and are economically very strong and influential. Fourth, chivalry is not yet dead in the noble country of Union Jack whereas the samurai spirits are still alive in the beautiful country of the Rising Sun.

In a economic perspective, both the United Kingdom and Japan belong to the exclusive club of the Group of Seven. Both are proud of being "Insurance Superpowers." It is surprising to see, however, that the ways people treat risk and insurance are so different between the two countries. Since the British people tend to make their saving decision on the basis of cost and benefit, they purchase insurance as a mere item of portfolio selection. In contrast, the Japanese people regard insurance as a good mean of security against possible hazards: the way they buy life insurance is psychologically motivated rather than economically oriented. Although Japan today is accelerating the process of transition toward westernization and getting closer to Western Europe and the United America, the historical and cultural foundations of Japan remains the same as before. The unique culture that has been nurtured more than one thousand years cannot be changed by the transformation of the economic environment in recent 70 years or so .

Kazuya Mizushima (1996), a leading authority on insurance, once remarked:

> " If we take a close look at the Japanese insurance system from the viewpoint of the insurance thought which has been commonly shared by the Western people, then we have to reach the conclusion that 'the insurance superpower' does not necessarily mean 'the insurance-advanced nation'. More specifically, we should

find a right answer to the question of whether and to what extent the mismatch between culture and insurance in Japan exist." (Mizushima (1995), page 3)

We think that Mizushima has posed us a very important problem. The question of whether and to what extent the Japanese insurance corresponds to the culture might be an interesting question. We wonder, however, if it is really a right question to ask. Mizushima prefers a variety of pluralistic views to a single definite viewpoint. If we adopt such a pluralistic view à la Mizumisha, we may proceed to say that the correspondence between culture and insurance should not be one-to-one: many forms of insurances may be associated with the culture.

In the present paper, we would like to focus on the role of merchants in the market economy and partially give an answer to the Mizumisha problem aforementioned. More specifically, we pick up Liverpool merchants as a representative of the British system and Ohmi merchants as a good sample of the Japanese system. The problem of how and why they deal with risk and insurance differently is posed, and will be carefully examined.

The contents of this paper are as follows. Section 2 will introduce and examine the view of J.R. Hicks on the mercantile economy, on which the entire framework of our investigation here is built. Section 3 will study Liverpool merchants and their role in the classical triangular trade. The Zong events followed by the civil insurance trial will be a focal point of investigation. Section 4 will turn to Ohmi merchants and their role in the Japanese triangular trade. It will be seen that those merchants served well as main promoters of the mercantile economy in pre-modern Japan, and that their influence on the modern Japan remains a great deal. Section 5 aims to discuss and compare the unique insurance system adopted by Ohmi merchants and the modern one used by Liverpool merchants. Final concluding remarks will be made in the Section 6.

II The Place of Economic History in the Work of J.R. Hicks

2-1. Two Great Economists: J.R. Hicks and Michio Morishima

Michio Morishima (1923-2004) is perhaps the most famous economist Japan has ever produced after the Second World War. He was once a faculty member at the London School of Economics for the period 1970-1988 as the Sir John Hicks Professor of Economics. His personal and academic relation to J.R. Hicks (1904-1989), a Nobel laureate and one of the greatest economists in the 20th century, is quite interesting and illuminating, Throughout his long academic career, Morishima regarded Hicks as the mentor, thus constantly feeling great respect for the life and work of Hicks.

In a small yet important booklet, Morishima (1993) once remarked:

> "In his student days, Hicks dared to change his major from mathematics to economics. Within the field of economics, his study began with labor problems rather than pure theory. As a result, his research area became so wide and extensive, and published so many books in a great variety of fields. If I am allowed to say my favorite books among them, I would like to select the two books, *A Theory of Economic History* (1969) and *A Market Theory of Money* (1989)." (Morishima (1993), page 54)

In 1972, Hicks was awarded the Nobel memorial prize in economic science for his outstanding contribution to theoretical and welfare economics, which was successfully conducted in his much earlier work *Value and Capital* (1939). According to Morishima (1993), however, Hicks was not so impressed by the way in which the Nobel prize was given to him: In fact, his happiness would have been much greater if he had been awarded for his work on economic history rather than on abstract theory. In this connection, it is worthwhile to record his own words:

> "It [the theoretical work] was done a long time ago, and it was with mixed feelings that I found myself honored for that work, which I felt myself to have outgrown."
> (Hicks (1977), Preface and (Survey), page v)

It seems that Hicks was a many-sided person; at least what we had to do was to distinguish between the young Hicks and the old Hicks. Although the work of the young Hicks was well-represented by *Value and Capital* (1939), the old Hicks felt himself already outgrown it. Indeed, Hicks in his later years placed a much higher value on his work on economic history than pure theory.

In short, those two great economists —— Hicks and Morishima —— gradually shifted their interests from theory to history when their ages advanced. More exactly, making a nice bridge between theory and history became the main target of their career goals. It is in line of such Hicks-Morishima tradition that the present author conducts comparative studies of Liverpool and Ohmi merchants in a historical and theoretical perspective.

2-2. Hicks on the Mercantile Economy

Hicks has long been interested in economic history. Hicks has thought that the major function of economic history should be a forum in which economists and many other scholars including political scientists, lawyers, sociologists, and historians can meet and talk to one another.

It is needless to say that the economic theory of Hicks completely differed from that of Karl Marx (1818-1883), a promoter of labor value theory and a noted socialist. The way in which Hicks dealt with economic history, however, had striking resemblance to the method of Marx. Hicks (1969) once remarked;

> "It will be great deal nearer to the kind of thing that was attempted by Marx, who did take from his economics some general ideas which he applied to history, so that the pattern which he saw in history had some extra-historical support That is much more the kind of thing I want to try to do." (Hicks (1969), page 2).

More than one hundred years ago, Marx published *Das Kapital* (1867), a monumental work unifying theory and history. According to Hicks (1969), although there have been enormous developments in social sciences in those long years, so little should have been emerged. Marx may have been correct in his vision of logical processes at work in history. Added with the knowledge of fact and social logic which he did not possess, however, the modern mind should consider the nature of those processes in a distinctly different way.

The Hicks doctrine mentioned above teaches us that theory and history do not necessarily have a one-to-one correspondence. It might be the case that different theories can adopt similar historical approaches. One of the nice examples for this is the delicate relation between Marx and Hicks.

Hicks paid a special attention to the rise of the market or the one of the exchange economy. It is a great transformation which is antecedent to, and even more fundamental than, the rise of capitalism that was discussed with great energy by Marx. Remarkably, there should not be only one way of transformation: There are several possible ways by which we can historically deduce what must have occurred. If we are allowed to apply Hicks' approach to economic history, we would have a variety of ways of the rise of the market; namely, the British way, the Japanese way, the German and so on.

The core of the mercantile economy consists of a body of specialized traders engaged in external trade. The trading center is dependent on trade with the people living far away from their local community. In other words, the mercantile economy as a whole depends on how the people inside it trade with the people outside it. According to Hicks (1969), the fact that one trading center has a different geographical location from another may give the former comparative advantage over the latter in the collection of information; by the trading of a locality with a center, these advantages can be utilized and the possible risks on the sides can significantly be reduced. The key figure in the mercantile economy is nothing but the merchant himself, wholesaler or shopkeeper, who buys in order to sell again.

It is recalled that the first chapter of Hicks (1969) on history book began with a discussion on the relation between theory and history. The third chapter, which was regarded as the culmination of the book, lucidly discussed the rise of the market in which the merchant played a critical part. Unlike Marx, the industrial revolution followed by the emergence of capitalism did not occupy the central place in the Hicks framework.

As was mentioned above, the relation between theory and history should not rigidly be one-to-one, but rather flexible enough. The sort of mechanical determinism à la Marx should not be applied here. In historical perspective, there have existed many kinds of merchants; different countries have different histories and cultures, with each country having produced their own merchants. Among those historically important merchants are the Liverpool merchants of Britain and the Ohmi merchants of Japan, whose comparison is expected to shed new light on the even bigger question of how and why Asians and Westerners think and act differently. [1)]

Ⅲ Liverpool Merchants and the Classical Triangular Trade

3-1. Liverpool as the Start and Goal of the Triangle

Liverpool is known as a major city and a metropolitan borough in northwest England. The city is proud of having a long history: it became a borough from 1207 and a city from 1880. It is really remarkable to see that the history of the city has two opposing sides, namely a bright side and a dark side.

Let us begin our discussion with the bright side. Liverpool celebrated its 800th anniversary in 2007, and honorably held the European Capital of Culture title. Several areas of the city were designated the World Heritage Cite status by UNESCO in

2004. It is also nicknamed the World Capital City of Pop because it is the birthplace of the Beatles, a world renowned singer group. The song "Yesterday" was born in the port city Liverpool. and later wide spread by ship or by air around the world.

We should remember, however, that Liverpool has a sad history as well. It has a big international port connected with any other place in the world. It is really such a geographically nice location that has contributed a great deal to its socioeconomic development and cultural diversity in many ways. Apart from the historic fact that it was originally the registered port of the tragic ocean liner Titanic, it has also been home to the oldest black African community in the country. In fact, Liverpool used to be the most important slaving port in Europe; its ships and merchants dominated the transatlantic slave trade in the second half of the 18th century. The world history tells us that around three-quarters of all European slaving ships in this period left from the port of Liverpool.

It is a very sad historical fact that the mighty British Empire which once controlled the seven major seas and oceans in the world had long thrived on the foundation of the slave trade and many colonies overseas. In a neatly written book aforementioned, Hicks (1969) discussed the slavery system very seriously, and lamented as follows:

> "The darkest episodes in the history of mercantile slavery (putting aside, as before, the horrors of slave-catching which always apply) are a matter of the large-scale employment of slaves: the employment of slaves in gangs, on plantation (such as the Roman latifundia, and the cotton and sugar plantations of Americas and the West Indies), in mines, and as galley-slaves on ships." (Hicks (1969), page 126)

Although there have been so many books and articles on economic history, it is regrettable that so few writings on the slave trade have been available in the economics literature. In short, the word "the slave trade" was once regarded as a sort of taboo in the academic world. Hicks' warm heart and professionalism to seriously discuss such an important topic should greatly be appreciated.

3-2. The Classic Triangular Trade: The Three Passages in the Atlantic Ocean

In general, the triangular trade is a historical term which indicates the trade among three ports , regions or countries. The particular routes under question were historically formed by a number of weather factors such as currents and winds during the age of sailing ships. Among those important routes were the classical triangular trade starting with and getting back to Liverpool.

The classical triangular trade in the 18th century is depicted in Fig. 1. In general, any triangle is supposed to have three points and three sides. In this specific case, Britain (Liverpool, Bristol), West Africa (Slave Coast) and the Caribbean (Jamaica) correspond to those three points whereas the Western Passage, the Middle Passage and the Eastward Passage constituted those three sides.

Let us explain such a historical triangle in greater details. As was shown in Fig. 1, the first leg of the triangle was the Westward Passage, sailing from a British port (Liverpool or Bristol) to West Africa (Slave Coast). Ships in this leg mainly carried textiles, guns and many other manufactured goods. When the ships reached West Africa, their cargos were sold for captured slaves. Those slaves were often the items for nonlife insurance because they were usually regarded as ordinary goods rather than human beings. [2)]

On the second leg, many ships made painful journeys on the famous (or infamous) Middle Passage or the Transatlantic Passage from West Africa to the Caribbean (Jamaica). Understandably, so many slaves died of physical and mental diseases in the crowded holds of the slave ships. Once the ships arrived at the Caribbean or the West Indies, enslaved survivors were mainly sold for American plantations.

The popular song *Old Black Joe* was made by Stephen Foster (1826-1864), a famous American composer. It is said that the song's sadness and melancholy indicated well the hard lives of slaves in an American plantation. Let us record here the first paragraph of Foster (1853):

> "Gone are the days when my heart was young and gay,
> Gone are my friends from the cotton fields away,
> Gone from the earth to a better land I know,
> I hear their gentle voices calling 'Old Black Joe'."

The slave trade via the Middle Passage gave Liverpool and many other European merchants a handsome amount of profits. It was little exaggeration to say that the mighty British Empire thrived on the transatlantic slave trade. Daniel Defoe was then very famous as the author of the popular novel *The Life and Strange Surprising Adventures of Robinson Crusoe* (1719). It is noted here that he was also the author of the interesting commerce book *A Plan of the English Commerce* (1728).

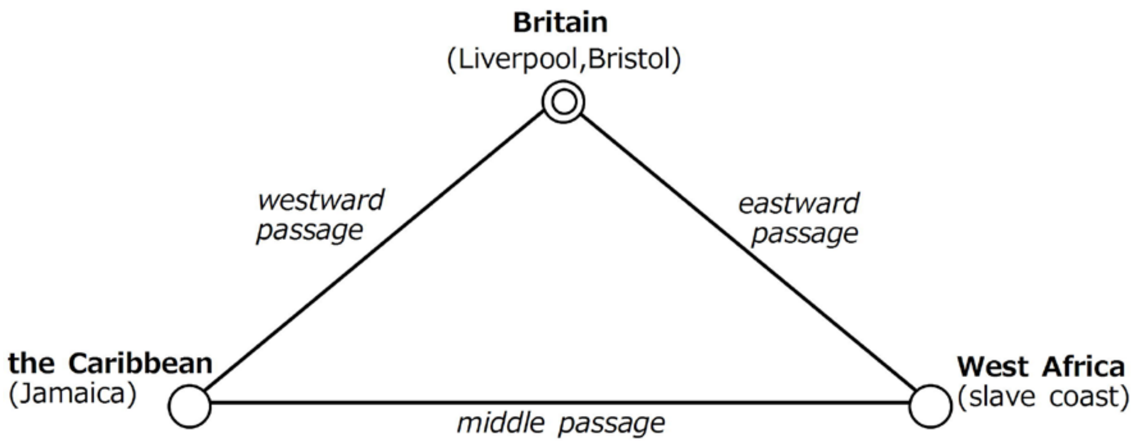

Fig. 1　The classical triangular trade on the Atlantic

In an enlightening book, Defoe (1728) described the way how the huge income and wealth was brought about to Britain by the slave trade:

> "The trade carried on here, whether by the *English*, or other European nations consists in but three capital articles, viz. *slaves*, *teeth,* and *gold* ; a very gainful advantageous commerce, especially as it was once carried on, when these were all purchased at low rates from the savages; and even those low rates paid in trifles, and toys, such as knives and scissors, kettles and clouts, glass beads, and cowries, things of the smallest value, and as we say next to nothing; but even this part of the trade is abated in its goodness since by the strife and envy among the traders, we have had the folly to instruct the savages in the value of their own goods, and inform them of the cheapness of our own; endeavoring to supplant one another, by under selling and overbidding, by which we have taught the negroes to supplant both, by holding up the price of their own productions, and running down the rates of what we carry them for sale." (Defoe (1728, page 329)

This is surely a very long sentence containing many semicolons. With his high spirits and eloquence, Defoe used racist words such as slaves and savages many times, and honestly said that the local African people were always treated extremely unfairly in their trade with the British merchants. Therefore, the Middle Passage served as the very core of the classical triangular trade, and thus greatly contributed to the prosperity of the mighty British Empire.

The third leg of the triangle consisted of the return voyage to Liverpool or home ports in Britain from the Caribbean. The main export items were sugar, tobacco and cotton. The ships got back to the Old World from the New World, thus completing the classical triangular trade.

3-3. The *Zong* Events and the Civil Insurance Trial

In 26 November 2006, Tristan Hunt (2006), a leading historian, wrote a very impressive article in the *Guardian*, a famous British newspaper. The article had the very appealing title: "Slavery: the long road to our historic 'sorrow'," The historical 'sorrow' he referred to was associated with the inhuman slave trade and the strange civil insurance trial named "the *Zong* massacre case." In our opinion, the historic 'sorrow' was actually an understatement; it should correctly have been stated the historic 'shame'.

More than two hundred years ago (more exactly, on 29 November 1781 and the following days), the Zong massacre took place. Captain Luke Collingwood of the slave ship *Zong*, which was then carrying 440 slaves from West Africa to Jamaica, coldheartedly ordered the crew to threw 133 slaves overboard into the sea in order to save the rest. The ship was owned by the Gregson syndicate, based on Liverpool, engaged in the Atlantic slave trade. Remarkably, the syndicate had engaged in marine insurance contract for the slaves onboard as cargo items. Unfortunately, the voyage of the *Zong* was not going well because of strong winds and poor navigation, and the cargo was beginning to deteriorate. After the ship struggled to arrive at Jamaica after a difficult and delayed voyage, the insured (the Gregson syndicate) made a huge claim to the insurer (the Gilbert insurance company) for the huge loss of slaves as the cargo. Understandably, the insurer refused to pay; and in 1783, the damage claim ended up in a London court, not as a murder trial but as a civil insurance case.

After severe legal battles in the court, the presiding judge found in favor of the insured against the insurer. The judge had the general opinion that there should be some circumstances in which the deliberate killing of slaves was quite reasonable and thus legal, and specifically decided that the *Zong* case represented one of those circumstances: therefore, the insurer should pay the loss of slaves and its related damage to the insured. After such first trial, however, another ruling in the next court was announced against the slave-trading company; a set of new evidences were introduced to suggest that Captain Collingwood and his crew of the *Zong* were also at fault.

Because of the harsh legal dispute, the detailed reports of the *Zong* events received increasing publicity, thus gradually stimulating the abolition of the slave trade in the late 18th century and the early 19th century. The movements eventually resulted in the British Slave Trade Act 1807, which announced the formal and final act for the abolition of the notorious African slave trade. It is in the memorial year of 2007 that marked the bicentenary of the British Slave Trade Act. As Hunt (2006) clearly stated, the 200th anniversary of slavery abolition should be a moment of pride as well as guilt.

We can learn some important lessons from the Zong events and the following civil insurance trial. First, we would like to point out that seas and oceans are always very dangerous places to live; we have to take account of the physical and economical loss of cargo onboard as well as the damages caused by stranded ships or piracy. In short, whenever we are onboard, we are subject to a variety of risks which may not necessarily be measurable.

Second, we have to learn the usefulness and limitations of insurances as the means of risk management. As the Zong case has taught us, it might be the case that both the insured and insurer are engaged in tiresome legal battles. When insurance premiums become abnormally high, many persons tend to escape from them. In a great book, Adam Smith (1776) once observed:

> "Moderate as the premium of insurance commonly is, many people despise the risk too much to care to pay it. Taking the whole kingdom at an average, nineteen houses in twenty or rather, perhaps, ninety-nine in a hundred, are not insured from fire. Sea risk is more alarming to the greater part of people, and the proportion of ships insured for those not insured is much greater. Many sail, however, at all seasons, and even in time of war, without any insurance".
>
> (Smith (1776), pp.108-109)

Smith concluded that such neglect of insurance on houses and ships was not the result of cool calculation, but rather the one of mere thoughtless rashness and presumptuous contempt of the risk.

Third, we have to respect high moral in economic activities. As we have said repeatedly, Liverpool once served as a major port city in the infamous slave trade, thus greatly contributing to the prosperity of the mighty British Empire. Someone might say that money and moral are in trade-off relations; in other words, both are seldom compatible with each other. In our opinion, however, the question of whether and to what extent people combine efficiency with equity depends on the culture of a country under question. In contrast to the Western culture, "the harmony of mankind and the coexistence with the nature" have constituted the core of the Eastern philosophy.

In the light of those lessons we have learned so far, it would be a question of the greatest importance to carefully compare the Liverpool merchants of Britain and the Ohmi merchants of Japan in historical and cultural perspectives.

Ⅳ The Ohmi Merchants of Japan and Their Triangular Trade

4-1. Ohmi Merchants: Their Role in the Japanese Mercantile Economy

Ohmi merchants were those merchants who were born in the Ohmi region encircling Mother Lake Biwa, Central Japan, and extensively engaged in distribution activities across the nation, even extending Hokkaido, a foreign north land to pre-modern Japan. Their business philosophy could be characterized as the principle of *sampo-yoshi* or three-way advantage: the trade must be advantageous not only for sellers and buyers but also for the society as a whole. According to Eiichiro Ogura (1991), a leading authority on Ohmi merchants, those merchants must be designated "the National Cultural Asset" of Japan. [3)]

Although the name of Ohmi merchants and the principle of three-way advantage have been very famous in Japan, it is quite unfortunate that they have rarely been heard and written outside Japan. Correcting such asymmetric treatment between the East and the West is one of our motivations of writing this paper.

As mentioned above, Hicks (1969) paid special attention to the rise of the market in which merchants played as main actors. While he found much interest in Europe and the Mediterranean, his reference to Japan and the Sea of Japan seemed to less than satisfactory. For instance, he once remarked:

> "The city state of Europe is a gift of the Mediterranean. ... [T]he Mediterranean has been outstanding as a highway on contract, between countries of widely different productive capacities; further, it is rich in pockets and crannies, islands, promontories, and valleys.... Asia has little to offer that is at all comparable. The Inland Sea of Japan is tiny in comparison with the Mediterranean (it is not even as large as the Aegean); the districts that surrounded it do not differ in natural resources as the Mediterranean countries do." (Hicks (1969), pp.38-39)

Considering geographical and historical differences between Britain and Japan, we should not blame much on Hicks for this point. We would like to point out, however, that Asia has much to offer that is comparable to Europe; in fact, Ohmi merchants have engaged in extensive trading activities around the Sea of Japan and the Northwest Pacific, which is large enough in comparison with the Aegean or even the Mediterranean.

Pre-modern Japan was proud of having three capitals. They were Kyoto as the imperial capital where the emperor (the formal head of the nation) led the ceremonial function, Osaka as the commercial capital in which merchants acted as the center of business and commerce, and Yedo (modern Tokyo) as the political capital where the Shogun (the top of the Samurai class) carried out the executive function. Fortunately, the Ohmi district which was the birth place of Ohmi merchants was located in the center of Japan, thus being in the neighborhood of Kyoto and Osaka and easily connected with Tokyo via a number of main roads.

While the Ohmi district contained Lake Biwa, the biggest lake of Japan, it was not suitable for agriculture and destined to find something else to do for its survival. So many local people had to engage in distribution activities; they dared to take pains to buy and sell many goods in Tokyo and many other remote areas across the nation. They had their own philosophy of business which could easily be summarized as the principle of *Sampo-yoshi*, or the one of three-way advantage. Let us quote some of famous family rules of conducting business:

> "The purpose of the merchant is to meet the supply and demand of all goods, so that satisfying the needs of all the people. If the merchant forgets this philosophy and seeks only his private interest, then he act counter the teaching of God and will eventually destroy himself."
>
> "Doing business may be regarded as an act of worship for Buddha. It should always be respected in many ways; it is good not only for the seller and the buyer, but also good for the society, and may appeal to the compassionate heart of Buddha. The true virtue lies in benevolence and hard work. " (Ogura (1991), pp.12-13)

It is clear that the Ohmi merchants of Japan distinctly differ from the Liverpool merchants aforementioned. First of all, the slave trade has never existed in Japan. Second, the philosophy of Ohmi merchants seemed more appealing to the modern mind than Liverpool merchants. Specifically, the principle of *Sampo-yoshi* or the three-way advantage is still alive today, and will easily be applicable in foreign countries. Third, in Japan, doing business activities was closely related to doing religious activities, perhaps more so than in Europe. In fact, Ohmi merchants were very religious; every merchant family took much care of the Buddhist alter.

In spite of those differences between Ohmi and Liverpool merchants, it should be pointed out that they have one important thing in common. As Liverpool merchants sustained the British economy by means of the classical triangular trade, so did Ohmi merchants contribute to the development of Japanese economy by actively promoting their own triangular trade.

4-2. The Japanese Triangular Trade

As in the classical triangular trade of Britain, the Japanese triangular trade consisted of three regions and three passages connecting any two of the passages. Let us take a close look at Fig. 2. Those three regions were Kamigata (Kyoto and Osaka), Yedo (modern Tokyo) and Yezo (modern Hokkaido and Aomori), whereas those three

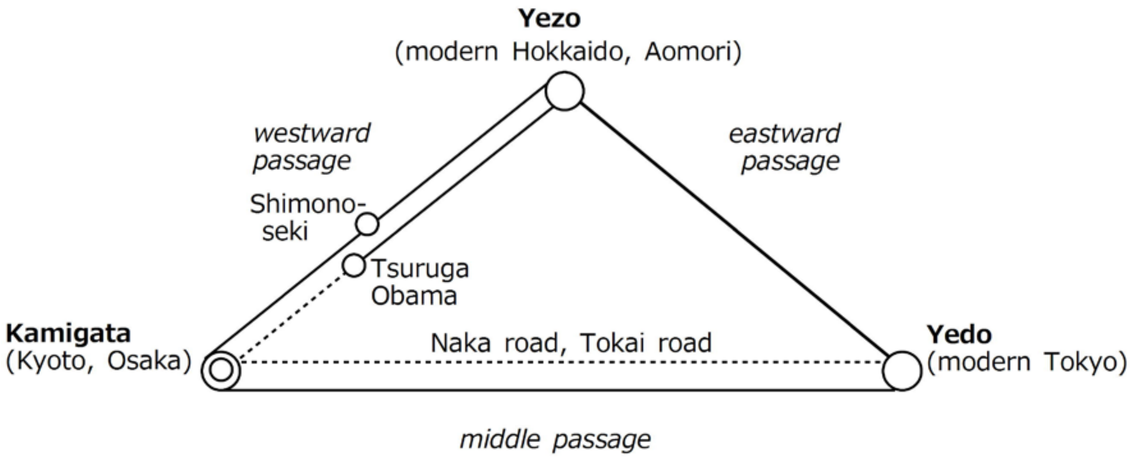

Fig. 2 Ohmi merchants and the Japanese triangular trade

passages were the Middle or East-West Passage, the Eastward Passage and the Westward Passage.

Among those three passages, the Middle Passage connecting the two main regions (Kamigata and Yedo) were the most important one. The Ohmi district was located between those two. In order to show what a critical position Ohmi once occupied in pre-modern Japan, let us write down the following witty remark:

"The man who controls Ohmi may control All Japan."

In Fig. 2, there are two different kinds of lines or curves. Each *solid* line or curve indicates the land/lake route on which people have to travel on foot or take a small boat on the lake, whereas each *dotted* line or curve shows the sea route on which people have to charter a large-scale cargo ship.

In old days, the first leg started from Kyoto or Osaka and took a long walk toward Tokyo. Concerning such Middle Passage, Ohmi merchants had the two options, the *Naka Road* or the *Tokai Road*. They preferred the *Naka* to the *Tokai* because the former promised travelers a bit longer yet more secure route. Ohmi merchants carried textiles, medicines, sake barrels and mosquito nets to Tokyo, bringing back silk, seafood, and dye materials to Kyoto and Osaka. In later days, however, a new and more efficient sea route by special *Higaki* cargo ships between Osaka and Tokyo was adopted by many merchants. It is noted that the sea route was largely more secure and more damage-free than the troublesome land route.

In old days, Yezo (modern Hokkaido and Aomori) was thought of as a very remote area from the center of Japan, being far away from Kyoto, and also far way from Yedo (modern Tokyo). In spite of such geographical disadvantage, however, Yezo attracted so many merchants from Central Japan, especially Ohmi merchants, since it produced a great variety of marine products such as sermons, cods, crabs, kelps and many other seaweeds.

The Westward Passage from Hokkaido to Kyoto and Osaka was regarded as a passage of "high risk and high return." Although the sea of Japan in winter season was very stormy and caused so many wrecks, those courageous seamen who dreamed the dream of making a fortune at one stroke quick dared to take on special *Kitamae* cargo ships. There were basically two sub-routes — the old sea-land combined route, with Tsuruga port or Obama port being as a transfer junction, and the new sea-only route through Shimono-seki port. Although the new route was more roundabout than the old one, it guaranteed merchants the minimum loss of cargo in transit, thereby gradually becoming a preferred route.

Likewise, the Eastward Passage from Hokkaido to Tokyo via the Northwest Pacific was also almost as dangerous as the Westward Passage. After all, Kyoto, Osaka and Tokyo were the three greatest places for consumption of seafood. If anyone did a successful voyage from Hokkaido to those giant cities, he would have become a very rich man in one night. [4)]

The modern mind might think that such a voyage via the Westward or Eastward Passage would have offered us a nice subject of scientific risk management. Someone with cool head might invent a special marine insurance to take care of this matter. The historical fact taught us, however, that the western style of insurance system in its strict sense did not exit in pre-modern Japan. Fortunately, the history did not end here. A kind of risk sharing whose function was similar to modern insurance was invented by a group of cargo ship users on the Westward and Eastward Passage of the Japanese trade triangle. Among those famous users were Ohmi merchants.

In a rather small yet very influential book, Ogura (1980) once remarked:

> "Big Ohmi merchants traded so many textiles, with the annual total amounting to several hundred thousand tons. They utilized as many transportation means as they could; they made efficient use of ships, boats, oxcarts, wagons and like. ......
> Unfortunately, they were involved in so many accidents in sea traffic. So they determined to unite together as a solid group. One of the results of such group activities was what they called *kaijo-tsumikin,* namely the marine reserve fund. This was nothing but the beginning of modern marine insurance system."
>
> (Ogura (1980), pp.13-14)

We can interpret the marine reserve fund as the fund into which the same group members are asked to annually or monthly offer a fixed amount of money in preparation for marine accidents and contingencies. When a certain accident such as ship damages and /or cargo deterioration happens, a certain amount of money is to be paid out of the fund to the victim. It is in this sense that the fund can be thought of a reasonable way of risk sharing or risk spreading.

We have no doubt that Ogura's remark aforementioned interests us very much and surely requires further investigation. In the next section, we will explore the question of whether and to what extent Ogura's historical remark is correct in an analytical framework.

V Alternative Ways of Risk Sharing: the East versus the West

5-1. The Japanese Way of Risk Sharing: The Marine Reserve Fund

As mentioned before, in pre-modern Japan, the marine insurance system which is now commonly available in the world did not develop well. We would like to point out, however, that its nice alternative has grown among Ohmi merchants. Such alternative system was called the marine reserve fund. It is high time to explore its working and performance in an analytical framework.

For the sake of simplicity, let us assume that the marine reserve fund consist of five trade units; namely, Unit 1,2,3,4 and 5. The fund members are not necessarily individuals, but rather trading units. For instance, a typical shipping agent in Osaka and Tokyo in pre-modern times, was well known as a strong organization of close knit units with togetherness and solidarity.

In Fig. 3, five trade units are plotted in the shape of pentagon. A *solid* line there indicates strong ties between the two units. In fact, those units share the same destiny, so that they think and act under the same banner. In the case of sea accidents, they are always ready to share the risks.

Under such fellow feelings, it would be a very nice idea that each trade unit selects its own representative so that the joint council of those representatives may determine their joint duty as well as the allocation of risk sharing for each unit. In Fig. 3, such commitment as an entire group is shown by five *dotted* lines connecting the joint council at the center with the five units plotted at the periphery.

As was seen in Kato (2003), the transportation of a large amount of goods by the Kitamae cargo ships were always difficult, and sometimes extremely dangerous, being involved in many serious accidents such as collision, wreck, pirate, loss of control, cargo damage, sick sailors and so on. The introduction of special marine reserve fund into the hard voyage was certainly a very good device of risk sharing system. In a historical perspective, such special fund was thought of as a precedent of modern marine insurance; it thus acted as a very effective mediator to the modern capitalist system. It should be noticed that it based on very strong human ties among the member units. In the case of contingencies, it offered not only a pecuniary aid to the victim, but also a material and moral support.

It is said that every coin has both sides — a bright side and a dark side. While the marine reserve fund worked so well in a pre-modern society, it had some

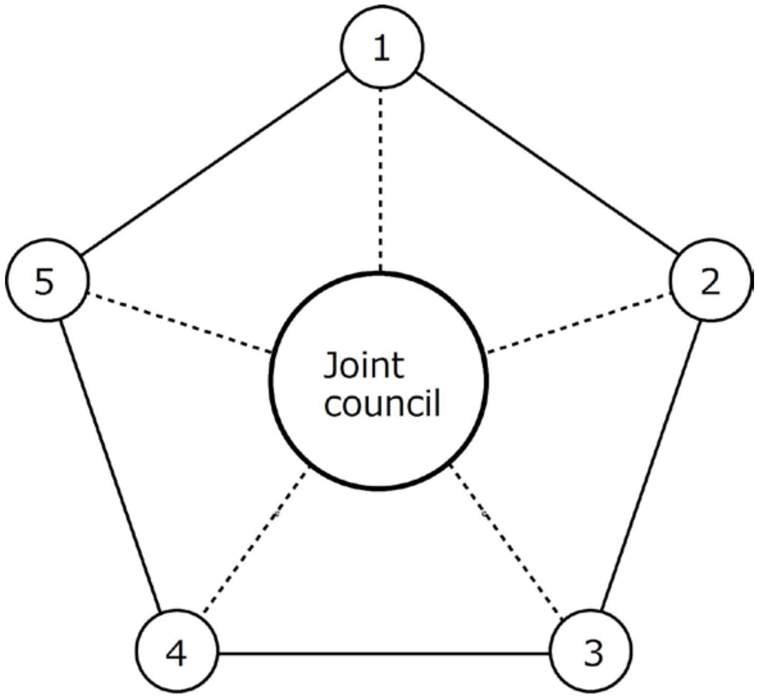

Fig. 3　The Japanese way of risk sharing via the marine reserve fund:
the joint council of representatives

limitations as well. First of all, since the size of the participating member units was limited, it could not deal well when a huge accident happened. Second, the joint council of representatives was not necessarily operated democratically, possibly being under the control by a greedy big boss. Presumably, one of the ways of correcting those limitations was to invent a new large-scale insurance company in which the insured and the insurer were economically and morally independent of each other.

According to Ogura (1980,1991), the merchants of 18th century Ohmi already adopted the modern way of book keeping by double entry. Besides, as Hicks (1969) himself learned from Crawcour (1961), the merchants of 17th century Osaka developed the very advanced mercantile dealings such as the establishment of future dealings. Those historical facts clearly show that Japan developed well a modern way of risk management and accounting before it opened its door to the West in the 1860s. In short, there should be many ways of risk sharing. The Japanese way is certainly one of them. The Western way is another, and will be discussed in the following subsection.

5-2. The Western Way of Risk Sharing: The Presence of Independent Insurers

Let us turn our attention to another way of risk sharing, namely a modern way of dealing with risk and insurance. [5)]

As the saying goes, seeing is believing. Let us a careful look at Fig. 4. What it makes different from the previous figure or Fig. 3 is the presence of independent insurers occupying the center position. As before, there are five trade units — Unit 1, 2,3,4 and 5. The relation between any pair of units is no longer one-to-one, but rather indirect as a dotted line between them may show. The units are only legally related with each other. They may not know each other, but they do the insurance contract with the independent insurer who is supposed to have information of all the insured.

Comparison of Fig, 3 and Fig. 4 teaches us that the relation between a solid line and a dotted line should be just reversed; a solid line in Fig. 3 becomes a dotted line in Fig. 4, and vice versa. Evidently, this is due to the fact that the center circle is now occupied by the independent insurer, not by the joint council of representatives.

The modern insurance system distinguishes itself from the pre-modern system of risk-sharing by joint reserve fund in several aspects. First, the insurer as an independent entity plays the role of main actor with professional ability and determination. Second, the scale of insurance system per se may become very large. Third, its operation must be done on the basis of mathematical probability.

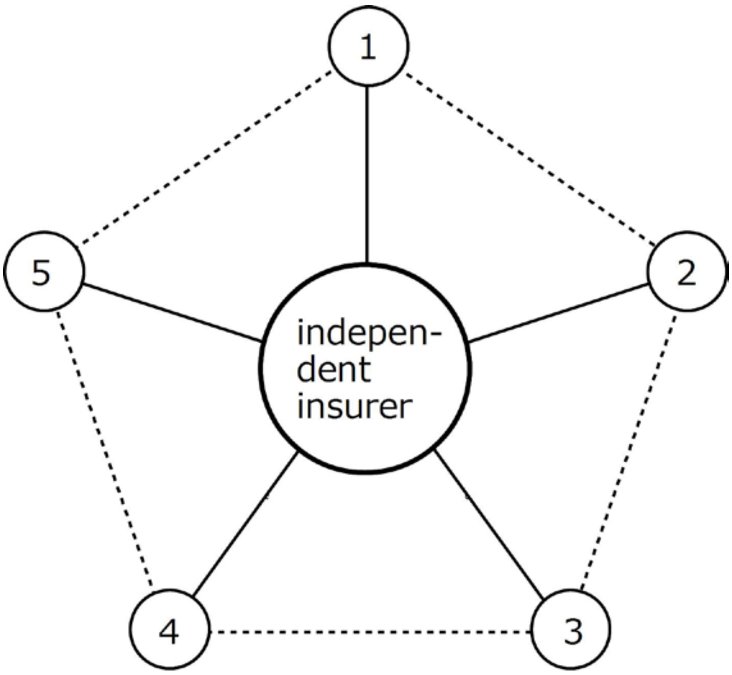

Fig. 4　The Western way of risk sharing:　the presence of the independent insurer

Apparently, so far so good. We must admit, however, that any coin has both sides; a positive side may easily be turned over to a negative one. In fact, in contrast to the traditional risk sharing system, we note that the good human factors including mutual trust and solidarity may become so weak that the bad phenomena such as moral hazard and adverse selection may dominate.

In short, a seemingly good medicine may produce unexpectedly bad side effects. The modern insurance system seems to have solid foundations. As the history teaches us, however, once the system cracks a bit, it might eventually degenerate into a white elephant.

VI Concluding Remarks

In this paper, we have intensively discussed and carefully compared the Liverpool merchants of Britain and the Ohmi merchants of Japan in both historical and analytical perspectives. Both merchants had at least one thing in common since they took advantage of their respective triangular trade, thus playing the role of main promoters in the market economy. It is noted, however, that they were different kinds of characters historically and culturally.

First of all, Liverpool had a very sad past; it used to be the most important slaving port in Europe. In contrast, Ohmi was famous of the birth place of the philosophy of *Sampo-yoshi*: the trade must be good for the seller, good for the buyer, and also for the society. Second, while Liverpool developed the modern system of insurance on the basis of relationship between the insurer and the insured, Ohmi was content to invent a more conventional system of risk sharing by reserve fund donators.

In our opinion, those differences between the two originated in historical and cultural factors. We cannot say that one culture is better than another. Likewise, we should not attempt to discuss the advantage of one economic system over another. After all, diversity really matters!

Hicks (1969) has argued that economics is on the edge of sciences, and also on the edge of history; facing both ways, it is a key position. Putting it differently, economics may be regarded as the intersection of sciences and history. Provided the same scientific reasoning, different histories and different cultures may result in different economies and different risk-sharing systems. It is in this sense that the diversity of economic histories has sustained until today and will continue tomorrow. [6)]

Needless to say, there remain so much areas left untouched in this paper. Although we focused on the two types of merchants, Liverpool and Ohmi, there should be many other merchants in the West and the East. Besides, many types of risk management other than insurance and reserve fund have existed and worked well in economic histories. We believe that this paper may serve well as a good starting point for further research.

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Footnotes

1) For this point, see Nisbett (2003), a noted psychologist. For a general discussion on the economic thought of risk and uncertainty, see Sakai (2010).

2) Kunta Kinte was one of the most famous slaves, being described by Haley (1976), American author, as the slave who fought back. Once known as James Island, West Africa, Kunta Kinte Island was then a holding ground for captured slaves before shipping to America via the Middle Passage.

3) For the principle of Sampo-yoshi and its related history of Ohmi merchants, see Ogura (1980). It is remarkable to see that in characterizing the merit of the mercantile economy, Hicks himself referred to the principle of all-round advantage, meaning the advantage of all parties; the merchants themselves and the 'surrounding' peoples with whom they trade (see Hicks (1969), page 51) . It seems that those two principles, namely Sampo-yoshi and all-round advantage, are amazingly similar concepts.

4) For a detailed history of *Kitamae* cargo ships, see Kato (2003).

5) For a detailed discussion on the working and limitations of modern insurance system, see Dionne (2000).

6) In a separate paper, Sakai (2016) intensively discussed the view of Hicks on the relation between sciences and history.