

Review of Patrick Fridenson and Kikkawa Takeo, eds, *Ethical Capitalism: Shibusawa Eiichi and Business Leadership in Global Perspective*. Toronto: University of Toronto Press, 2017

M. William STEELE\*

**Keywords:** Shibusawa Eiichi, ethical capitalism, *gappon shugi*, business, morality

Do we live in an age of unfettered Capitalism? Is self-interest (a polite term for selfishness) the driver of modern economies? What would Adam Smith think of Donald Trump, the naked capitalist? And is Abe Shinzō’s economic philosophy (so-called Abenomics) any better? What would Shibusawa Eiichi say of him? *Ethical Capitalism: Shibusawa Eiichi and Business Leadership in Global Perspective* focuses on alternate renderings of modern capitalism, past, present, and future. It adds to an on-going debate that has assumed center stage after the 2008 Lehman Shock: “Is economy congruent with morality?” Or as Pope Francis put, how can we “ensure that humanity is served by wealth and not ruled by it.” Shibusawa Eiichi died in 1931 and his economic thinking derived from Confucianism. Nonetheless, as Patrick Fridenson points out in the preface of *Ethical Capitalism*, “Shibusawa still speaks to our contemporary debate.” (xiii)



This volume of eight essays is the product of a three year research project that focused on the Confucian-inspired concept of *gappon-shugi*, Shibusawa’s answer to faults he found in the sort of capitalism (*shihon-shugi*) that had begun to fuel Japan’s commercial and industrial revolution after the Meiji

---

\* Professor Emeritus, International Christian University

Restoration of 1868. *Gappon-shugi*, beginning with Shibusawa's advocacy of joint stock companies (*gappon kaisha*), came to imply money making activities that went hand-in-hand with the achievement of public-oriented benefits and goods. It was a sort of cooperative capitalism; self-interest could be admitted, but only so long as it was not the primary goal. Hence, the title of the book: *Ethical Capitalism*. The eight essays trace the historical, philosophical, and global context in which Shibusawa and his successors attempted to establish harmony between morality and economics (*dōtoku keizai gōitsu*).

*Ethical Capitalism* is timely, although in places strangely out of date; the 2017 English translation of a book published in Japanese in 2014 (*Gurōbaru shihonshugi no naka no Shibusawa Eiichi*, Toyo Keizai Shinpōsha), which in turn was based on a conference held in 2012. Nonetheless, the book still makes for provocative reading. The Lehman Shock seems today almost ancient history, but the problem of ethics in business and politics is perhaps all the more acute. Corporate scandals and corruption are very much in the news in Japan and throughout the world, making people wonder if “corporate social responsibility” is more façade than fact. The question on everyone's lips: how can we (people of the world) guarantee that our political and economic leaders live up to an ethical code of conduct? The chapters that deal with these issues are by an eminent group of diverse scholars from Japan, France, the United Kingdom, and the United States; some are Japan experts, others seek to place Japan (and Shibusawa) in global context; some are historians, other focus on economic issues, policies, and prospects in the world today; some are interested in economic thought, others in practice.

The first four essays take up Shibusawa's life and thought, focusing on his advocacy of joint-stock companies, his Confucian-driven goal to seek harmony between business and morality, his advocacy of the public good and an entrepreneurship that depends a very “visible hand.” The final four essays place Shibusawa's brand of ethical capitalism, *gappon-shugi*, in historical context and explores how his ideas may continue to offer solutions to the economic and environmental crises confronted by the world today.

Chapter One, by Shimada Masakazu, Professor of Japanese Business History at Bunkyo Gakuin University, traces the early life of Shibusawa Eiichi and his involvement in Japan's commercial and industrial take off in the 1870s and 1880s. Shibusawa was born in 1840, the son on a wealthy farmer and indigo merchant. Educated in Confucian classics, in the 1850s the young man from a small village located about 80 km from Tokyo (now part of Fukaya City in Saitama Prefecture) joined the cause to “restore the emperor and expel the barbarians” (*sonnō jōi*) but later, in the mid 1860s, joined the Tokugawa camp in service to Hitotsubashi Yoshinobu, the man

who would become the fifteenth and last shogun of the Edo period. His eyes were opened the world in 1867 when he accompanied the shogun's younger brother to the World Exhibition in Paris. As financial manager to the retinue, he was given his first lessons in Western banking and commercial organizations, including the operation of joint-stock companies. He returned to a career in the new government's Ministry of Finance, but in 1873 left government service to work in the private sector, first as president of the First National Bank. As champion of the joint stock company system, over the next 50 years Shibusawa was involved in the remarkable creation of nearly 500 companies and 600 public organizations.

After examining the various management strategies and technicalities that earned Shibusawa the reputation as the "supreme leader of Japanese capitalism," Shimada turns his attention to his economic thought, in particular the evolution of "cooperative capitalism" or *gappon-shugi*. As early as 1871, Shibusawa argued that personal profit should not be the goal of the new class of entrepreneurs: "the company must benefit and provide for those involved but, as a distributor of goods and materials, must also consider the public good of the entire company." (30) Fifty years later, in the 1920s, Shibusawa had come to argue that *gappon-shugi*, a business philosophy buttressed with Confucian principles as well as references from Adam Smith's *Theory of Moral Sentiments*, offered an alternative to the unrestrained profit seeking that had come to define the capitalist enterprise. Morality and economy, he argued were meant to walk hand in hand (*dōtoku keizai gōitsu*). According to Shibusawa, Confucius had been misunderstood: so long as profit served a public purpose and was righteously earned, it was to be encouraged. "To make the nation truly prosperous, we must enrich the country, to enrich the county, we must make scientific progress and help commerce and industry thrive; to help commerce and industry thrive, we must establish joint-stock corporate organizations." (31) Shibusawa thus emerges as one of the earliest advocates of a Japanese-style capitalism, meant to be kinder and more socially responsible than other forms of capitalism that held sway in Europe and the United States.

The second chapter, by Tanaka Kazuhiro, Professor of Management Philosophy at Hitotsubashi University, provides further details on Shibusawa's attempt to promote harmony between morality and economy. He analyzed Shibusawa's later day speeches and writings, mostly composed in his 70s and 80s, that looked back on his career and on Japan's industrial and commercial achievements but also looked forward, with some foreboding, to Japan's (and the world's) future. He focused on three works, the 1916 *Rongo to soroban* (The Analects and the Abacus), his 1923 speech, *Dōtoku keizai gōitsu setsu* (Harmony between Morality and Economics), and his 1925

*Rongo kōgi* (Lectures on the Analects). Reversing conventional understandings of the Confucian worldview, Shibusawa argued that freeing people's daily lives from financial worries and making them wealthy in fact reflected the essence of the teachings of the historical Confucius. (42) As such, economy is congruent with morality AND morality is congruent with economy. According to Tanaka, Shibusawa's position was that "ethics pays": "those who seek profit for others will find it easier to earn profit for themselves." (48)

Tanaka went on to compare and contrast Shibusawa's view of the "wealth of nations" with that of Adam Smith. Both regarded self-interest as the best way to bring prosperity to society at large. At the same time, both supported self-interest restricted by morality. But whereas Shibusawa saw the pursuit of public welfare as the primarily goal of economic activity, Smith did not. Shibusawa's Confucianism led him to expect/demand that economic people be gentlemen—and practice benevolence. This led Shibusawa to dismiss the importance of Smith's invisible hand. "A society is led to prosperity not unintentionally by the invisible hand, but by a series of efforts of each economic person to improve public welfare." (52) In his conclusion, Tanaka implies that this distinction lies at the heart of the functioning (or not) of global capitalism in the world today.

The third chapter by Patrick Fridenson, Professor Emeritus of International Business History, Ecole des Hautes Etudes en Sciences Sociales (EHESS) in Paris, shows how Shibusawa's attempt to harmonize economics and morality was equally influenced by contemporary Western economic thought and practice. Noting that the rapid industrialization of the mid-nineteenth century depended on flexible boundaries between public and private and the ability to raise large amount of capital for building railroads, factories and modern armies and navies, he associates Shibusawa with adventuresome entrepreneurs around the world who were ideologically traditional but modern in practice. Fridenson focuses on the two years (1867-1868) spent by Shibusawa in France—precisely the years of the Meiji Restoration. There Shibusawa was impressed by the high status enjoyed by merchants and industrial leaders. And under the tutelage of Paul Fleury-Hérald, banker and merchant and one-time financial advisor to the Tokugawa regime, he learned the importance of investment banks, such as the *Crédit Mobilier* (founded 1852) and the *Société Générale* (founded 1864), and the funding of joint-stock companies. He also developed an interest in the practical social utopianism of Henri de Saint-Simon that promised a new world of material and spiritual progress. Fridenson sees Shibusawa's two years in France, his witness to the modern/industrial transformation of its cities, and his encounter with Saint-Simonian ideas and managerial practices, as the starting point of his career as an

industrial banker and later as prophet of the possibility of ethical national and global capitalism.

Miyamoto Matao, Professor Emeritus at Osaka University, is the author of the fourth chapter: “Capitalism by the Visible Hand.” It focuses on Shibusawa as entrepreneur *par excellence* in the Meiji period (1868-1912), representative of a new type of businessman, a *jitsugyōsha*, one who undertakes a real task (thereby drawing a contrast with Edo period *shōnin* / merchants). Under his leadership, the joint-stock system spread rapidly throughout Japan, in essence enabling Japan’s industrial revolution: railways, textiles, banking, insurance, sugar manufacture, paper manufacturing, electricity, ship building, iron and steel, etc. As is repeated throughout the text, Shibusawa, as modernizing Japan’s leading *zaikaijin* (business leader), was personally involved in the creation of over 500 joint-stock companies. Miyamoto explains why and how the joint-stock system proved so effective in late nineteenth century Japan with a focus on the “visible hand” provided by creative and skilled business leaders such as Shibusawa. The management of the Osaka Cotton Spinning Company is presented as a case study to demonstrate Shibusawa’s organizational abilities and his coordinating skills. Miyamoto concludes that without the personal touch of Shibusawa and that of other talented business leaders like him (for example, Tanaka Gentarō in Kyoto, Okuda Masaki in Nagoya, and Godai Tomoatsu in Osaka), Japan’s industrial takeoff would have been much delayed.

The fifth chapter is by Janet Hunter, Professor of Economic History at the London School of Economics and Political Science. She seeks to place Shibusawa’s views on business morality in the context of broader debates on commercial morality in the late nineteenth and early twentieth centuries. The chapter should be read in conjunction with her 2016 book, *Deficient in Commercial Morality?* (also reviewed in his volume). Drawing upon a variety of contemporary sources, including newspapers and magazines, Hunter first outlines Western (primarily British) Christian-influenced discourse on commercial morality that emerged in the middle of the nineteenth century and then focuses on Western attitudes towards commercial morality in Japan.

Interestingly, both in England and in Japan, advocates of commercial morality feared that dishonest practices (fraud, adulteration of goods, failure to deliver on time, false labelling, false bills of exchange, etc.) would damage the stability of British (Japanese) commerce and threaten the reputation of the British (the Japanese) as fair traders. Shibusawa was particularly troubled by reports in the press that Japanese businessmen were deficient in commercial morality, demeaned as “dishonest, tricky and altogether unscrupulous.” (101) Hunter concludes that Shibusawa’s views on business ethics—his call for ethical capitalism—evolved in the context of such widespread negative

assessments of Japan. At the turn of the century, he and other business leaders understood that Japan's economic future was at risk. Here we can see the birth of Shibusawa as advocate of ethical capitalism and the need to prioritize public benefit over individual profit. Hunter skillfully shows how his Confucian-inspired discourse (*The Analects and the Abacus*, 1916) resonated with contemporary Western (Christian-inspired) norms, both responding to shared concerns and both calling for the moral conduct of business.

The sixth chapter takes up where the previous chapter ended. Kimura Masato, Director of the Shibusawa Memorial Foundation, asks how Shibusawa responded to the litany of complaints regarding Japan's deficiency in commercial morality. Aside from his writings and lectures, Kimura points to a number of proactive approaches adopted by Shibusawa not only to raise the level of Japan's business morality but to improve Japan's reputation overseas. First was the promotion of the Tokyo Higher Commercial School and other business schools—with commercial morality an essential element in the curriculum. Second was the creation of boards of mediation and opportunities for foreign merchants to become familiar with Japanese business practices. The problem of mutual ignorance had to be ameliorated. Third, as president of the Tokyo Chamber of Commerce, Shibusawa engaged in economic diplomacy and sent delegations of Japanese businessmen overseas while inviting American businessmen to Japan. Shibusawa himself travelled frequently to the United States, Europe, China and Korea seeking to improve relations and build bonds of trust. Finally, his proactive business morality could be seen in philanthropy. For example, after the 1906 San Francisco earthquake, Shibusawa was instrumental in organizing Japanese business leaders to raise money for the quake victims. As a result, Japan's total donations (\$250,000) was far greater than that of other countries. Kimura concludes that these non-economic activities should be seen as part of Shibusawa's *gappon-shugi* with the ultimate goal to create a people who care for the whole world and not just about their own country. And in turn, ethical capitalism would ultimately improve the global environment for Japanese commercial activities.

The final two chapters examine the legacy of Shibusawa's *gappon-shugi*. In chapter seven, Geoffrey Jones, Professor of Business History at Harvard Business School, places Shibusawa life and thought into a long tradition, east and west, in which private wealth was used for public good. Alongside the Carnegies, Rockefellers, and Bajajas of the world, Shibusawa can be counted as a prophet of corporate social responsibility. Likewise, in chapter eight, Kikkawa Takeo, Professor of Business History at Tokyo University of Science, seeks to clarify the significance of *gappon-shui* in the context of what has been termed the "crisis of capitalism." According to Kikkawa, the

Lehman Shock of 2008 placed global capital at a crossroads. He argues that Shibusawa's *gappon-shugi* can provide a blueprint for creation of a new Japanese management system in which seniority is replaced by merit and self-serving management replaced by strict attention to ethical decision making and adherence to stated goals of corporate social and environmental responsibility. Kikkawa concludes: "If these *gappon-shugi* characteristics can be systematized, it might be possible to create a new view of capitalism." (193)

This returns us to the question posed in our first paragraph: "Is economy congruent with morality?" How realistic is it to follow Shibusawa's simple maxim: "Public interests first, private profits second.?" Can *gappon-shugi* provide an antidote to policies of deregulation that drive the stock market higher and higher? Can *gappon-shugi* help to promote the UN Sustainable Development Goals? Given the high profile of Shibusawa today among Japan's political, economic, and social elite (his portrait will grace Japan's 10,000 yen note from 2024), is Japanese corporate society somehow more ethical, more transparent, more free of corruption than that of other countries? Perhaps this is asking too much—but, to be sure, any push to make our economies, our societies, and our politics somehow more congruent with morality is welcome. This book on Shibusawa's advocacy of ethical capitalism many not solve the "crisis of capitalism" that confronts us today, but it reminds us of past ideals, confronts us with present-day realities, and inspires us to re-think economic priorities in order to construct a more equitable world. We can do worse than obey Shibusawa's commandments: "Do not lie." "Do not give priority to your own benefit." (129)

One final bibliographic note: Two recent books on Shibusawa and his legacy will be of interest to English readers of *Ethical Capitalism*. Shimada Masakazu, author of chapter 1, published a comprehensive biography: *The Entrepreneur Who Built Modern Japan: Shibusawa Eiichi* (translated by Paul Narum), Japan Library, 2017. His chapter 5 provides details on Shibusawa's social and public enterprises. Another book that both complements and complicates *Ethical Capitalism* is John H. Sagers, *Confucian Capitalism: Shibusawa Eiichi, Business Ethics, and Economic Development in Meiji Japan* (Palgrave Macmillan, 2018). For his more critical approach, I draw reader's attention especially to Chapter 7, "Confucian Capitalism and the Search for Economic Prosperity and Social Harmony in Early Twentieth-Century Japan" and Chapter 8, "Purposeful Preservation of Shibusawa Eiichi's Legacy."

