



Shibusawa Eiichi's principle of "The Analects and the Abacus" will save the Japanese economy — Hopefully, the will of the "father of Japanese capitalism" will be passed on in the new era

By Mimura Akio, Chairman of the Japan Chamber of Commerce and Industry

The new era of Reiwa has begun. The ideal path that the country should take and a hope for national peace were always put into the names of previous Japanese eras. I feel that Reiwa also has meanings suitable for all Japanese people to welcome the new era with one heart in the reign of a new emperor.

What struck me particularly strongly was the interpretation of "beautiful harmony," which is defined as the official English translation of Reiwa by the Ministry of Foreign Affairs.

This is because the phrase "beautiful harmony" has some associations with the teachings of Shibusawa Eiichi (1840–1931), the first Chairman of the Tokyo Chamber of Commerce and Industry.

Shibusawa was reported to have been selected for the portrait on the obverse of the new 10,000-yen note that will be issued by 2024. Shibusawa, born in the closing days of the Tokugawa government, was called the "father of Japanese capitalism" and the "father of the business world."



Shibusawa Eiichi (1840–1931)
Courtesy of the National Diet Library, Japan



Mimura Akio, Chairman of
the Japan Chamber of
Commerce and Industry

Shibusawa put forward the principles of "The Analects and the Abacus." More specifically, he argued that unless the private sector worked hard to increase wealth, the nation would not develop, but that companies must also think about the public interest as well as their own profits to make that wealth endure.

Shibusawa argued that the ideal of economic activity was a world where the private and public interests harmonize at a high level.

This way of thinking had existed before the age when Shibusawa lived. Merchants in the Edo period (1603–1868) had the *Sanpo-yoshi* principle ("good in three directions"). It goes: "It is natural that the seller and the buyer are satisfied in economic activity, and good business must also contribute to society as a whole."

In addition, Ishida Baigan (1685–1744), a thinker in the mid-Edo period who influenced Shibusawa, also advocated the thinking of Sekimon Shingaku, based on Shintoism, Confucianism and Buddhism. He communicated to the common people the simple and practical moral ideas that it is natural that people earn profit in business and that they must also consider society as a whole.

It can be said that the ideal of harmony is a moral concept that has been passed down by Japanese merchants for centuries.

But today we often hear it said that companies exist for their stockholders.

In addition, the phrase “greedy capitalism” was in fashion for some time in the past, and morals-free money games were in play.

Of course, joint-stock corporations exist for their stockholders. But the existence of companies is also significant for customers and employees. By continuing their economic activities, companies also create employment opportunities, pay taxes and contribute to local communities. Thinking about the way companies should be is synonymous with thinking about the interests of all stakeholders.

I have great affinity for this idea of making the private and public interests compatible, as the twenty-first Chairman of the Tokyo Chamber of Commerce and Industry.

Nippon Steel Corporation (later renamed Nippon Steel & Sumitomo Metal Corporation, subsequently renamed the current Nippon Steel Corporation), where I used to work, is a company established from the merger of Yawata Iron & Steel Co., Ltd., which as a leading company had a strong sense of the nation, and Fuji Iron & Steel Co., Ltd., which pursued profits as a private company. The company had the DNA of both “The Analects and the Abacus.”

Of course, I had some difficulty reconciling private interest with public interest. But when working for Nippon Steel Corporation, I saw my seniors think from a higher level, about their business not only making a profit, but also contributing to society as a whole, and to people. Because I naturally practiced this way of thinking myself, Shibusawa’s thinking became a part of my own, smoothly and comfortably.

A new 10,000-yen note preserves the will of Shibusawa



Courtesy of Ministry of Finance Japan

In 2018, the Tokyo Chamber of Commerce and Industry celebrated two great milestones: the 140th anniversary of its foundation, and the completion of its new building.

In that milestone year the Tokyo Chamber of Commerce and Industry formulated a Vision for the next ten years of the Tokyo Chamber of Commerce and Industry, a philosophy for activity and guidelines for action in the next ten years, and touted the slogan, “communicating the will of Shibusawa Eiichi, the founder, to the world again” as a major theme.

But although the Tokyo Chamber of Commerce and Industry held commemorative ceremonies, lectures, and special exhibitions featuring Shibusawa, they failed to make the will of Shibusawa known to the public.

As soon as it was announced that Shibusawa had been chosen for the portrait on the obverse of a new 10,000-yen note, he attracted public attention and many people began to wonder, “What kind of figure is Shibusawa Eiichi?” which was very delightful to us.

In celebration of the 140th anniversary of the Tokyo Chamber of Commerce and Industry, we investigated companies and organizations whose foundations Shibusawa was involved in.

Shibusawa was involved in founding as many as 481 companies with a focus on many financial institutions, including banks and insurance companies, and infrastructure projects, including gas and railroads, during his lifetime. In addition, he also engaged in founding about 600 organizations, such as the Japanese Red Cross Society, RIKEN, Hitotsubashi University and Japan Women’s University. Shibusawa was particularly interested in establishing companies and organizations necessary to Japan in such areas as welfare, education and medicine as well as infrastructure.

Surprisingly enough, 296 companies, about 60% of the 481, survived over 120 years after their foundation. Subsequently, these companies have decreased to the current 185 through mergers and management integration by industrial reorganization. But I think that the very existence of these companies communicates the will of Shibusawa to the modern age in their management philosophies.

Learning and preserving the will of Shibusawa has modern value. I even believe that the spirit of “The Analects and the Abacus” is a value that will make the new era better.

We live in a world that is the exact opposite of Reiwa, “beautiful harmony”

Now let’s look at the condition of the Japanese economy that has just experienced the beginning of the Reiwa era. First of all, let me look overseas. Countries around the world are currently overshadowed by division, conflict and chaos. According to the International Monetary Fund, the global economic growth rate for 2019 was revised downward from 3.7% to 3.3%. It can be thought that this mainly reflects the materialization of the Trump administration’s protectionist trade policy in the form of US-China trade friction and the impact of the globally widespread decline of business confidence. If US protectionism intensifies even more, I cannot assert definitely that there will be no further downward revision.

Regarding the US-China trade friction, partial compromises are possible in future negotiations. But in reality, it is a struggle for hegemony between the United States and China originating from a struggle for leadership in the latest technologies, including security, and is not mere economic confrontation. Japanese businesspeople need to try to find a way to survive under these circumstances.

In addition, in March this year Italy announced its support for China's Belt and Road Initiative, and signed a memorandum of understanding on cooperation. This was the first instance of this inside the Group of Seven (G7), and the United States and the European Union (EU) are increasing their vigilance against China, which tries to increase its global influence.

Aside from the United States and China, the issue of the United Kingdom's exit from the EU is in confusion and in France, the Yellow Vest movement broke out in protest against the gulf between rich and poor. In Germany, also shaken by refugees, the political situation remains unstable as we approach the end of the Merkel era.

That is, in the Reiwa era, we, the Japanese people, are positioned in a world that is the exact opposite of the utopia-like concept that the era name implies. Compared with the state of affairs in other countries, Japan's situation is relatively stable and this can be said to be an extremely rare case. There is little room for the rise of so-called populism. In addition, the domestic condition is not so divided as to develop into a serious confrontation.

But you cannot say that there are no domestic problems. It is true that Japan has many issues.

Japan was ranked 58th in the 2019 edition of the "World Happiness Report," which is published annually by the United Nations.

Northern European countries dominate the top spots in this survey every year, and a factor common to these countries is short working hours. People in these countries are committed to their companies for relatively short hours. Because they have high productivity, they receive high salaries. They make use of the remainder of hours for their families and communities. This is considered to be the reason for their very high level of happiness.

On the other hand, in the Public Opinion Survey on the Life of the People conducted by the Cabinet Office in 2018, 74.7% of the Japanese respondents answered that they were satisfied with their current lifestyles. In the case of the respondents aged from 18 to 29, 83.2% answered that they were satisfied with their current lifestyles. This shows that young Japanese have positive feelings toward their present circumstances despite their low level of happiness.

How should we interpret these two contradictory statistics? Regarding the economic condition in 2012 when the second Abe administration was established, the exchange rate was within a range of 80 yen to the dollar and the question of how to pull Japan out of the deflation that had continued for 20 years was a serious issue. Companies that were struggling with the gaps between supply and demand, or the shortage of demand, just put their energies into foreign investments and neglected domestic investments. In this situation, the potential growth rate was almost 0.

Therefore, monetary policy, commonly known as "the first arrow of Abenomics," was necessary as an emergency measure. As a result, the current normal yen market was realized.

Employment also recovered by labor policy. The labor force participation rate of women aged from 25 to 44 improved nearly 10% in the last ten years and it currently sits at 74%. This figure is lower than in Europe but higher than in the United States.

In addition, because healthy old people have come to work even after they retire, the overall number of workers is increasing significantly.

The potential growth rate has recovered to the level where we've been able to maintain it at 1% for

the last six years. I evaluate the initial stage of Abenomics highly for its great effects as an emergency economic measure.

But currently, the prospect of fiscal reconstruction is still dim and the sustainability of social security also remains uncertain. Based on the recognition of this, if you think again about the two statistics above, you will see that the Japanese people today are satisfied with their present circumstances but concerned about their future.

The statistics indicate that young people consider immediate economic conditions, but are concerned whether the government will be firm in supporting them when they grow older.

That is why we have demanded that Abenomics be upgraded. That is, we argue that the government has created the current economic relief, but it shouldn't end there, and we call for the government to implement a policy that places greater emphasis on the future economic relief of the people.

A consumption tax rate hike is a must

One of the important policies for realizing this is the consumption tax rate hike scheduled for October.

Prime Minister Abe has already declared that the consumption tax rate will be raised to 10%. The budget for the fiscal year 2019 is compiled based on that premise.

As a result of the countless discussions about a consumption tax rate increase since when Okamura Tadashi was chairman, the Japan Chamber of Commerce and Industry has insisted that a consumption tax rate hike is indispensable to establishing a sustainable social security system with declining birthrates and population aging, and that making sure that social security benefits will be emphasized and made more efficient at the same time is crucial for the Japanese economy.

We have had a considerably increasing number of requests for advice from businesspeople since Prime Minister Abe declared concretely that the consumption tax rate would be raised last fall. Chambers of commerce and industry in many parts of the country have held seminars for handling the introduction of reduced tax rates and point-return programs for cashless transactions, have explained the changes to many businesspeople, and have made practical preparations. We hope that the government will run an even stronger publicity campaign to urge more accelerated preparations.

I think that Abenomics should place greater emphasis on growth strategies from the producer's standpoint from now on.

This is because the shortage of demand when the second Abe administration was inaugurated has been resolved, and now we see the shortage of supply, or the shortage of corporate production capability, the reverse gap between supply and demand.

For example, the government should advance measures for children waiting to be enrolled in nursery schools and create an environment in which women can work more comfortably. The government should also facilitate even single parents being able to both raise children and work without worry. If the government just draws up policies that help workers, corporate productivity will improve.

In addition, it is important to reduce administrative work, such as making administrative procedures more efficient, as well as to improve the productivity of each person. It is also necessary for

corporate managers to strive to consolidate and reorganize companies to boost the efficiency of entire industries.

I would also like to point out issues brought by the Work Style Reform that the government touts as the most important policy issue to companies. Currently, the labor market is a seller's market due to the shortage of workers. In this situation, unless companies consider work styles and work on employees' health management, they cannot recruit human resources quickly. The Ministry of Economy, Trade and Industry evaluates companies' work style systems and goes as far as to implement the Health & Productivity Stock Selection Program and the Certified Health & Productivity Management Outstanding Organizations Recognition Program.

Because diverse human resources being able to work more comfortably leads to improving productivity, we do not oppose the Work Style Reform itself.

But if the government implements the policy of shortening working hours uniformly and making sure that employees will take days off, corporate operations will surely face problems given small and medium enterprises (SMEs) in particular are facing a serious shortage of labor. In view of this situation, we prompted the government to postpone applying the regulation of putting limits on SMEs' overtime work hours for a year.

In addition, we are also concerned that large corporations will force work that they cannot handle by themselves onto SMEs if they are pressured to carry out the Work Style Reform. It is always SMEs that will first bear the brunt of economic issues.

That is why you can say that solving SMEs' issues will lead to solving the issues of Japan as a whole, and directly to the growth of the Japanese economy.

Because SMEs also exist as part of large corporations' supply chains, no matter how much large corporations grow, unless the SMEs supporting them function well, Japan will never be able to achieve a high level of growth.

Even companies in the black are forced to close their businesses against their will

The Japan Chamber of Commerce and Industry has supported SMEs in their measures for dealing with the shortage of workers and improving productivity, and also business succession.

First, regarding the manpower shortage, it is currently the most serious issue for small and medium manufacturing companies in particular.

About 50% of SMEs complained about the labor shortage four years ago. But the percentage has increased by 5% year by year.

Companies must raise wages to resolve the shortage of workers. But labor costs make up as much as 75% of SMEs' added value, which significantly surpasses the 45% of large corporations. That is, SMEs already pay a large part of added value as personnel costs.

Normally if productivity improves and profits increase, it is ideal to share the profits between the company and the employee. But in reality, companies cannot secure human resources unless they raise wages whatever their productivity. The fact is that 60% of companies are engulfed in this vicious cycle.

To resolve this issue, it is conceivable that companies will as a first step employ part-time workers, women, older people and foreigners. To this end, companies have to offer even more flexible work

styles than now. But such human resources will eventually become dried up in a depopulating society.

The first thing companies have to do is to boost productivity by making use of once-in-a-hundred-years innovative technologies, such as the Internet of Things (IoT) and artificial intelligence (AI). Improving productivity is the only solution to the manpower shortage.

But also here there are huge walls. If companies introduce a new technology and apply it concretely, they need technicians who understand it well. But such human resources are quite rare and it takes money to employ them.

In the future, if companies can nurture human resources who understand systems and computers well, the productivity of SMEs as a whole will increase even if there is a shortage of working-age people, which may enable Japan to survive.

To this end, society as a whole must shift educational systems significantly in that direction. Elementary schools will introduce programming education as a compulsory subject starting from next year. It is necessary to promote this flow.

The Japan Chamber of Commerce and Industry will also introduce the Nissho Programming Examination starting from the next year. We will develop a system of recommending people with these qualifications to companies.

Some managers of SMEs do not understand technical practicalities and there are some cases in which they misunderstand that implementing new technologies requires large initial expenses. But inexpensive and convenient technologies have been developed recently. It is necessary to communicate the latest situations to companies.

One of the most significant issues facing SMEs is the shortage of successors. About 1.25 million SMEs vanished between 1999 and 2016. In particular, some 230,000 SMEs vanished in 2015 and 2016 alone.

Most of these companies did not go bankrupt but dissolved their business due to the old age of their managers and the lack of successors. Half of them were companies in the black. That is, even companies enjoying high profit rates were forced to close against their will because they did not have successors.

The trend of starting up new businesses is popular today. But on the other hand, companies that functioned to some degree in society have withdrawn from society due to the lack of successors. This is a very huge loss to Japan.

Another factor in the discontinuance of business is that because the more smoothly business proceeds, its presumptive value will increase, and higher inheritance taxes will be levied. Because inheritance taxes must be paid in cash, they were a heavy burden on the business succession. In response to this situation, we prompted the government to introduce a system for suspending the payment of inheritance taxes only in the case of continuing business from this year.

The current new trend of mergers and acquisitions in which a third party takes over a business account for more than 50% of all cases. In around 1980, the pattern of the sons or relatives of managers taking over businesses accounted for 90%. But this percentage has dropped to about 30% now. That is why we think that promoting M&A is also a conceivable solution.

I do repeat that unless issues facing SMEs, which account for 99.7% of Japanese companies, are resolved, the growth of the Japanese economy will be impossible.

Create a highly sustainable society

What we hope for in the Reiwa era is that we will see a highly sustainable world in which each individual can have hopes for the future and live fulfilling and satisfactory lives. We think that the economic policy of the Abe administration will continue to hold a very significant key to realizing the ideal of “beautiful harmony.”

At the same time, with world affairs being chaotic, Japan must boost its voice and messages to the international community more than now. Fortunately, the Japanese government played a central role in settling the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP, or TPP-11) and the Agreement went into force successfully at the end of 2018. Japan today has sufficient power and ability, but Japan faces a mountain of difficult problems in economic areas alone.

Japan and the United States have a strong economic partnership. But with the Trump administration’s “America First” policy, Japan must come to a compromise with the United States every time in tough negotiations.

We are very concerned about the current situation of Japan’s relations with South Korea, in which the Agreement on the Settlement of Problems Concerning Property and Claims and on Economic Co-operation between Japan and the Republic of Korea of 1965, which has energized the Japanese and South Korean economies, is in jeopardy.

The relationship between Japan and South Korea must be normal, and the two countries also need to cooperate in the areas of economics and security.

China’s state-controlled capitalism and Japan’s liberal capitalism are mutually exclusive in some respects, but economic groups and private companies between the two countries have continued to trade.

Based on Ren, the supreme virtue of Confucianism, which was advocated by Confucius, Shibusawa put forward the idea of Zhong shu (consistently conscientious and considerate). He also said, “True economic activity will never endure unless it is based on morals that are good for society.”

We believe that practicing the teachings of Shibusawa and getting back to the principle of “The Analects and the Abacus” both domestically and internationally will be the path toward realizing the growth of the Japanese economy and “beautiful harmony.”

Translated from “‘Reiwa’ no Mirai-nenpyo: Shibusawa Eiichi ‘Rongo to Soroban’ ga Nihonkeizai wo suku-u — Shinjidai ni uketsugitai ‘Nihon shihonshugi no chichi’ no ishi (The Future Chronology of Reiwa: Shibusawa Eiichi’s principle of “The Analects and the Abacus” will save the Japanese economy — Hopefully, the will of the “father of Japanese capitalism” will be passed on in the new era),” Bungeishunju, June 2019, pp. 288-296. (Courtesy of Bungeishunju Ltd.) [July 2019]

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