

Prioritizing Public Interest: The Essence of Shibusawa's Doctrine and Its Implications for the Re-invention of Capitalism

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1. Introduction

At any time in any country, it is common to regard morality and economy to be incompatible. It is not unusual for businesses to transgress laws and ethics to earn more profit. We often hear comments that in order for businesses to survive on the fiercely competitive market, consideration of others can only be secondary.

Shibusawa Eiichi (1840-1931), an entrepreneur in modern Japan, contradicted arguments like these, insisting that morality and economy are mutually inseparable, and therefore compatible. Shibusawa's doctrine is called "the inseparability of morality and economy." This doctrine was as conspicuous for his own time as it is today, and was regarded as the hallmark philosophy of Shibusawa. Not only did he continuously advocate this doctrine whenever he had the chance, but as is generally recognized, he consistently practiced this doctrine in his entrepreneurial capacity.

The philosophical foundation for Shibusawa's doctrine is formed by Confucianism and above all by the *Analects of Confucius*, which is one of the most authoritative books in Confucianism. Paraphrasing morality as "the Analects" and economy as "the Abacus" (a manual calculator long used in Japan and China, and the symbol of merchants), Shibusawa often used the expression "the Analects and the abacus are inseparable."

Among various schools of Confucianism, the Cheng-Zhu school, which was the dominant school of Neo-Confucianism, was the most influential in East Asia including

Japan before modern times. The Cheng-Zhu school perceived human material desire in a negative light. In Japan at the time, this influence contributed to the strong tendency to regard morality and economy as incompatible and, therefore, business and its participants as morally suspect.

Opposed to this, Shibusawa interpreted the *Analects* from a different perspective than the Cheng-Zhu school, asserting that far from contradicting the teachings of Confucius, the inseparability of morality and economy was the essence of the teachings of Confucius. Shibusawa's interpretation of the *Analects* was original in the sense that it was derived from his own experience and reading. Having said that, his were definitely not the heretical theories of a layman, which is made clear by the extensive support for the Shibusawa doctrine by his contemporary, Mishima Chushu (1830-1919), an authority on Confucian teachings and Imperial Tutor to the Taisho Emperor.

But Shibusawa, who lived in Japan from the 19th to the 20th century, is not the only one to advocate the compatibility of morality and economics. For example, Adam Smith in 18th century Scotland and Michael Porter in the United States of the 21st century have made similar assertions. Comparing their opinions with Shibusawa's opinion, however, also turns up some inherent differences. Similarly to Smith and Porter, Shibusawa is fully in favor of the pursuit of private profit, but unlike them, he emphasizes that business should be conducted with public interest as the intended and primary objective in itself. The very order of "public interest first, private profit second" is the essence of Shibusawa's doctrine.

In Section 2, I shall elaborate on Shibusawa's doctrine of the inseparability of morality and economy. Then, comparisons will be drawn with the thinking of Smith in Section 3, and with Porter's concept of CSV (Creating Shared Value) in section 4. Based on these comparisons, Section 5 draws out the essence of Shibusawa's doctrine, which is "public interest first, private profit second." At a glance, this is a simple statement, but its significance is actually profound. It is neither a political slogan nor advertising copy, it is a business philosophy. Finally, Section 6 concludes the paper

with an exploration of what this essence can bring to the re-invention of contemporary capitalism in crisis.

2. The Inseparability of Morality and Economy: Shibusawa's Doctrine

2.1. Morality and Economy

There are two aspects to morality in Shibusawa's doctrine of the inseparability of morality and economy: passive morality and active morality. Passive morality is morality that *restricts* or *prohibits* certain acts; for example, you must not deceive other people. It is probably this kind of passive morality that immediately comes to mind when we hear the word "morality." However, there is another aspect to morality. Active morality, or morality that *urges* a person to do what should be done; for example, helping people in need when you encounter them is what you should do; encouraging or prescribing such acts is another aspect of morality. If we conjure up passive morality only, we cannot properly understand Shibusawa's doctrine.

The doctrine is composed of two sub-doctrines: "Morality is essential for economy" and "Economy is essential for morality." These sub-doctrines correspond to the two aspects of morality. The former refers to passive morality whereas the latter refers to active morality. Therefore, it would be more accurate to say that the two sub-doctrines are "*Passive* morality is essential for economy," and "Economy is essential for *active* morality." In this section, these two sub-doctrines will be explained in detail to shed light on the true significance of the inseparability of morality and economy.

Before we do so, let us take a look at the term "economy" as well. In Shibusawa's doctrine, economy also has two connotations: business activities and the resulting profit and wealth. Whether manufacturing, commerce, or finance, business makes its contributions through its business activities. For example, by producing and selling goods and services, a business contributes to the customer; creating employment

contributes to the community; and sharing the economic outcome with shareholders (by dividends) and the government (by taxes) contributes to society at large. As a result of these business activities, the business and its participants earn profit and wealth. The companies accumulate profit while the managers and employees of the company accumulate their own wealth. In sum, business activities further public interest, and the companies and individuals pursuing these activities gain private profit.

The first sub-principle states that passive morality is essential for economy in this dual sense, and the second sub-principle states that economy in this dual sense is essential for active morality.

2.2. Passive morality is essential for economy

The first sub-doctrine is that passive morality is essential for economy. For example, Shibusawa asserts: “If lacking (passive) morality, a dispute is certain to arise even if economic development is attained. The economy will be ruined as a result of the dispute.”¹

In most cases, context is the only way to judge whether Shibusawa refers to “active morality” or “passive morality” (in this paper’s terms); in the above quote, “morality” clearly means “passive morality” as I have indicated; but there is indeed a term that Shibusawa often used when specifically talking about passive morality. The term is “commercial morality,” which was in common usage at the time. Therefore, in what remains of this paper, commercial morality is used interchangeably with passive morality.

From the perspective of commercial morality, Shibusawa emphasized first and foremost that you must not act in bad faith when conducting business activities; profiting from telling lies or deceiving people is not permitted. In all parts of the world and in all human activities, honesty is the most fundamental requirement of (passive)

¹ Ryumonsha [1962] , p. 270

morality. The same is true for commercial morality. Shibusawa asks: “Is it possible to do business without trust in the merchant? For the merchant, trust is fundamental.”² Nobody will trade with a dishonest merchant. The passive morality of not acting in bad faith is essential for business activities.

Anyone will recognize the importance of honesty in business activities, but at the same time, it is also a fact that there is a common understanding that some lying or cheating is a necessary evil in business, and that you can’t trade on decency alone. “Lies also count for capital” was a Japanese proverb dating back to the Edo period (1603–1868). According to this proverb, the ability to skilfully lie to customers and suppliers is a source of capital as good as cash for a business. Because this was a commonly held view of business in Japan, businesses and its participants were perceived as morally dubious to the point where even the people in business themselves thought this way.

However, Shibusawa objected strongly to this way of thinking. For example, in a speech he gave in 1900, he said: “It is possible to do business without telling a single lie. I worked in commerce from 1873 to 1900, and during that time I never did anything dishonest. I swear I never told a lie. I would like to reaffirm that it is possible to do business without telling lies.”³

Nevertheless, in reality, business is from time to time conducted in bad faith. Shibusawa says that this is because “It is easy to act contrary to morality because the idea that extra profit is always desirable takes precedence in profit-making.”⁴ However, Shibusawa repeatedly warns that even if, for argument’s sake, you have managed to earn more profit by acting in bad faith, such profit will definitely not last long. Therefore, the passive morality of not acting in bad faith is essential not only for business activities, but also for the resulting wealth and profit.

² Ryumonsha [1959], p. 160

³ Ryumonsha [1959], p. 834

⁴ Shibusawa [1926], p.137.

In addition to not acting in bad faith, the commercial morality that Shibusawa advocated has the other central pillar: Do not primarily seek self-interest. In today's market economy, it is commonly accepted that individuals primarily pursue their self-interest as long as they observe laws and rules and conduct business honestly. However, Shibusawa was not satisfied with just compliance, honesty, fair play and the like when it comes to commercial morality. He also exhorted people to another important feature of commercial morality: you should not primarily pursue your own profit; it is others' profit that you should primarily pursue.

In his book *The Analects and the Abacus*, Shibusawa makes the following admonition: "What would happen if people who engage in business activities thought that other people were inconsequential, and that as long as they themselves make a profit all is well and good? ; if everyone thought this way, it would lead to a situation where "there is no satisfaction short of total usurpation" in the words of Mencius."⁵ No one will earn anything if everyone puts their self-interests first. Shibusawa illustrates the point with the metaphor of everyone scrambling to be first through the ticket barrier at the railway station, but as it turns out, no one is able get through when everyone jostles together in a confined space.

Putting the interests of others ahead of one's own can be equated (or at least, can lead) to prioritizing public interest over private profit. As will be discussed in more detail in Section 5, "public interest first, private profit second" is the most important principle for Shibusawa. This principle links the two sub-doctrines,⁶ and it is the essence of the doctrine of the inseparability of morality and economy in its entirety.

⁵ Shibusawa [2008], p.124. Translation of Mencius is taken from Lau trans.[1970].

⁶ This principle of "public interest first, private profit second" has the nature of passive morality with respect to not putting private profit first; at the same time, it has the nature of active morality as well with respect to putting public interest first. That is why the principle forms an association of the two sub-doctrines.

In sum, both not acting in bad faith and not primarily seeking self-interest is the passive morality that is essential for carrying out business activities and for earning sustainable profit and wealth. This is the “original” meaning of the first sub-principle.

In addition, there is another “derivative” meaning for this sub-principle. It is that the passive morality is also essential for *legitimizing* private profit and wealth.

Every morality and religion, to a greater or lesser degree, is sceptical of the values of wealth and fame. Profit and social fame are something that should be shunned, or positioned at most as a necessary evil that should be met with reluctant approval. In Shibusawa’s lifetime, there was a strong tendency in Japan as well to regard economic wealth as a moral ill. There are a number of factors behind this outlook on profit and wealth, but Confucianism is an important one and, above all, the influence of the Cheng-Zhu school. This school regarded human material desire as something morally undesirable and something that should be discarded.

As a devotee of Confucianism, Shibusawa was directly opposed to this view of wealth as something despicable. Shibusawa insisted that wealth itself was definitely not a moral ill on the grounds that no matter where he looked in the *Analects*, neither Confucius nor his disciples said that wealth was an ill; instead, Confucius stressed the importance of universal spread of wealth in society (as described later in this paper).

There is, however, one important condition for wealth not to be a moral ill. The condition is that the wealth is obtained in a morally just way. As Shibusawa points out, Confucius frequently warns against the acquisition of wealth in the *Analects* if the wealth is acquired fraudulently; but Confucius does not despise wealth itself. Rather, according to Shibusawa, it is clear that Confucius regarded a man of virtue or a gentleman (*junzi* 君子) as not embarrassed by profit that is consistent with righteousness⁷; and therefore, Shibusawa says: “Wealth and honour gained through

⁷ Shibusawa [1937], p.307

righteous means are never to be regarded as vulgar and abandoned.⁸

In sum, by carrying out business activities that observe passive morality, the profit and wealth earned from the businesses activities are morally legitimate. In other words, passive morality is essential to legitimize private profit (profit and wealth). This is the derivative significance of the first sub-principle.

2.3. Economy is essential for active morality

The second sub-doctrine of inseparability of morality and economy is that economy is essential for active morality, which is more important than the first sub-doctrine. This also consists of two assertions. Firstly, business activities are essential for active morality in the sense that (a) striving to further public interest is the supreme (active) morality taught by Confucius and (b) in achieving this supreme morality, business activities in the private sector play an important role. Secondly, profit and wealth are essential for active morality in the sense that to further public interest through business activities, it is needed that the participating private corporations and individuals can expect to earn sufficient profit and wealth of their own. As a consequence of these two assertions, economy is essential for active morality.

Firstly, business activities are essential for active morality. As is well known, *ren* (仁) is the supreme virtue in Confucianism. As understood from various English translations, including benevolence, charity, human-heartedness and so on, *ren* refers to active morality. Nonetheless, *ren* is an ambiguous concept and not easily defined; Confucius himself defines *ren* in various ways in the *Analects*. Thus, benevolence and human-heartedness only shed light on certain aspects of this ambiguous concept. It would be no exaggeration to say that each Confucian scholar and reader has his/her own idea of what *ren* really means or what the core meaning of *ren* is.

How then did Shibusawa interpret it? No straightforward definition of *ren* by

⁸ Shibusawa [1975], p.150

Shibusawa has been found, but there is at least a clear discussion about what *ren* ultimately connotes. He believed, I would argue, that to free people's daily lives from financial worries and to make them wealthy is the ultimate *ren*. Shibusawa thought that this was the essence of Confucian morality and the core of the teachings of Confucius. The foundation for his argument is the following exchange between Confucius and his disciple Tsze-kung from the *Analects*:

Tsze-kung said, 'Suppose the case of a man extensively conferring benefits on the people and able to assist all, what would you say of him? Might he be called perfectly virtuous?'
The Master said, 'Why speak only of virtue in connection with him? Must he not have the qualities of a sage?'⁹

Shibusawa often quoted this passage, calling it the essence of the *Analects*. He comments that to "extensively confer benefits on the people and assist all" is the path which everyone should take as the highest order of conduct, and that it is this fundamental ideal that made Confucius go out into public life.¹⁰ According to Shibusawa, "The trifling charities, kindnesses, and sympathies that take place between individuals are a small virtue (小仁). Politics and acts based on the kind of virtue that extends affection to many people and comes to the aid of people who are suffering, is a great virtue (大仁)."¹¹

Mainstream Confucian scholars, however, have presumed to ignore these teachings, advocating that economic activity is contrary to the teachings of Confucius. It is only natural for Shibusawa to criticize this. In his last years, he said the following in a speech: "It was a fallacy for scholars lecturing on the *Analects* to have separated

⁹ Confucius, *Analects*, 6/28. (Legge trans.[1971])

¹⁰ Shibusawa [2010b], p.258

¹¹ Shibusawa [1975], p.433.

morality from production and profit-making. They are absolutely compatible.”¹²

Making people wealthy is nothing less than furthering public interest. Without economic activity, it is impossible to implement this supreme virtue of furthering public interest. That is why economy is essential for (active) morality.

One question remains: isn't it a role of the government or the public sector to further public interest? In earlier times, the answer would have been “yes.” But Shibusawa, a man of modern Japan, thought that from here on people in private business should take on even more of this role than the government.¹³ He strongly expects private businesses to adopt the basic policy of “aiming at prosperity of the nation and affluence for many people, without indulging in self-centeredness” when engaging in business.¹⁴

Secondly, profit and wealth are essential for active morality. Shibusawa thought that for public-interest-enhancing activities to work satisfactorily, it was essential that participating private corporations and individuals could expect to earn sufficient profit and wealth; people can engage enthusiastically and patiently with the supreme virtue of furthering public interest precisely because they expect to earn profits for themselves as well through the business activities. Shibusawa says: “What if a particular work has no relation to your own profit? You will not put your heart and soul into the work if it is clear that the success of the work earns others a fortune but not yourself or that the failure of it costs others a fortune but not yourself. However, if it is your own [profit-related] work, you would wish to develop it, and it is a plain fact that you actually will develop it.”¹⁵ Shibusawa even says: “Self-interest can generate public good. A public good is fragile unless it is based on self-interest.”¹⁶ For the public good to be rock solid,

¹² Shibusawa [1937]

¹³ Sakamoto [2002]

¹⁴ Ryumonsha [1959], p.406. Emphasis added by author.

¹⁵ Shibusawa [2008], p.126. Words in brackets added by author.

¹⁶ Ryumonsha [1959, p.159.

the person striving for the public good must be able to see a profit.”¹⁷

Consequently, the profit and wealth of private corporations and individuals are also essential for active morality. Not only did Shibusawa legitimize profit and wealth as long as *passive morality* is observed and achieved, but he also felt that such profit and wealth was essential to achieve *active morality*; he positioned profit and wealth in a more positive light.

An important point here is that Shibusawa never thought that self-interest should be sacrificed for ultimate morality. He never brought up any virtue of poverty *per se* that people tend to associate with the term “morality.” He deliberated on morality based on natural human emotions, which will be the key to understanding the discussion in Section 5 of the principle of “public interest first, private profit second.”

3. Intention to Pursue Public Interest: A Comparison with the Views of Adam Smith

3.1. Endorsing Righteous Self-Interest

Shibusawa’s doctrine of the inseparability of morality and economy has some points in common with Adam Smith’s views on the mechanism whereby economic transactions on the market bring social prosperity. Today, people familiar with Shibusawa’s doctrine often point out the common ground in the theories of Shibusawa and Smith. In a speech recorded in 1923, Shibusawa himself said that his doctrine and Adam Smith’s view were aligned with each other, and that he therefore believed that the inseparability of morality and economy is an immutable principle that applies in both the East and the West.¹⁸

¹⁷ Shibusawa [2008], p.126.

¹⁸ Shibusawa [1937], p.307

In actual fact, they have two points in common. Firstly, they endorse the self-interest of human beings. They believe that for individuals to pursue economic activities in the hope of increasing their own wealth (or reputation) is a good, for the pursuit of private profit plays an important role in the prosperity of society as a whole. As mentioned earlier, Shibusawa maintained that in order to fully commit to business activities that further public interest, it is essential that private corporations and individuals can expect to earn sufficient profit and wealth. Smith, on the other hand, argued that the individual pursuit and expectation of wealth, fame or other self-interest are connected to the prosperity of society through the workings of “an invisible hand.”

Secondly, they do not endorse such self-interest without any restraints. They take a positive view of the pursuit of profit on condition that passive morality is preserved. Shibusawa did not approve of the pursuit of self-interest when the tenets of commercial morality, “Do not act in bad faith” and “Do not primarily seek self-interest,” are ignored. Smith, on the other hand, approved of that self-interest which is restrained by a sense of duty; duty comprises both justice and beneficence, but as will be explained later, Smith emphasizes justice (fair play) above all: “In the race for wealth, and honors, and preferment, he may run as hard as he can, and strain every nerve and every muscle, in order to outstrip all his competitors. But if he should jostle, or throw down any of them, the indulgence of the spectators is entirely at an end. It is a violation of fair play which they cannot admit of.”¹⁹

In sum, the views of Shibusawa and Smith coincide in terms of their endorsement of righteous self-interest as essential for prosperity in society.

3.2. The Duty to Pursue Public Interest

Although they share these commonalities, there are also important differences between the two. They differ on whether or not individuals engaged in economic

¹⁹ Smith [1982], p.83

activities are expected to intentionally pursue public interest. Shibusawa has such expectations, Smith does not.

Smith thinks that striving to pursue private profit is linked to order and prosperity in society as a whole as long as individuals observe fair play. They need not aim to improve the circumstances of the poor, or to invest in developing the economy in their own countries. It does not matter if affluent people lead lives of luxury for their own ends, or if investors make investments to maximize their own income. However, as a result of their economic action to pursue private profit, the wealth of the affluent is redistributed to the poor, and invested capital increases the economic power of their countries. This is facilitated by an invisible hand:

He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it... [A]nd he is in this, as in many other cases, led by *an invisible hand* to promote an end which was no part of his intention... By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. ²⁰

Through the workings of the invisible hand, the pursuit of self-interest (or to put it accurately, the pursuit of self-interest as long as fair play is observed) will produce the unintended consequence of furthering public interest. Therefore, Smith does not expect each individual to act with the intention of pursuing public interest.

Smith was, of course, not indifferent to the pursuit of the public interest and beneficence; along with the passive morality of justice, he cites the active morality of beneficence as a duty of human beings. But he clearly emphasizes justice, not beneficence:

²⁰ Smith [1976], p.456. Emphasis added by author.

[Beneficence] is the ornament which embellishes, not the foundation which supports the building, and which it was, therefore, sufficient to recommend, but by no means necessary to impose. Justice, on the contrary, is the main pillar that upholds the whole edifice.²¹

Therefore, economic activities must always be supported by the self-interest and sense of justice of individuals, but not necessarily by beneficence:

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.²²

Shibusawa, on the other hand, would have thought that the butcher and the baker should also be expected to concern themselves with the needs of their customers, and be prepared to consider the benefits of other people than themselves as well. He does not insist that individuals should completely sacrifice their own profits as they trade, but he warns against engaging in trade thinking only of their own profits. Whilst Shibusawa, like Smith, emphasises the *passive* morality of not committing fraud and recognizes the legitimacy of pursuing private profit, he also emphasizes the practice of *active* morality such as beneficence.

For Shibusawa, the intention of individuals to pursue public interest was extremely important. By intentionally trading and investing with a view to the profits of others, he would argue, one can further the realization of the supreme virtue of *ren*; economy and morality are in agreement when trade and investment are done in this way.

²¹ Smith [1982], p. 86

²² Smith [1937], p.14

To further public interest, the individual must act not only for private profit, but also with the intention of furthering public interest. This way of thinking is also apparent in the attitude of Shibusawa himself when he participates in various enterprises.

If people start up a business, participate in it, or hold shares in it primarily motivated by profit expectations, businesses required for the state will, in the end, not be able to develop, for they are quick to exit from a business if it doesn't make profit. Therefore, I [...] relegate the expected profitability to second place when it comes to those businesses which are required for the state. [...] If the business needs to be launched, I launch it, I hold shares in it; and thereafter I try to actually make a profit; I believe required business should be run in this way. I always take this attitude when I start up a business, participate in it, or hold shares in it. I have never yet held shares thinking that this stock will rise in price.²³

The criteria for Shibusawa when he developed entrepreneurial activities was whether or not they were necessary for the state rather than whether or not they would prove lucrative for him; he put public interest before private profit. Nevertheless, he did not completely disregard private profit. We must not overlook the phrase "I try to actually make a profit." If he contributed at all to a business for the sake of public profit, he made efforts to generate profits from the business. Even in the case of businesses where it would have been better to pull out early if you were in it only for private profit, Shibusawa would go out on a limb and stay with the business to support it as long as it was necessary for public interest.²⁴

²³ Shibusawa [1975], p.177

²⁴ For example, Shibusawa was involved in the establishment of Tokyo Jinzu Hiryo (presently, Nissan Chemical Industries, Ltd.). The company suffered a huge loss and was plunged into a management crisis shortly after it was founded, and all other stakeholders withdrew. However, Shibusawa alone stayed with the company and set management back on track "because I was determined to make the business work." (Shibusawa [1975] pp.266-268)

Shibusawa also strongly emphasizes deliberate engagement with beneficence to rectify the disparity between rich and poor, which is another difference between Shibusawa and Smith. Smith took the position that even if the rich were not asked to contribute to initiatives to aid the poor, the disparities between rich and poor would correct themselves naturally; if the wealthy lived a life of luxury out of their own vanity, the redistribution of wealth to the poor would take place by means of the invisible hand. Shibusawa, on the other hand, did not think that the rich making self-interest their principle would resolve the problems, and he expected deliberate acts of beneficence on part of the rich to benefit the poor:

Even when you have become wealthy, first of all, be aware of your debt to society. If you constantly take the lead and spare no effort on behalf of social relief or public welfare, society will become doubly sound, and at the same time, the management of your own assets will also become increasingly solid. But, if the wealthy ignore society, thinking that they can preserve their wealth by distancing themselves from society, disregarding the social and public welfare, this is where the collision between the wealthy and people in society will take place.²⁵

Shibusawa is not saying that it is desirable for the wealthy to harbour the spirit of beneficence simply because it is morally commendable (if it were only morally desirable, there is no doubt that Smith would also assent), but saying that acts of beneficence where the wealthy take the initiative and work toward public interest are necessary to alleviate social unrest even in a market economy. Moreover, for the wealthy, these benefits do not only extend to other people. Shibusawa also identifies the dynamic mechanism at work when the wealthy aim for public interest to improve society, by pointing out that eventually “the management of your own assets will also

²⁵ Shibusawa [2008], p.147

become increasingly solid”; in short, their acts will also further private profit.

3.3. Emphasis on Active Morality

Smith regarded passive morality as the main pillar of the edifice and emphasized it above active morality. Shibusawa believed, I would argue, that active morality was equal to or more important than passive morality, while there is no doubt that he also emphasized passive morality. To express these differences between Smith and Shibusawa in simple terms:

Smith: Active morality < Passive morality

Shibusawa: Active morality \geq Passive morality

The characteristics and importance of Shibusawa’s doctrine lie in this emphasis on active morality, i.e. striving for public interest.

After the passage in the *Wealth of Nations* where Smith talks about the invisible hand (quoted above), he continues by stating “I have never known much good done by those who affected to trade for the public good.”²⁶ But today we know about people like Shibusawa Eiichi who accomplished “much good” by working “for the public good.” In addition to Shibusawa, there are quite a few Japanese industrialists who worked successfully for the benefit of the public interests.

Perhaps Smith would have thought of two types of people among “those who affected to trade for the public good.” Firstly, excessively idealistic people who neglect private profit at all for the sake of public interest. However, as Shibusawa says, it is difficult for the people involved in the business to engage in earnest if private profit is overlooked. It would also be difficult to gather resources required for business. In that situation, “much good” would be hard to be done.

²⁶ Smith [1976], p.456 (Smith [2000], p.304)

Secondly, people who advocate public interest, but are actually wholly devoted to the pursuit of their own private profit. Such people are dishonest and similar to those who deceive others in the name of the public interest. Far from doing much good, they even commit “much bad” in the bargain.

Shibusawa was different from either of these two even as he championed public interest. He was an industrialist who put the pursuit of the public interest first while honoring private profit as well as fair play.

4. Is Public Interest the End or the Means? : A Comparison with Michael Porter’s CSV

4.1. The Deliberate Pursuit of the Public Interest

In our time, Professor Michael Porter of the Harvard Business School argues to the effect that businesses and entrepreneurs should deliberately engage in the pursuit of the public interest and that striving to further public interest is far from a contradiction with acquisition of private profit, rather it is admirably compatible (Porter and Kramer [2006] [2011]). Porter’s thinking appears to be a step closer to that of Shibusawa than Adam Smith.

Porter does not view the relationship between business and society as incompatible, but perceives it as a mutually dependent relationship. He contradicts the widely held perception that companies are prospering at the expense of society, and claims that companies themselves can prosper by working toward societal needs. Therefore, he objects to conventional Corporate Social Responsibility (CSR), which takes a confrontational view of business and society, and instead he proposes a new concept of Creating Shared Value (CSV), which is based on mutual dependence, as something that should supersede CSR; corporations should aim for CSV rather than CSR.

The concept of shared value “involves creating economic value in a way that *also* creates value for society by addressing its needs and challenges.”²⁷ Shared value, then, is not “about ‘sharing’ the value already created by firms... Instead, it is about expanding the total pool of economic and social value.”²⁸ Philanthropy, donations and other forms of conventional CSR are just ‘sharing’ the value already created by firms, not expanding the total pool of value; even if they contribute to increasing social value, they do not increase the economic value.

In contrast, corporations contributing to solving environmental or social issues through their main business can create shared value. For example, by supporting coffee farmers in developing countries in various ways, Nestlé has succeeded in raising their productivity and the quality of their products²⁹. As a result, their living standards and motivation have also risen. Nestlé has contributed to alleviating the social issue of the negative chain of poverty in developing countries. At the same time, Nestlé itself is also on the receiving end of major economic benefit by facilitating the stable supply of high-quality coffee beans for the popular Nespresso product.

Thus, there are deep connections between corporations contributing to social issues, on one hand, and creating economic value, on the other, through their core business; striving to further public interest can bring major private profit. In other words, the active morality of furthering public interest and the economy of obtaining profit are compatible.

If so, it would be preferable for corporations not to be inward-looking and preoccupied with gains for their own, but to be outward-looking and to strive to further social and community interests. Therefore, “[t]he purpose of the corporation must be

²⁷ Porter and Kramer [2011], p.64, emphasis in the original text.

²⁸ Porter and Kramer [2011], p.65

²⁹ Porter and Kramer [2011], p.70

redefined as creating shared value, not just profit per se.”³⁰ Porter explains that corporations can create social value by addressing environmental and societal issues, and as a result, they can also create economic value, specifically by using the following three methods: (a) re-conceiving products and markets, (b) redefining productivity in the value chain, and (c) building supportive industry clusters at the company’s locations.

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In sum, Porter emphasizes the need for corporations and entrepreneurs to *deliberately* pursue public interest. It is here that difference can be shown between Porter and Smith, who does not suggest such a need; and it is here that common ground can be found between Porter and Shibusawa.

4.2. Public Interest as the End of Business Activities

By deliberately contributing to furthering public interests, corporations and entrepreneurs can also further their own private profit. Where Porter and Shibusawa hold this kind of theory, they are in agreement as well. But then, which are corporations and entrepreneurs assumed to prioritize, public interests or private profits? Which is assumed to be the primary motive, self-interest or conscience? It is here, I believe, that Shibusawa and Porter differ decisively. In Porter’s view, priority is given to private profits and the primary motive is assumed to be self-interest. In Shibusawa’s view, on the contrary, priority is given to public interests and the primary motive is assumed to be conscience such as benevolence, compassion and a sense of responsibility towards society.

It seems that, in Porter’s CSV concept, pursuit of the public interest is the means to the end of obtaining private profit:

³⁰ Porter and Kramer [2011], p.64

³¹ Porter and Kramer [2011], p.67.

[Creating shared value] is not philanthropy but *self-interested behavior to create economic value by creating societal value*.³²

We need a more sophisticated form of capitalism, one imbued with a social purpose. But that purpose should arise not out of charity but out of deeper understanding of competition and economic value creation.³³

[Shared value] will also become an integral part of strategy. The essence of strategy is choosing a unique positioning and a distinctive value chain to deliver on it. [...] And the competitive advantages that arise from creating shared value will often be more sustainable than conventional cost and quality improvements.³⁴

According to Porter, the pursuit of the public interest is a valid and new strategic method in order for corporations to earn more; the primary motive of the parties pursuing public interest is working for themselves (self-interest) rather than working for society (conscience).

Shibusawa definitely does not deny that a “deeper understanding of economic value creation” is necessary to implement public interest, nor does he deny, as discussed so far in this paper, the necessity of private profit for people to strive for public interest. It is important, however, that, for Shibusawa, the pursuit of the public interest is not a means to obtain private profit, but an end with its own intrinsic value. Although he fully recognizes the legitimacy of obtaining private profit, he strongly implies that as far as the relationship with the pursuit of the public interest is concerned, obtaining private profit is a means of continuous implementation of the public interest, that is, an

³² Porter and Kramer [2011], p.77. Emphasis added by author.

³³ Porter and Kramer [2011], p.77

³⁴ Porter and Kramer [2011], pp.75-76

(important) incentive that prompts people to concern themselves with furthering public interest through the business. The means and the end are the opposite of the CSV model.

At least for Shibusawa himself, the pursuit of the public interest is clearly the primary motive.

I embrace the idea that, in general, when dealing with worldly affairs I shall serve society at the same time as looking after my own interests and propagate what is good to the best of my ability, so that the society makes progress. So, I dedicate myself to our state and society, relegating to second place my own wealth and position and the prosperity of my posterity.³⁵

Whenever I assumed responsibility for the management of a business, I kept in mind that the work was necessary for the state and that I wanted to approach it rationally. Whether the work was slight, or my own profit was minor, I always assumed the work with a light heart if the business necessary for the state was managed in a rational way.³⁶

These kinds of remarks by Shibusawa are too numerous to count. I would like the reader to recall the remark quoted in **3.2.**: “I [...] relegate the expected profitability to second place when it comes to those businesses which are required for the state.” In the case of Shibusawa, the primary motive for pursuing public interest is to work for society (led by conscience) rather than to work for himself (led by self-interest)

Based on the above, the difference between Porter and Shibusawa can be expressed in simple terms:

Shibusawa: Public interest \geq Private profit (moral approach to the public interest)

³⁵ Shibusawa [2008], p.98

³⁶ Shibusawa [2008], pp.239-240

Porter: Public interest < Private profit (strategic approach to the public interest)

In Shibusawa's approach, entrepreneurs undertake business activities with the ultimate goal of furthering public interest. Although they recognize that there is also sufficient meaning and value in obtaining private profit, they do not place private profit ahead of the public interest. Let us refer to this as *the moral approach to the public interest*. On the other hand, in Porter's CSV approach, entrepreneurs work hard to further public interest as an effective method for obtaining private profit. We can call this *the strategic approach to the public interest*.

The teachings of the *Analects* are obviously at the root of Shibusawa's attitude. As the aim of Confucians is to become a gentleman (*junzi* 君子), Shibusawa also aimed to be a gentleman. The *Analects* speaks repeatedly about what it means to be a gentleman, including this passage: "The gentleman is alert to what should be done. The petty man is alert to what is profitable."³⁷ In relation to this, Shibusawa comments that:

No matter what kind of business I start, or what kind of business I am associated with, I do not think primarily about profits. [...] Whenever I deal with business, I try to be alert not to what is profitable but to what should be done. First I consider whether or not it is a business that should be started and prosper from the standpoint of [active and passive] morality, and secondly I think about profit and loss.³⁸

As mentioned in 2.3., to further public interest through business was the supreme act for Shibusawa. Although he does think about whether the business will be profitable or not, he is more alert to duty and responsibility than to loss and gain.

³⁷ Confucius, *Analects*, 8/13. I have slightly modified the translation by Watson [2007] on the following point: "what should be done" instead of "what is right."

³⁸ Shibusawa [1975], p.176. Words in brackets [] added by author.

Some would argue that as long as the business is able to simultaneously create social value and economic value, the result will be the same no matter which one you are alert to. In fact, it can perhaps even be said that Porter's strategic approach where self-interest is the primary motive is more effective for furthering public interest; that is because when told that they will make more money if they further public interest, more people will be incentivized to do so in the long term. This is the same logic that incentivizes managers by providing them with shares and stock options in their own companies, effectively saying, "If you further the profits of the shareholders, you, too, will earn."

However, Shibusawa was doubtful of such strategic approaches. He says about the dangers of making self-interest the primary motive:

If one [top management] wishes to dedicate himself to his company or his bank but his wish stems only from the self-interest in the form of seeking his own profits, or if he gives out greater dividends only because he is also a shareholder of his company and hopes to further fill his own cashbox, then there is a problem. If this person encounters a situation where he will profit more by forcing the company or the bank to go bankrupt and to levy damage on the shareholders, it will be doubtful if he can resist the temptation.³⁹

Today, Enron and other corporate scandals have made us understand that Shibusawa's warning was not unfounded.

Can it not be said that a similar danger is posed in case corporations and entrepreneurs pursue public interest with self-interest as the primary motive? There are, of course, not many cases of malice where a corporation earned money by *deliberately* damaging society. However, the following scenario is certainly possible. Suppose business project A contributes to resolving a certain social problem, and project B is a

³⁹ Shibusawa [2008], p. 266. However, the quote was made by Shibusawa (2010a), p. 179.

normal business project that makes no particular contribution to social issues (but doesn't damage society either); and estimates of the return on investment (ROI) are higher for project B than for project A. Then, if the corporation is primarily motivated by self-interest, it will choose project B. Or, when project B with a higher ROI arrives on the scene, business resources will likely be shifted to project B even if the company has already worked on project A.

Business opportunities that both make a major contribution to advancing public interest and promise higher profitability than other (normal) opportunities *in advance* would not be so abundant. If so, and if self-interest remains the primary motive, the number of corporations and entrepreneurs working hard on businesses with a public interest orientation will be limited.⁴⁰ This is, I suppose, the reason why CSV has not become a major movement in reality despite the attention the concept has attracted.

Shibusawa does not say that he will take on a business with social significance because it will earn him and his company a lot of money; instead he says that where a business has social significance, he will become involved as a consequence of that significance and then he will work hard to make the business sufficiently profitable. He is not alert to loss and gain, but to duty and responsibility; his ultimate aim is not private profit but public interest itself. But at the same time, he is never indifferent to profit; if it is a business that should be established, he insists, it must be made profitable; he endorses and even encourages the pursuit of private profit.

At a glance, this may seem paradoxical. The distinction is fine, and this is precisely where the essence of Shibusawa's doctrine lies.

⁴⁰ Vogel [2005] also points out that there are only a few firms for whom CSR make business sense. Firstly, they are firms where CSR is a part of their corporate strategy and business identity. Secondly, they are [firms] that have been targeted by activists, who are concerned that they could be targeted, largely because of the visibility of their brands. (p.73)

5. Public Interest First, Private Profit Second: The Essence of Shibusawa's Doctrine

There are usually two opposite perspectives behind the insistence that business should in some way deliberately pursue public interest. One perspective is that which regards profit-seeking by business as evil and requests business to help advance public interest even if some private profit is sacrificed. On this perspective is based the conventional CSR theory, which can be traced back to the anti-business liberal movement. The other perspective is that which encourages business to further public interest in order to acquire larger private profit. It pays, according to this perspective, to address and take care of public interest. On this perspective are based relatively new approaches to CSR, whether Michael Porter's CSV or other strategic CSR approaches, one, for example, that encourages business to engage in philanthropy and corporate patronage for the sake of enhancing their corporate brand and corporate reputation.

Shibusawa's perspective differs from either of these two. He mediates (or sublates) between these two conflicting perspectives and suggests a third way. As can be seen from the remarks by Shibusawa quoted earlier, his basic attitude when dealing with business is "public interest first, private profit second." This is the very essence of the doctrine of the inseparability of morality and economy, and I believe it suggests a third way in relation to the positioning of private profit and public interest in business.

Shibusawa and Porter disagree on the point of "public interest first." Shibusawa does not settle for public interest as mere means for private profit. Let us recall the phrase in the *Analects* : "The gentleman is alert to what should be done. The petty man is alert to what is profitable." As far as this aspect is concerned, we might even say that Shibusawa's assertions have some affinity with the conventional liberal CSR arguments based on a Kantian approach. The obligation to aim for public interest is not derived from the hypothetical imperative (Duty is to be done if it is profitable), but from the categorical imperative (Duty is to be done for its own sake).

Nevertheless, at the same time, private profit is second for Shibusawa. The reader may perhaps feel the word “*Nevertheless*” to be a little strange; for, if public interest is first, the logical consequence would be that private profit, being less important, is “second.” However, here we need to pay careful attention to the position of “second.” Not third, fourth, let alone tenth, but second. Private profit is positioned as something so important that it follows immediately after the first and most important objective, which is public interest; that is, if public interest is likened to a gold medal, private interest is an impressive silver medal. Public interest (morality) and private profit (economy) are inseparable in the sense that the two are immediately adjoin each other and there is no air between them. Such is the degree to which private profit is emphasized in Shibusawa’s doctrine. On this point, he definitely differs from the conventional liberal CSR argument that regards private profit earned by business as somehow suspicious and removed from and even contrary to public interest.

It is true that the gentleman is alert to what should be done, but by no means does he regard profit as a vice as long as it has been obtained by honest means. The gentleman is also a human being and therefore it stands to reason that he desires profit and that such desire encourages him as he works hard on behalf of business necessary for society. This is why individual material desire is necessary. The same can be said not only about individuals, but also about individual corporations.

That is the significance of “public interest first, private profit second.” It is tinged with the fine nuance explained above, and we need to properly identify, savour, and correctly understand this nuance. If we neglect to do so and limit ourselves to a superficial understanding, the phrase “public interest first, private profit second” will be downgraded either to a *political slogan* for the conventional liberal CSR that emphasizes public interest and scorns private profit, or else, *advertising copy* for strategic CSR that tries to earn larger private profit by flaunting its advocacy of the public interest. For Shibusawa, the phrase “public interest first, private profit second” is neither political slogan nor advertising copy, but a *business philosophy*.

In order to explain what this philosophy really means, Shibusawa always quotes this phrase by Confucius from the *Analects*: “Authoritative persons establish others [first] in seeking to establish themselves and promote others [first] in seeking to get there themselves.”⁴¹ The nuance that this phrase has is in accord with that of Shibusawa’s business philosophy “public interest first, private profit second.” On one hand, this phrase advocates trying to fulfill the wishes of other people before fulfilling your own. On the other hand, it does not negate the achievement of your own wishes. It does not say that you must not think about achieving your own purpose just because you help achieve someone else’s purpose but says that it is acceptable to achieve your own purpose as long as you help others achieve theirs first.

However, this is not a *strategic* approach to achieve your own wishes as Shibusawa says:

[If you put it this way] it can also be read as reluctantly giving priority to others in order to meet your own desires, but I am sure that the true intention of Confucius was never anything so mean. (...) The true intention of Confucius was simply to teach that the virtuous person should follow this sequence. ⁴²

The virtuous person, i.e. the gentleman, prioritizes others because he believes he should prioritize them; as a result, he earns profit not only for others but also himself. Such is the sequence. Shibusawa believes that reasonable ambition is an “indispensable function for human life,” and he states that this phrase from the *Analects* implicitly explains the ultimate shape of such ambition.⁴³

⁴¹ Confucius, *Analects*, 6/28 (30). (Ames and Rosemont trans.[1998]). Words in brackets have been added by author.

⁴² Shibusawa, *Rongo to Soroban*, p. 122. Words in brackets have been added by author.

⁴³ Shibusawa (1926), pp.229-230

Based on his philosophy “public interest first, private profit second,” Shibusawa explains that business should pursue and achieve both private profit and public interest, and that such a thing is quite possible. As manifested in the phrase by Confucius, this can also be rephrased as “others’ profit first, yours second.” Moreover, viewed from the perspective of the subjective motivation of people who put these ideas into practice, these phrases can also be expressed as “conscience (active altruism) is principal, self-interest is subordinate.”

We might say that this business philosophy provides a new perspective on the future of capitalism. To conclude this paper, let us consider the significance for the re-invention of capitalism of Shibusawa’s doctrine of the inseparability of morality and economy, and above all, the essence of the doctrine, “public interest (others) first, private profit (self) second.”

6. Assisting the Invisible Hand: Implications for the Re-invention of Capitalism

The private profit motive is the defining characteristic of the capitalist economic system; the capitalist economy has largely developed with the private profit motive rooted in human self-interest as the driving force. At the same time profit-seeking by individuals and corporations has also caused a range of adverse effects of capitalism.

There are two main types of adverse effects. One concerns “misbehavior” in business; people do not abide by passive morality due to self-interest. Whilst the tendency for people to commit concealment, fraud, embezzlement, false accounting or other dishonest acts when driven by the temptation to earn private profit cannot be avoided in any economic system, this tendency is particularly striking in the capitalist system, which endorses the private profit motive and also stresses it as an important

driving force. The failure of Enron in 2000 and the collapse of Lehman Brothers in 2008 are cases where this type of adverse effects have come to light in a massive way.

The other type of adverse effect concerns “market failure”; people focus their attention on their own private profit and fail to do what they should do; they do not consider active morality due to self-interest. Here, the phrase “what they should do” specifically refers to “taking an interest in the welfare of others” or “advancing public interest.” In economics, this adverse effect is known as market failure. Some typical examples are global warming and the widening economic disparity in society. It is not that economic agents deliberately bring on these problems, but that they come about as an unintended consequence when these “innocent” economic agents diligently pursue their self-interest. As a result, public interests such as the preservation of the global environment and overall social stability come to harm. The “invisible hand” should have functioned, but does not.

The vulnerability of the capitalist economy is the product of these two adverse effects. As far as the first adverse effect is concerned, the fact that human beings are self-interested, and that such self-interest is the cause of misbehavior is not limited to the economic sphere. To eradicate improprieties and to establish justice is an eternal challenge for mankind. It is certain that we need to make continuous efforts to prevent dishonesty associated with economic activities, but this would not be a direct prescription for re-invention of capitalism in the foreseeable future.

It is the second adverse effect of the lack of a functioning invisible hand that more directly relates to the reinvention of capitalism. It has long been assumed that governments play a central role in addressing market failure through regulation and taxation, which internalize the external effects caused by individual economic agents. Meanwhile, in recent years, Michael Porter (with Mark Kramer) has been the first to advocate that corporations and entrepreneurs, not government, should alleviate the dysfunctional invisible hand. He explains that corporations can create societal value at the same time as economic value by engaging with the advancement of the public

interest. Indeed the subtitle of Porter and Kramer [2011], which initiated the concept of CSR, is “How to reinvent capitalism and unleash a wave of innovation and growth”.

While putting CSV into practice will be a part of the reinvention of capitalism, it seems to have some limits on how far we can compensate for the function of the invisible hand. As discussed in 4.2., CSV takes a strategic approach to the public interest, and in the end, it focuses attention on the maximization of private profit. This concept goes no further than advising people to take a broad and long-term perspective, not the conventional narrow and short-term perspective, in order for corporations to maximize private profit. As the authors themselves say “creating shared value represents a broader conception of Adam Smith’s invisible hand.”⁴⁴ We might say that CSV *leans on* the invisible hand. It does not *assist* the invisible hand.

I would argue that it is Shibusawa’s business philosophy “public interest first, private profit second” that *assists* the invisible hand. To put it more precisely, people who engage with economic activities based on the principle of “public interest first, private profit second” assist the invisible hand that connects private profit with public interest. Let us call this type of person a “gentleman entrepreneur”.⁴⁵

If the invisible hand had its objective, it would be to implement public interest, or to bring order and prosperity to the whole society. Public interest also comes first for the gentleman entrepreneur who takes a moral approach to the public interest; he shares the same objective with the invisible hand; and by sharing in a part of its work, he assists the workings of the invisible hand. The more gentleman entrepreneurs participate

⁴⁴ Porter and Kramer (2011), p.77

⁴⁵ In Confucianism, the gentleman (*junzi*) aims to assist the transforming and nourishing powers of Heaven and Earth (*The Doctrine of the Mean*, Ch. 24, Translation by J. Legge : Legge, 1971). Assisting the invisible hand leads to assisting the transforming and nourishing power of Heaven and Earth. Therefore, assisting the invisible hand is more than a business principle for Shibusawa the entrepreneur; it could be said that it influences Shibusawa’s way of life as a Confucian gentleman.

in this undertaking, the higher the chance of alleviating the adverse effects of capitalism produced as the unintended consequence of the “innocent” pursuit of private profit.

On the other hand, private profit is second, not third or tenth for the gentleman entrepreneur. Such clear emphasis on private profit is also necessary to assist the invisible hand. The reason being that the invisible hand can only function if individuals do pursue private profit. If the pursuit of private profit is seen as a vice (as do advocates of conventional liberal CSR), and individuals get reluctant or neglect to pursue their own self-interest, the invisible hand will no longer function. This is similar to being unable to steer a ship, no matter how splendid a rudder is, unless the ship is moving. To steer the ship in the direction of success for the whole of society, the driving force of individuals’ dedication to the pursuit of private profit is essential. But we must be careful not to make the pursuit of private profit the *first* objective. Otherwise we only take advantage of the invisible hand like CSV does, in which case we lean on, not assist, the invisible hand. How to establish priorities between public interest and private profit is part and parcel of Shibusawa’s doctrine.

As long as business is only required to promote public interest, and private profit is neglected or regarded as a vice, it is not possible to reinvent capitalism without damaging its substance. On the other hand, CSV, which makes maximizing private profit its first objective and considers public interest the means to do so, would not be sufficient to reinvent capitalism from the foundations either. To reinvent capitalism today so that the invisible hand functions better, we need to assist the invisible hand, not lean on it. To do so, it would be advantageous to produce as many gentleman entrepreneurs as possible to assist the invisible hand based on Shibusawa’s doctrine of the inseparability of morality and economy, the essence of which is the principle of “public interest first, private profit second”.

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