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'Deficient in commercial morality'? Japan in global debates on business ethics in late nineteenth and early twentieth centuries

Book section

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Introduction

'How is it', asked Joseph Longford, former British consul in Japan, writing in 1905, 'that a people who are daily offering to the world lessons..... in patriotism of the very highest order, in self-sacrificing devotion to all the interests of their country, in courage and in an administration of all the departments of their Government that is as unimpeachably honest as it is efficient, should nevertheless have a reputation for commercial morality as low as it is in all other respects deservedly high?'¹ Longford was not the only observer of Japan at this time seeking an answer to this question. Accusations of a deficiency in commercial morality – what would now probably be termed as low standards of business ethics - were a constant refrain in Western observations on Japan in the late nineteenth and early twentieth centuries. Japan's reputation in international commercial dealings was that of a nation whose citizens were prepared to cheat and deceive in the interests of personal gain, and whose standards of trading behaviour were inferior not just to industrial powers such as Britain and the United States, but to those that prevailed in many developing countries as well. The objective of this study is to identify where these accusations came from, what kind of evidence they were based on, and how the Japanese themselves responded to them.

A great deal has been written across the centuries about the morality or otherwise of moneymaking and profit, and more recently about philanthropy and the use of profits, and the extent to which even illicitly obtained monies can be legitimately used to benefit others. In the British case the philanthropic and paternalist entrepreneurs of the nineteenth and early twentieth centuries, for example Quaker businesses such as Cadbury and Rowntree, have garnered considerable attention. However, while the worst excesses of business behaviour from Jay Gould through to Enron and Toshiba have hit the headlines, far less attention has been paid by scholars to the standards of honesty or dishonesty adhered to by local economic actors and small businesses as they conducted their transactions on a daily basis. And yet the extent to which producers and traders at all levels abided by, or flouted, accepted standards of behaviour for economic transactions, mattered profoundly for the growth of national and international trade. What also mattered was the extent to which these producers and traders, on both the individual and aggregate level, were perceived as adhering to accepted standards; such perceptions might not necessarily be aligned with the reality of what was going on, but could nevertheless dictate attitudes and even policy. The reasons why it mattered were complex, but included the potentially far-reaching damage to

¹ Joseph H.Longford, 'The Commercial Morality of the Japanese', *Contemporary Review* 87, 1905, p.705. For Longford see Ian Ruxton, 'Joseph Henry Longford (1849–1925), Consul and Scholar' in H.Cortazzi (ed.), *Britain and Japan: Biographical Portraits*, vol.6 (Folkestone, Kent: Japan Society/Global Oriental, 2007), pp. 307-14.

individual and national reputations, the difficulty of engaging in repeated transactions where one partner could not be trusted, and a general undermining of trust in a capitalist economy increasingly dependent on credit and fewer face to face contacts.

The accusations that were levied against Japan were informed by the discourses on commercial morality that had evolved within the industrialising economies of the West, and had become particularly conspicuous in Britain and the United States in the second half of the nineteenth century. From the British perspective the accusations against Japan were in part the outcome of a perceived failure on the part of many Japanese to act in accordance with the standards that the British themselves had set down, standards that were associated with 'progress' and 'civilisation', notwithstanding an acknowledgement that Western businessmen were themselves not immune to breaching those same standards. The criticisms were informed by an inclination to cultural stereotyping, which treated individual behaviours as representative of whole peoples, and led to sweeping comparisons regarding the commercial morality of different nations.

It will also be suggested, however, that the complaints came in response to the circumstances of global trade during this period, a global trade that was dominated by the industrial economies of Western Europe and North America, and characterized by a highly unequal balance of power in international economic relations. At the same time this was a period of the transnational spread of ideas and business practices in the context of cultural difference and increasing global economic competition. The Japanese, who were essentially newcomers to international trade from the late 1850s, had evolved their own business practices, but were now expected to play by the Western rules of the game; the scope for genuine misunderstandings of what was appropriate was matched only by the scope for manipulation on both sides of the transaction. The specific environment of the treaty ports, through which, until the late 1890s, Japan's international trade was conducted under the terms of the so-called unequal treaties, further enhanced available opportunities for misunderstanding and manipulation. As Japan progressed along the path to becoming the first non-Western industrialised economy, and increased her involvement in international trade, some Western producers also became increasingly fearful of the prospects of Japanese competition, and drew on earlier criticisms as part of the articulation of their more immediate concerns. This interaction raises the very topical questions of how established players in the international economy respond to the challenges posed by new interests that seem to threaten their dominance, and how less powerful trading partners and newcomers to international trade can make their way in the face of powerful vested interests, including by the adoption of 'short cuts' in order to do so. Analysing Japan in the context of the global debates on business ethics in the late nineteenth and early twentieth centuries thus

suggests some insights into the broader relationship between ethical business practice, business success, illegal conduct and moral behaviour.

But how important were these criticisms from the Japanese perspective? Certainly they mattered. Britain, probably Japan's most vocal critic, was one of Japan's largest trading partners from the 1860s through to the 1920s, followed closely by the United States, another strong complainant.² The negative perceptions of Japanese goods and Japanese methods of business had the potential to damage Japanese trading possibilities just as the country was seeking to consolidate its position in overseas markets. Increasing Japanese exports was regarded as vital to Japan's ability to import the necessary raw materials and energy for industrialisation, and the inflow of ideas and technology from more industrialised economies on which that industrialisation depended. Had the dominant European and American economies sought to implement any kind of boycott of Japanese goods or other sanctions in response to the perceived bad behaviour they would themselves have had little to lose; it would have been Japan that suffered. Nor does it seem likely that these countries would have unduly suffered had their exports to Japan declined. It was Japan, therefore, that was the most likely loser in these controversies. It is in that context that we find a Japanese response that sought to explain instances of bad behaviour by Japanese nationals by reference to Japan's historical circumstances and the manner of its integration into the international economy, but was also committed to trying to ensure that such instances of unethical business practice were minimised in the future. The response, in short, embodied a recognition that Japan had little choice but to play by the Western-dictated rules of the game.

In order to shed light on these debates the focus here will be on the interaction between the discourses on commercial morality and the actual circumstances in which those discourses – in both the West and Japan - evolved. Exploring any broader debates on ethics and business lies beyond the scope of this study, although it must be recognised that attitudes towards the relationship between ethics and business, and towards the extent to which business activity was undertaken for the greater good, and not just for individual self-interest, certainly impacted on the debates under discussion here. As will be discussed further in the next chapter, however, the term 'commercial morality' was largely used with reference to the ways in which individuals undertook business transactions, for example the ways in which they drafted and adhered to contracts, the extent to which they ensured that

² Britain accounted for 20-50% of the value of Japan's imports through to the First World War, while the United States took the major share of Japan's exports by value through to the Great Depression. See Janet Hunter & S.Sugiyama, *Economic and Business Relations*, vol.IV of *History of Anglo-Japanese Relations, 1600-2000* (Basingstoke: Palgrave, 2002), pp.17-18; Miwa Ryōichi & Hara Akira (eds.), *Kingendai Nihon Keizai Shi Yōran* (Tokyo: Tōkyō Daigaku Shuppankai, rev. edition, 2010), p.25.

goods were of an appropriate quality, or their willingness to respect the intellectual property rights of others. It was in these respects that the Japanese were deemed to be deficient in appropriate business conduct.

In this context it is worth making three general points. Firstly, the increase in international transactions during the nineteenth century raised the issue of the existence of multiple standards for judging business conduct – determined by local cultures and mores – and the absence of a single, universally accepted global standard. As global transactions grew, this problem became more acute. Secondly, the increasing complexity of business transactions and the associated growth of credit that supported nineteenth century industrialisation facilitated cheating, and made it easier for many to get away with it. This ability to avoid some of the most serious consequences of bad behaviour was in part due to the third factor, namely the failure of formal institutions, including legislation, to keep up with changes in the economy and the increased opportunities for malpractice that they offered. This is clearly evidenced by nineteenth century debates in Britain about the extent to which the law could be used to address problems of commercial immorality, but debates over the role of legislation in delivering ethical business conduct are found across countries. The borderline between illegality and immorality was, and remains, both unclear and permeable. By the time that something has been made illegal things have moved on, and individuals have found new ways of manipulating a new set of opportunities.

This combination of the existence of multiple standards of acceptable commercial behaviour, the increasing complexity of economic transactions and the limitations of formal institutions was fundamental to the interaction between discourse and economic circumstances that will be discussed in the three chapters that follow. The first will discuss the emergence in the early nineteenth century of British debates on what was referred to by contemporaries as 'commercial morality', a term that continued in widespread use through to the interwar decades. While there was a long tradition of Christian-informed debate on morality and business, and there were published injunctions to good practice in business, the context of British industrialisation in the early nineteenth century provoked increasing concerns about fraudulent business practice facilitated by enhanced opportunities for cheating, as the number of long distance impersonal transactions increased and the growing complexity of financial and economic mechanisms rendered transactions more and more opaque. In Britain debates on the extent to which immorality in business activity was distinct from actual illegality, and the relationship between short-term profit and longer-term benefits, were fuelled by a wave of company collapses and bankruptcies in the 1860s, a number of which were attributed to fraud and speculation. Cheating, it was suggested, might deliver a quick profit, but it could also jeopardise longer term business success by limiting the opportunities for repeated transactions and causing reputational risk. The issues were

discussed widely in local chambers of commerce, in parliament, and in the national and local press. The practices that were associated with low levels of commercial morality were not always spelt out, but included behaviour such as the failure to deliver goods on time and the issuing of false credit notes. Similar debates began to emerge in the more industrialised economies of Western Europe and in the United States, where the cases of the so-called 'robber barons' raised widespread discussion of the more or less acceptable ways in which fortunes might be amassed. Almost everywhere commentators sought to clarify links between the prosperity of an economy, the growth of credit, and the question of trust and broader ethical practice. While the main focus in the discussion here will be on Britain, in line with its leading role in international trade, reference will also be made to equivalent debates in other European countries and North America.

The second chapter will consider how the debates on commercial morality that focussed largely on activity within Western countries came to be applied to international transactions, and in particular their application in the case of Japan. It was often unclear what standards of morality might be expected in the conduct of international business. Some businessmen in Britain, for example, appeared to take the view that cheating foreigners was acceptable in a way that cheating your own fellow countrymen was not, and more generally defining what was appropriate practice in an international, multicultural business world proved extremely difficult. Differences in cultural norms and practices thus became a key element in the Western criticisms of Japan that emerged in the second half of the nineteenth century. It was broadly assumed in countries such as Britain, of course, that all other countries should abide by the Western-dictated rules. They tended to feel that a failure to adhere to ideal Western standards of commercial morality (whatever they might be) was essentially an indicator of a lack of 'civilisation'. What emerged in the Western discourse was thus effectively a global hierarchy of commercial morality roughly parallel to a country's perceived progress towards 'civilisation'. In this hierarchy developing economies were towards the bottom, while the most industrialised countries were at the top. However, despite its obvious progress towards industrialisation, and its growing international recognition (Japan formally became a British ally in 1902), Japan remained firmly at the bottom of the commercial morality hierarchy, as evidenced by Longford's statement at the start of this introduction. A reputation for cheating and fraud persisted from the earliest days of treaty port trade through to the 1930s, and re-emerged in the decades after the Pacific War. A stereotyped image of the fraudulent Japanese merchant (and by implication the deceptive nature of all Japanese) was reiterated through official reports, newspaper and magazine articles, and travelogues. The chapter will analyse the complaints that were made against Japan, and identify what foreigners actually meant when they deplored Japan's inadequate commercial morality, looking at the specific business practices that gave rise to

the accusations of immorality. Discussion of the better known complaints of unfair competition and cheap labour made against Japan in the 1930s lies beyond the scope of this chapter, but it will be shown that the earlier criticisms laid the foundations on which the later complaints were easily built.

The final substantive chapter will look at the view taken by the Japanese themselves of these criticisms, and the ways in which they explained and responded to them. What is striking about the response of Japan's business and political leaders to the criticisms that were levied at Japanese commercial interests is that at least up until the First World War the majority appears to have accepted the veracity of the Westerners' criticisms. While there were some disagreements about the causes and extent of unethical practices by Japanese – the general belief was that the phenomenon of dishonest traders was in large part the consequence of traditional Japanese attitudes to merchant activity, combined with the particular circumstances of the treaty ports, in which Western merchants were hardly models of probity – statements about the behaviour of Japanese merchants frequently mirrored those articulated in the West. It was acknowledged that the bad behaviour of the few could tarnish the nation's reputation, and that at least for the time being Japan had to play by Western rules. Members of the elite shared the view that standards of commercial morality could be expected to rise as part of the progress towards 'civilisation', but were at the same time concerned at what appeared something of a paradox, namely that Japan's commercial behaviour was regarded as inferior to that in other countries compared to which they believed Japan was in most respects highly advanced, such as China. It was therefore essential, they agreed, that concrete steps be taken to address this perceived anomaly. Those concrete steps were explained and justified not so much on the basis of morality being a good thing and desirable in itself, but on the grounds that even though cheating might lead to individual profits in the short term, it was highly detrimental to the national interest and the future of the Japanese economy over the longer term. For many, therefore, the pursuit of higher standards of business ethics was instrumental to the bigger project of the growth of the national economy and the achievement of international status.

Analysis of the commercial morality issue, whose influence on Japanese-Western economic relations persisted into the postwar period, therefore offers insights into the complex interaction between cultural difference, the transnational spread of ideas and business practices, and global economic competition. As will be noted in the Conclusion, the story resonates with contemporary debates relating to institutional change, culture and value systems, and their operation in the context of an expanding global economy facilitated by complex financial and credit systems whose operation is often hard to monitor. It suggests also that complaints about ethical business practice of the kind that were persistently levied

at Japan may be the lot of any emerging global competitor that challenges the economic power of the status quo.