

# The Curious Case of The Economist the West Forgot

The Economic Understanding and  
Towering Achievements of  
Dr Osamu Shimomura  
(27 November, 1910 - 29 June, 1989)

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An image of "Japan's most influential post-war economist" Dr Osamu Shimomura (1910-89) on the book cover of his best biography "Omoi yokoshima nashi: Shimomura Osamu to gekido no Showa keizai" or "Thoughts that bear no evil"(Japanese) by Yo Mizuki, Tankobon Hardcover, 1992.

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This is the story of the economic bomb, about the discovery and spread of the new knowledge about how to make an economy grow with explosive force. This is the curious story of the man who explained how to build that economic bomb, the economist the West forgot, the Asian Keynes, whose writings and understandings the West has ignored. And perhaps above all, this is the story about the opening of a fresh path to prosperity for all mankind based upon a better macroeconomic understanding.

Since 1971 I have had an abiding interest in the economic policies and government procedures which produce explosive economic growth, particularly these set out and practised by the Japanese master economist Dr Osamu Shimomura,<sup>1</sup> 1910-89, because his economic understanding lies at the root of the four high growth Tokyo Consensus economies - Japan, South Korea, Taiwan, and China. These four countries have used and are using the superior economic understanding of Shimomuran macroeconomics to great effect.

Please relax and enjoy this lecture, which will be published on the Gresham College website. References are given in the notes at the end of this lecture.

In this seminar I am going to address five questions:

## **Outline of Lecture**

- 1 Who was Dr Osamu Shimomura, economist, 1910-89?**
- 2 What did he do?**
- 3 Why is he so significant?**
- 4 Why does the West ignore him?**
- 5 How long could that continue?**

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I am going to outline who Shimomura was, what he did, why that's important, why the West has so far ignored him, and whether that can long continue.

Incidentally, if you search for “Dr Osamu Shimomura” on the internet these days, most of the references are to the same-named Nobel Prize winner for his work on the phenomenon of bioluminescence. A search including the birth and death dates of 1910-89, produces results relating to Shimomura the economist.

Many of these facts (on Slide 4) are set out at the Development Bank of Japan (DBJ) website (where DBJ offer a “Shimomuran Fellowship” in honour of Japan’s “most influential post-war economist.”<sup>2</sup>

One major aspect of Shimomura’s life was that he was an activist, with four ways to affect Japanese economic policy - first, through his price-control position in the MoF; second, in his advisory role on the BoJ Board; third, through his lengthy friendship with Hayato Ikeda (who was by turns his colleague in the MoF, the Japanese Minister of Finance and the Japanese Prime Minister); and finally through his persuasive written papers (such as the Income-Doubling Plan) and his dozen books and scores of other papers.

### **The timeline of Dr Osamu Shimomura’s life**

<b>Year</b>	<b>Activity</b>
<b>1910</b>	<b>Born in Saga Prefecture, Kyushu, Japan - 27/11/1910.</b>
<b>1930-34</b>	<b>Economics Faculty, Tokyo Imperial University</b>
<b>1934</b>	<b>Japanese Ministry of Finance (MoF)</b>
<b>1936</b>	<b>Sent by MoF to New York for economic research</b>
<b>1938</b>	<b>Worked in and studied South Manchurian Railway Company (the “Mantetsu”)</b>
<b>1945</b>	<b>Visit to USA via US-Japanese businessmen Exchange Program</b>
<b>1946-59</b>	<b>Manager in Price Bureau in the MoF Member of the Policy Committee of the BoJ</b>
<b>1960-66</b>	<b>Senior executive director of the DBJ</b>
<b>1964-74</b>	<b>First exec director of DBJ’s Research Institute of Capital Formation</b>
<b>1975-79</b>	<b>Chairman of the Japan Economic Research Institute.</b>
<b>1989</b>	<b>Died June 29 1989</b>

Shimomura studied and worked in the Mantetsu - and the post-war economic miracle in Japan was run by returning Japanese who were referred to as “the Manchurians” as most of these had been previously employed in the Mantetsu.

## SLIDE 5

### **The *Mantetsu*, or South Manchurian Railway Company**

- 1. This debt-funded company and colony resulted from Japanese defeat of the Russians in 1905 and Treaty of Portsmouth**
- 2. Operated by Japanese Military**
- 3. During the 1930s, Shinzo Abe's grandfather oversaw the development of the Mantetsu**
- 4. One of the most successful high-growth colonies in history**
- 5. During the 1920s, Mantetsu provided over a quarter of Japanese government tax revenues**
- 6. The world's first Investment Credit Creation economy**

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The Mantetsu<sup>3,4</sup> can be seen in retrospect as the testbed where the managers of the Japanese economic miracle cut their teeth. Shimomura knew all about how the Mantetsu operated, and even today it is interesting to note that Shinzo Abe's grandfather oversaw the Mantetsu development in Manchuria during the 1930s<sup>5</sup>.

See SLIDE 6

## Three major and different kinds of financial-industrial systems

1. **Washington Consensus Neoclassical Zone**, where restrictive monetarism reigns and is a dominant aspect of national cultures
2. **Berlin Consensus Zone** of the Industrial Banking Economies, where some public banks (the Sparkassen) collect 25% of saving and provide long-term finance for SME investment, i.e. Germany
3. **Tokyo Consensus zone of the Investment Credit (“Shimomuran”) economies** where (during the last 70 or so years) Government credit creation at the central bank, is canalised via intermediate banks to private corporate investment, eg in Japan, South Korea, Taiwan and China.

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These different types or zones of financial-industrial systems produce radically different economic results<sup>6</sup>. The crucial difference between these three systems is the level of support given, or not given, to private investment by their systemically different behaviour.

## Washington Consensus Zone

1. **National governments borrow** to fund govt running costs
2. **Real indebtedness** by govt to third parties (lenders or banks)
3. **Government downsizing**
4. **Privatisation**, cuts in public services, economic stagnation and lower living standards
5. **Relatively few banks collect most saving**
6. **No investment credit banks**
7. **High interest cost margin** between CB cost of funds and market rates
8. **No government industrial policy**
9. **Low or absent growth**, reducing welfare, growing unemployment
10. **Dominant neoclassical mindset by all active players**

**Need for a rethink about all that - otherwise, continuing cultural failure**

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This is the set of circumstances most of my listeners are familiar with - governments owing a lot to external lenders, who are being paid relatively high interest rates, government downsizing, privatisation, cuts in public services, with relative economic stagnation. And the financial accompaniment to that - a few major banks acting as drains to take away local saving, but not as taps for local SME investment, in countries that have no industrial policy.

In this zone there is a dominant neoclassical mindset by ALL players, all the political parties, all the media, virtually all the academic economists, nearly all the businessmen, and even most of the students of economics. Some of the media maintain a kind of continual complaint about the destructions of the social fabric and increasing poverty due to government policies, but these media offer no practical alternative. There is a large and growing group of increasingly vociferous economics students who are "Rethinking Economics" because they are profoundly unhappy about the single mindset of their chosen subject.

The failure of the West is a cultural failure, brought about by a general belief in a neoclassical macroeconomics which does not produce the goods. This is the major reason why Shimomura was ignored - the West feels it already has all the answers.

**That complacency is still a predominant attitude despite recent events.**

**SLIDE 8**

## **Berlin Consensus Zone**

- 1. German domination of the EU**
- 2. ECB follows Washington Zone policy except in Germany**
- 3. Where the Sparkassen (local Savings Banks) collect 25% of national saving through 431 local banks with 15,600 branches and provide local taps for SME investments**
- 4. Sparkassen are public banks committed to the alleviation of poverty and the funding of SMEs**

**A Local saving intermediated into local SME investment is the major factor in German success**

**B No ECB foreign borrowing to rescue EU countries in difficulty - these monies were no-cost created fiat money**

The Berlin Consensus Zone is like the Washington Zone with one essential difference - in Germany there is a centuries-long tradition of hundreds of local public savings banks (with tens of thousands of branches) collecting about forty percent of national saving and lending it long-term to the SMEs in Germany's cities, towns and villages.

Germany runs the EU because of its economic strength due to that Sparkassen system. The ECB does NOT borrow money to save the weaker EU economies - it's all created credit at the ECB.

Britain in 1800 resembled how Germany is now, with 800 local banks funding local industry in the early ferment of the industrial revolution.

Professor Glynn Davies told the Wilson Committee in 1979 that if we [in Britain] had in the 18th century the financial system we have now, the industrial revolution would have been stillborn. See **SLIDE 9**

## **The Tokyo (Shimomuran) Consensus Zone (Japan, South Korea, Taiwan and China)**

- 1. Purpose of financial system is funding investment**
- 2. c10-20% of GDP pa is no-cost investment credit fiat-created by central banks**
- 3. Credit source listed as "the savings of the people" but the people have nothing to do with it**
- 4. Loans and discounts to banks have an interest rate = inflation rate of factory goods**
- 5. This makes the loaned funds a counterpart of real resources**
- 6. Earmarked credit for canalisation to private companies ("Convoy System" in Japan)**
- 7. Tending to produce a continuous economic boom**
- 8. Vast assets (of paper wealth) at the CB = interest-bearing loans payable by the borrowing banks**
- 9. ICC provides continuously rising government tax receipts**

**Or as Modern Monetary Theory puts it  
"Government receives back in taxes part of the fiat created credit  
funded by its own IOUs"**

In the Tokyo Consensus Zone<sup>6</sup>, things are differently set up. The national financial systems are geared to funding private companies and for transmission of credit from the Central Bank via local banks to local industries for the funding of high company liquidity, high levels of work in progress and finished goods, and new capital investment.

Investment credit creation occurs a high rate in the nation's central bank and that credit is "convoyed" (the Japanese money transmission system from the central bank to final users is called the "Convoy System") to private companies. The source of the created credit is listed as "The savings of the people" but that's not accurate - it's FIAT money, freshly created credit which is money, because the govt says it is - and who has the power to disagree?

The setting of an basic interest rate which causes money to become the counterpart of real resources is the great stabiliser in the system. See **SLIDE 10**

## **Once Upon a Time in the USA- FDR's Economic Miracle 1938-44**

- 1. Financed by FED investment credit creation**
  - 2. (allegedly financed by "the savings of the people")**
  - 3. Every investment required by war effort funded either by investment credit or War Bonds)**
- 
- A. Economic growth averaged 12.2% for six years**
  - B. ICC created the USA as a hegemonic power**
  - C. Shimomura's late 1945 USA visit may have assisted the development of his economic understanding**



So investment credit creation, with its origin in the FED (the central bank of the USA) produced miraculous economic growth with limited inflation<sup>7</sup> (because John Kenneth Galbraith was running price controls).

No other wartime nation approached the economic growth rate of the USA. One economist certainly noticed that (see **SLIDE 11**) :

## Alan Milward's question

**"Granted that the United States had peculiar advantages in the quantity of resources, in freedom of intervention from the enemy, and in the great quantity of slack which existed in the economy before 1940, it remains a logical and revealing approach to ask precisely why the productive effort in other economies fell short of that in America."**

Alan Millward, *"War, Economy and Society, 1939-45"*,  
(Harmondsworth: Penguin, 1977) p 75.

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On some UN estimates, the USA had about half the industrial power in the world by 1945, due to FDR's American Economic Miracle (1938-44): when FDR died on 12 April 1944 and Harry Truman became the 33rd US President, the miracle ended. Truman didn't like the idea of investment credit created debt for US businesses and SMEs. So the USA went back to much lower economic growth rates.

In post war Japan circumstances were dire<sup>8</sup>. (See **SLIDE12**) But as the old Greek idiom says, "Necessity is the mother of invention."

## **Japan's Post War Circumstances were Dire**

- 1. About 40% of the urban area destroyed in the 66 bombed cities**
- 2. Over 600 major industrial facilities destroyed or badly damaged**
- 3. Japanese wealth reduced by between a third and a quarter**
- 4. Failure of the 1945 rice crop**
- 5. 2.5 million housing units destroyed, 8.5 million people homeless**
- 6. About 760,000 SME premises destroyed**

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**SLIDE 13** - quote slide

## The Economic Context of Japanese Government Action

1. American banker Joseph Morrel Dodge was advisor to the US Occupation Authorities
2. He recommended Japanese Government should have a “Balanced budget” that forbade Keynesian government borrowing
3. So from Sept 1945 until 1964 the Japanese government did not borrow at all
  - A. BUT INSTEAD THEY CREATED FIAT INVESTMENT CREDIT AT THE BoJ
  - B. TO REBUILD THEIR INFRASTRUCTURE AND RE-EQUIP THEIR INDUSTRIES

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The postwar Japanese Government was forbidden to borrow<sup>9</sup> to restore their economy, as Dodge's<sup>10</sup> advice required. But they wanted to rebuild their devastated infrastructure and restore their industries so they created credit to fund the private companies which could achieve their objectives.

Although the Dodge advice was finally written into law by the Japanese diet in 1948/49, it was followed from 1945, and much of it was set out in the “Economic Stabilisation Program” of May 1947.<sup>10</sup>

In 1964 the Japanese Government did borrow for the first time - from the Japanese Post Office Savings Bank, which has provided since then total funds of between 6% to 10% of GDP to help counterbalance a little of the credit creation in Japan, investment credit credit which is currently running at about 226% of GDP in 2013.

The extent of post-war Credit Creation by the Bank of Japan for Japanese Banks was considerable.<sup>11</sup> **SLIDE 14**

# Credit Creation by the Bank of Japan

Year	A	B	$\frac{B}{A}$ =%	Bank of Japan Government bonds holdings <i>million yen</i>
	Bank Advances (other than those by Bank of Japan) <i>million yen</i>	Bank of Japan Loans and Discounts to the banking system <i>million yen</i>		
1946 average	118,160	49,621	42	34,700
1947 "	136,843	43,906	32	145,800
1948 "	246,159	54,238	22	247,700
1949 "	494,431	77,792	16	188,600
1950 "	820,526	123,251	15	136,700
1951 "	1,241,180	179,502	14	126,000
1952 "	1,808,130	241,134	13	286,100
1953 "	2,391,795	307,490	13	314,300
1954 "	2,830,895	365,477	13	483,500
1955 end of year	3,195,800	319,000	10	553,600
1956 "	4,066,100	139,900	3	586,700
1957 "	5,024,400	551,900	11	387,200
1958 "	5,812,900	379,900	6.5	536,000
1959 "	6,802,800	337,900	5	644,800
1960 "	8,182,600	500,200	6	569,100
1961 "	9,770,100	1,284,500	13	287,700
1962 "	11,494,600	1,285,100	11	378,300
1963 "	14,562,600	1,155,600	8	346,000
1964 "	16,829,700	1,110,400	7	760,900
1965 "	19,217,900	1,627,700	8.5	930,000
1966 "	22,046,000	1,741,200	8	638,100
1967 "	25,323,000	1,515,100	6	1,144,000
1968 "	29,032,800	1,563,200	5	1,434,100

Sources: *Japan Economic Yearbooks* 1955, 1963, 1964-5, 1969.

Statistics Department, The Bank of Japan, *Hundred-Year Statistics of the Japanese Economy*, 1966.

Bureau of Statistics, Office of the Prime Minister, *Monthly Statistics of Japan*, May 1969.

Note that the BoJ purchase of bank bonds exceeded the bank advances in 1948. This is a very odd table <sup>11</sup> - it calculates the percentage of end-year dependency rather than growth from the beginning of the year. The more usual growth formula is  $(B/A) / (100 - B/A)$  or  $42/58$  or 72% for 1946, and similarly  $32/68$  or 47% for 1947, and  $22/78$  or 28% in 1948, as shown on the next slide. **SLIDE 15**

## Investment Credit Creation by Japanese Banking System

Mid-Year	Pa increase Bank advances	Y/E Dependency on BOJ Loans	BoJ loan Support
1946	72.3%	42%	72%
1947	15.8%	32%	47%
1948	79.9%	22%	28%
1949	100.9%	16%	19%
1949	66.0%	15%	18%
1950	51.3%	14%	16%
1951	45.7%	13%	15%

Source: Calculated from data on previous slide

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These vast increases in bank advances were one of the causes of the great Japanese infrastructure recovery with post-war inflation during 1945-49. A great many prewar bank loans were written off, mainly in 1947 and 1948, because the assets to which they related had been destroyed.

This created credit cost NOTHING to create. When some of that money was spent, the government received the “tax take” (then about 33% in Japan) as govt income.

So for every Y100bn spent, the government received Y33bn in return for no cost at all. Not surprisingly, Japan boomed. And as the years passed, the BoJ acquired vast assets in the form of Japanese Company interest-earning loans.

In order to be a banker, you have to be able “to tell a bill from a mortgage.” The BoJ does not have loans owed to third parties - it has the rediscounted corporate loans of private companies, and these are interest earning assets. The CIA can't make that distinction. **SLIDE 16**

## **SME and Corporate Priorities in the use of funds**

**1 - Liquidity**

**2 - Affordable work-in-progress and stock levels**

**3 - Improve productivity within existing staff levels**

**4 - Investment in plant and equipment**

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The data shows that<sup>12</sup> a lot of the created funds remained in the bank accounts of borrowing companies to provide a cushion against hard times and to provide business confidence, which is the real root of high investment behaviour. High investment levels do not result from “animal spirits” (as some economic textbooks claim) but from high confidence based on much money in the bank. Liquidity is paramount over profitability, because low liquidity causes company bankruptcy while unprofitability is not immediately fatal. Profitable projects cannot be safely afforded unless there is no major risk to liquidity.

Credit creation funds long supply chains and high stock levels. The funding of work in progress and finished goods is usually the second priority of goods producing companies. Stock levels are abnormally high in all investment credit economies because that's affordable - lots of credit removes the over-trading route to bankruptcy.

The greatest productivity gains within investment credit economies does not arise from the employment of staff in new enterprises but from the productivity increases widely available when existing company staff use updated equipment. Of course investment in up to date plant and equipment in new companies has the highest return but is not so frequently encountered as the upskilling of existing staff using new machinery. **SLIDE 17**

# Liquidity and Business Confidence

- 1. Observed levels of % GDP of company funds in bank- Japan c30%, Germany c15%, UK c6-8%**
- 2. Business confidence - a result of high company liquidity**
- 3. Stockholding - highest when overtrading is not risky**
- 4. Capital Investment - high when first three funding priorities are met**

During the 1945-72 period there were these average levels of liquidity in companies. Because high levels of liquidity produce business confidence and high investment, investment was highest in Japan, middling in Germany and low in the UK<sup>13</sup>.

During the late 1960s and 1970s, the Japanese car showrooms, providing cars manufactured thousands of miles away, were better stocked and with much shorter delivery times than locally built UK cars.

**SLIDE 18**

# Major eras in BoJ Credit Creation

Era	Primary Policy focus	Secondary Policy Focus
1945-51	Fixing war damage	Raising Government income
1952-59	Private ind investment	Creating trading advantage
1960-68	Doubling living standards	Improving social package
1969-85	Fixing trading adv.	Increasing Japan's status
1986-91	Funding asset bubble	Power redistribution
1991-2010	BoJ independence	Structural change in Japan
2011-15	21st cent Abenomics	Re-establishing Shim'n econ.

The Japanese post-war government from 1945 to 1951 saw major annual increases in its income because the created credit generated subsequent tax revenues (then running at c33% of total private expenditure) for government. There is no better illustration of the basic truth of Modern Monetary Theory, of a government creating vast flows of "Fiat money" by making an IOU to itself, and then receiving through the tax take about 33% of that IOU back in the form of taxes paid on the expenditure of that money.

**The picture of postwar Japan illustrated by these slides is quite amazing. Japan had lost a lot of its infrastructure, industry and housing through bombing, yet a couple or three years after the war ended, rich industries with 30% of GDP in the bank were confidently re-employing people to rebuild their infrastructures and re-equip their industries using the skills of their people and management organisational skills - and their Government's understanding of investment credit economics - to restore their economy.**

Once the infrastructure had been restored, the focus shifted to the creation of large investments in heavy industry - e.g. in metal processing and production plants, in order to enable the inputs to motor vehicle and shipping industries. The earlier post-war focus had re-established Japan's millions of SMEs as a domestic source of



products and services and the 1951 change in SME credit availability focus led to the bankruptcy of some SMEs. The Japanese Finance Minister, then Hiyato Ikeda, had to resign in 1952 after commenting in the Japanese diet that "it makes no difference to me if five or ten small businessmen are forced to commit suicide." <sup>13</sup>.

During the early 1960s, the Japanese Ikeda administration stated its priority was the doubling of Japanese living standards over a ten-year period. The acknowledged major author of that "income-doubling plan" was Dr Osamu Shimomura.<sup>14</sup> That objective was achieved by 1967, along with major improvements in the Japanese social package (statutory minimum wage legislation in 1959, a universal national pension and health insurance in 1961, and various measures for the better care for the aged in the Welfare Law of 1963).

Paper wealth and economic wealth is created if the loans result in investments that produce real wealth and are repaid out of genuine growth. **SLIDE 19**

**The Five Major Forms of Credit Creation  
Inherent in the Work of the Three Master Economists  
J M Keynes, Dr Osamu Shimomura and  
Professor Richard Werner**

- 1 Credit Creation for Consumers** - Keynesian remedy for deficient demand
- 2 Investment Credit Creation** - Shimomuran-Wernerian remedy for deficient supply - productive ICC Economics - See "new paradigm in economics" by Richard Werner
- 3 Financial Credit Creation** - to stabilise a banking system and guarantee its liquidity
- 4 Speculative Credit Creation** - to fund an unintended asset bubble e.g. in Japan 1986-91 - see Richard Werner's book "Princes of the Yen"
- 5 Invention and Innovation Credit Creation** - to fund rapid scientific advance and innovations in manufacturing

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This slide puts the five different forms of credit creation into context. Many people have the simple belief that all debt is bad, but life is much too complicated for that to be valid. (As Shakespeare has Hamlet remark "...for there is nothing either good or bad, but thinking makes it so. To me it is a prison." Hamlet, Act 2, Scene 2.)

Many Western economists are in the mental prison created by neoclassical economics. My comments on each kind of credit creation are:

**1 Credit Creation for Consumers** First, if an economy has deficient demand, creating credit for consumers is the right Keynesian and government response. The trouble with the 1970s in the UK was that credit was created to increase demand when local supply was insufficient, so inflation and higher imports resulted. Nowadays there are trillions of ECB euros which were created to support Greek, Spanish, and other unbalanced budgets. ECD loan support has only preserved their existing national state of poverty without increasing prosperity, and unless the EU brightens up, Greece may leave the union.

**2 Investment Credit Creation for private industry** provides a Shimomuran-Wernerian economics of effective supply, for rapid wealth creation via long term low-repayment cost loans to millions of SMEs and private companies for increased liquidity, more affordable WIP and productivity-increasing investments. See Richard Werner's book "new paradigm in economics".

**3 Financial Credit Creation** - eg £375n of BoE UK Clearing Bank Support. FCC stabilises the banking system but doesn't do anything else. A banking system is vital in all countries, but what's the point of stabilising a banking system without making due provision for the investment credit which produces prosperity?

**4 Speculative Credit Creation** is what independent Central Banks tend to do - e.g. in Japan 1986-91 - again, see Werner's books "Princes of the Yen" and "new paradigm in economics". Speculation - gambling with bank funds - is the fastest way for bankers to get big bonuses, and legislation is needed to ensure banks operate within prudential rules according to their function, or recurrent crises are inevitable. Credit should never be created for this purpose.

**5 Invention and innovation Credit Creation** - eg FDR and the \$2bn to develop and build atomic bombs, FDR's WWII 50 Synthetic Rubber Factories, Obama's Energy Self-Sufficiency Initiative and Green Energy Development, Silicon Valley and the Apple inventions etc

Finally, neoclassical economics is the destruction of credit and the opposite of all these above. SLIDE 20.

## **The Key Shimomuran Amendment to Keynes' Savings-Investment Equation**

**Shimomura replaces the Keynesian saving-investment equilibrium condition with the equation**

$$\mathbf{S+D = Is+Id}$$

**That is, Saving (S) plus Debt (D, equal to investment credits arising from investment credit creation at the Bank of Japan) equals Is (Investment financed by saving) plus Id (Investment financed by debt).**

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This key equation<sup>15,16</sup> means that the investment level of Japan is increased by credit creation with its initial impetus in the Central Bank of Japan. This equation replaces the classic Keynesian Savings-Investment equality with a much more useful formula because the government of a country can increase the nation's investment level (and hence its future growth and prosperity) through government policy to produce earmarked investment credit creation at the Central Bank. The model suggests an increase in the investment level of about 15% of GDP a year is available. This is Shimomura's key amendment to macroeconomic theory. **SLIDE 21**

# What did Shimomura do in his economic model of Japan?

1. He took three of John Maynard Keynes' observations and structured these into a fresh economic understanding, a new Harrod-Domar model of the Japanese economy.
2. He eventually (in early 1961) presented that Model of the Japanese Economy and its equations to the joint meeting of the Japanese Economic Association and the Japanese Econometric Society.
3. His presentation was then published under the title "Seicho Seisaku No Kihon Mondai" (Basic Problems of Growth Policy) in Riron Keizaigaku, March 1961.

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Shimomura used his insights to practical effect for many years before he published his "Economic Model of Japan".

Keynes 'three observations' are 1 - there is no intrinsic reason for the shortage of capital; therefore 2 -savings can be created (and investments made) prior of the returns which justify them; and 3 government can appear to "pay" for that credit creation by taking out a charge (or IOU ) against itself (a point which resides at the heart of Modern Monetary Theory).<sup>17</sup>

**SLIDE 22**

## **Professor Kenneth K Kurihara's Conclusion**

**"If, therefore, greater investment can be financed partly by credits, there is no need for that 'abstinence' which the classical economists considered necessary for economic progress, any more than there is for that 'austerity' which some present day underdeveloped countries impose on already under-consuming populations at the constant peril of social unrest. Nor is it difficult, in such credit-creating circumstances, to agree with Keynes' observation that investment and consumption should be regarded as complementary rather than competitive."**

**(Kenneth K. Kurihara, *The Growth Potential of the Japanese Economy*, Baltimore, John Hopkins Press 1971 page 138)**

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The Japanese-born American-educated Professor Kenneth Kenkichi Kurihara <sup>18</sup> (1910-1972) was an acknowledged expert in growth economics. The insights in Kurihara's greatest book "The Growth Potential of the Japanese Economy" (John Hopkins Press Maryland 1971) should have been integrated into Western macro-economic theory by now. His book is the best English language window into Shimomuran economics, with 47 references to Dr Osamu Shimomura.

"Greater investment financed partly by credits" - now there's the solution to the West's current economic difficulties, and the EU and the USA need to learn and adopt Shimomuran economics asap. No need for abstinence - now that will be news to the currently suffering Greeks, Italians, Spanish and French! No need for austerity - well, that again will certainly be news to the IMF, the ECB, the World Bank, and the British Treasury.

And investment and consumption are complementary, therefore there is no need to cut consumption to fund investment. Investment Credit Economics seems to have been independently invented twice - In South Manchuria and in the USA - and copied three times, in South Korea, Taiwan and China (in historical order). (The

“Manchurians” or Japanese leaders of the South Manchuria Railway Co at first developed Manchuria then relocated to Japan where they used the same understanding and processes to restore Japan’s fortunes.)

None of these are minor matters. See Note 19 for a reference to nine articles written by Bryan Gould and me on how the UK could flourish using Shimomuran economics. **SLIDE 23**

## **Shimomuran Economics Will Ultimately Triumph in the West Because it**

- 1.Re-establishes government as the main enabler of wealth creation and assists the continuation of political unions (eg, EU, UK)**
- 2.Does not require a revolution in income distribution - it permits the rich to keep what they have acquired while enabling government to act in the interests of all their people - that’s a great advantage for everybody**
- 3.More fully enables local invention to become local innovation - cf Shumpeter**
- 4.Accelerates the adoption of more expensive greener sustainable economies**
- 5.It reduces income differentials in practising nations**
- 6.It offers a better path to prosperity than any other understanding.**

### ***To take each point in turn:***

- 1 It is a wealth creating economics
- 2 This macroeconomics doesn't need any kind of revolution, because it works well without one
- 3 Previously, the West invents and the East invests - but understanding this system permits production to be created, located or located nearer to the point of invention
- 4 It makes more expensive greener technologies affordable e.g. sea-based windfarms, German state-of-the-art modern coal fired power stations with the shutdown of the out of date UK equivalent, etc, etc
- 5 It reduces income differentials and improves median incomes by funding local innovation and
- 6 It’s the best available macroeconomic option

**SLIDE 24**

# My Conclusions

- 1. Shimomuran-Wernerian economics is the key to higher growth and the major path to prosperity for all economies**
- 2. There is a timelag of up to 80 years in the spread of economic understanding and practice**
- 3. Long-Term Investment Credit Debt is good for SMEs and all public and private companies but it is not a panacea**
- 4. A “world of abundant capital” is made possible by Shimomuran-Wernerian economics - not a nation or a region but a world**
- 5. Shimomuran economics may be Modern Monetary Theory in its greatest form - the creation of fiat credit for canalisation to SMEs and local private enterprises for the conversion of invention to innovation to bring about widely-shared continually higher living standards in a greener high technology world.**
- 6. “Mea Culpa”**

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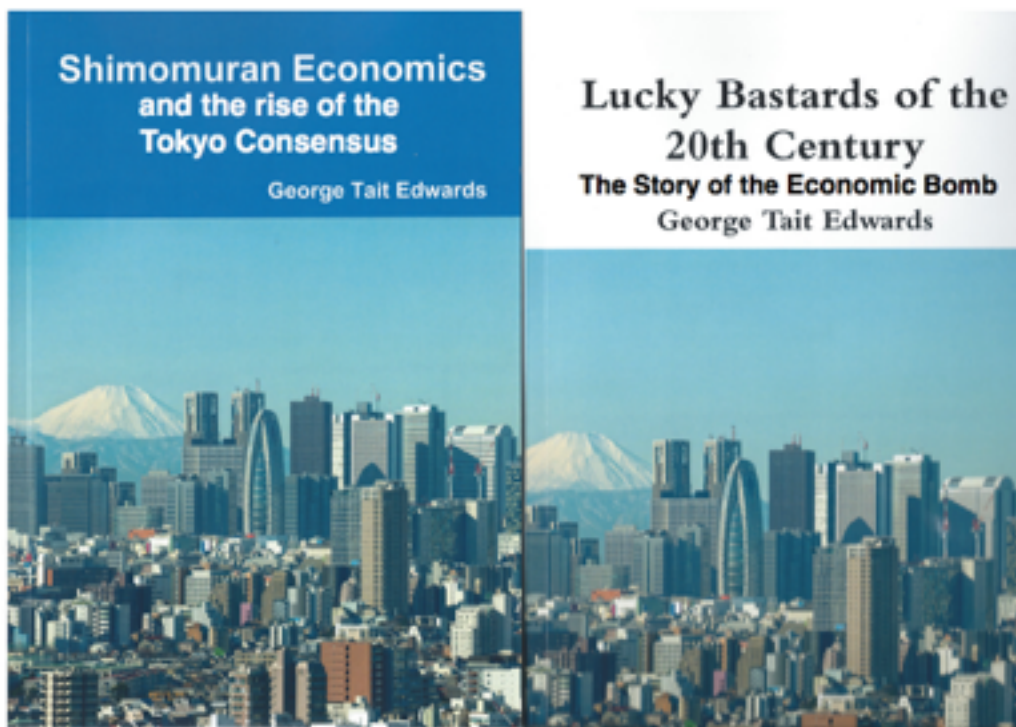
## ***Again, by each point:***

1. This fresh-to-the-West economics is the major path to widespread prosperity for everybody. A sound economic understanding is the precondition for wealth creation.
2. One major wrong assumption in neo-classical economics is that everybody in the world has access to the same technology (when they don't) and that new understandings spread instantaneously (when they don't) especially not in economics.<sup>20</sup>
3. Debt has been demonised in the West, but the right kind of debt is the path to prosperity. Investment credit creation can increase investment and growth, enabling the rest to catch up with the West and requiring the West to become better, even in economic understanding.<sup>21</sup> But it is neither a free lunch for borrowing companies nor a panacea!
4. Shinzo Abe, who I am delighted to note has recently won another election, spoke to the Japanese Press Club on 19 April 2013 about his “new” Shimomuran policies and spoke of a “Japan of Abundant Capital” based on no-cost investment credit creation. But this new economics is not just for abundant capital in a nation like Japan or for a region (like the Tokyo Consensus group) - it's for the development of the whole world.

5. This economics is based on some of the insights of Keynes (but not as most know him, through his interpreters) and is consistent with MMT. It puts productive power behind the limitless ingenuity of mankind and validates Schumpeter's key insight that the innovator is the crucial player in the economic development process. Professor Richard Werner was the first 1991 Shimomura fellow, but the Development Bank of Japan told Werner nothing about Shimomura, yet Richard has reverse-engineered much of Shimomuran economics from Japan's financial statistics, using the relatively new technology of Granger Predictive Analysis - a very impressive feat.

6. Finally, thank you for your attention to this lecture. I know my omissions about this new economics are much greater than my inclusions. Shimomuran economics is a big and complex macroeconomic system, not just a few key observations, and there is an entire raft of the machinery of government, a big set of policies, and feedback monitoring which are indispensable parts of making this better macroeconomics work well, as well as methods for the control of inflation and a set of preconditions including Central Bank subsidiarity, and these of abundant capital to accelerate the greening of all economic activities which I have not covered - but I do hope I have said enough to let you see the possibility of a newer, lovelier world of abundant capital, where poverty can really be made history and where the boundless ingenuity of mankind and womankind can flourish to bring about a much more satisfactory and sustainable world for all of us. And so be it, preferably soon.<sup>22</sup>

**SLIDE 25** Last year I wrote two books on this subject. The first is mainly a book of



collected essays and the second is the "Story of the economic bomb".



## Notes

Note 1: In my opinion Dr Osamu Shimomura was the greatest economist of the 20th century after John Maynard Keynes. See <https://medium.com/@georgetaitedwards/the-master-economist-2a744a336ece>.

Note 2: Many of the facts and comments about Doctor Osamu Shimomura's life are at the Development Bank of Japan Website at <http://www.dbj.jp/ricf/en/fellowship/> (where a fellowship is offered in Shimomura's memory). For a more full consideration of Dr Osamu Shimomura's life, see Part 2 of "Shimomuran Economics and the Rise of the Tokyo Consensus" at <http://www.lulu.com/shop/george-tait-edwards/shimomuran-economics/paperback/product-21715259.html>

Note 3: As part of Treaty of Portsmouth, Russia was required (among other things) to return its leases in southern Manchuria (containing Port Arthur and Talien) to China, and to turn over the South Manchuria Railway and its mining concessions to Japan. The Mantetsu company was funded by BoJ debt, and made most of its money by growing and transporting soya beans, and the area of the Mantetsu became a highly developed and prosperous quasi-independent colony with much higher living standards than those in Japan at that time. See [http://en.wikipedia.org/wiki/South\\_Manchuria\\_Railway](http://en.wikipedia.org/wiki/South_Manchuria_Railway).

Note 4 The summary of the book "The Comprehensive History of the South Manchurian Railway" says:

*"The 40-year history of the Mantetsu fascinates not only Japanese historians but also the general public, partly because of the image that Japanese were building a new semi-autonomous state outside of Japan. More than 1 million Japanese civilians migrated to Manchuria to begin a new life in better economic conditions. They had a western colonial lifestyle, enjoying golf clubs, large parks, and western style housing. The special express trains called "Asia" were among the fastest, best appointed trains in the world. The capital of Manchukuo [満州国], Hsinching [新京 - literally "New Capital"] (now Changchun [长春]), was built with modern urban planning with avenues and streets akin to Paris. In 1937, the Mantetsu owned 15 companies, 32 subsidiary companies, and invested in 33 more companies. They operated transport (rails, shipping, and airline), industry (steel mill, chemical, oil refinery, cement, textile, sugar), commerce (trading, retail), construction, lumber, minerals (coal and gold), electric and gas power, real estate, telecommunication and the press, and hotel chains. By its end, the Mantetsu ran or owned 71 companies with 340,000 employees, including 248,000 Chinese and Russians." See*

<http://www.japansociety.org.uk/20591/the-comprehensive-history-of-south-manchurian-railways-company-%E6%BA%80%E9%89%84%E5%85%A8%E5%8F%B2/>

Note 5 Shinzo Abe's grandfather was Nobusuke Kishi, who was Japan's postwar Prime Minister as well as one of the leaders ("the chief industrial planner") of the development of the South Manchurian Railway Company during the 1930s.

See <http://vitaleevan.org/2014/12/12/for-japans-shinzo-abe-unfinished-family-business-wall-street-journal/> and <http://du.w2ex.me/page/8/>

Note 6 See <https://medium.com/@georgetaitedwards/a-comparison-of-the-washington-berlin-and-tokyo-consensus-zones-221e7e53018b>

Note 7 See <http://londonprogressivejournal.com/article/view/1507/fdrs-american-economic-miracle-or-the-first-economic-bomb-the-usa-from-to-part>

For a definition and explanation of credit creation see the “Appendix: A Note on Credit Creation” at pages 179-181 of “Reversing Economic Decline”, John C. Carrington and George T. Edwards, Macmillan, London 1981.

Note 8 See [http://en.wikipedia.org/wiki/Air\\_raids\\_on\\_Japan](http://en.wikipedia.org/wiki/Air_raids_on_Japan)

Note 9 For other comments on Japan’s economic miracle, see <http://londonprogressivejournal.com/article/view/1566/the-origin-of-shimomuras-japanese-economic-miracle-or-the-second-economic-bomb-japan-from-to-economic-miracles-part>

Note 10 Some commentary about Joseph Dodge’s role in Japan’s post war economic policy is at <https://books.google.co.uk/books?id=b7KTEkuDSUC&pg=PA48&lpg=PA48&dq=joseph+dodge+japan&source=bl&ots=QgJVc2n2Rd&sig=2MZ2n4KsHfSMcRjX1PwuafnaQ&hl=en&sa=X&ei=DprQVLGrFJLSaMC0gZgN&ved=0CE4Q6AEwCw#v=onepage&q=joseph%20dodge%20japan&f=false>

Note 11 As Kenneth Bieda calculates on p 143 of “The Structure and Operation of the Japanese Economy,” John Wiley and Sons, Australia Pty, in his Table 5.4 “Credit Creation by the Japanese Banks”, the extent of the overloan (or the Bank of Japan loan and discounts to the Banking System) was 42% in 1946, 32% in 1947, 22% in 1948, and 16% in 1949. The 1946/47 growth in the overloan as a percentage of the original start-of-year net loanable bank funds (assuming no credit creation in the banking system) would have been  $42/(100-42)$  or  $42/5811$  or 72.4%. That is, the BoJ loans to the banking system during the year were 72.4% of the original funds, and 42% of the total funds in the system at the year-end. No nation has ever saved 72.4% of the loanable funds in its banking system in any year - the only possible source of these funds is created credit at the BoJ. In the devastated war-damaged economy of 1946 Japan, the “people” could not possibly save 72.4% of the loanable bank funds during the first post-war year. And even if by some miracle they had, could they possibly “save” 47% of these expanded funds in previous year bank deposits in the following year of 1947, 28% in 1948 and 19% in 1949? The average compound annual growth rate in total Japanese bank loans was 39.6% per annum from the beginning of 1945 until the end of 1951, when total bank loan funds were 5.29 times the original funds. The only source of that great financial asset growth was BoJ credit creation.

Note 12 See p110-17 of “Lucky Bastards of the 20th Century - The Story of the Economic Bomb”, George Tait Edwards, showcased at <https://medium.com/@georgetaitedwards/lucky-bastards-of-the-20th-century-8bd352881b6b> and available for purchase at <http://www.lulu.com/shop/george-tait-edwards/lucky-bastards-of-the-20th-century/paperback/product-21958236.html>

Note 13 See the Wikipedia entry about Hayato Ikeda at [http://en.wikipedia.org/wiki/Hayato\\_Ikeda](http://en.wikipedia.org/wiki/Hayato_Ikeda)

Note 14 See the extensive commentary about Shimomura’s contribution to Japanese economic thinking and the income-doubling plan at pages 99-105 of “Comparing Post War Japanese and Finnish Economies and Societies” edited by Yashusi Tanaka, Toshiaki Amika, Jan Ojala and Jari Eleranta on the internet at [https://books.google.co.uk/books?id=sT5WBQAAQBAJ&pg=PA101&lpg=PA101&dq=Osamu+Shimomura+economist+1910-89&source=bl&ots=g9uv\\_HoqGG&sig=g5OhiZIWGSRgji25zXyr3cJX5GU&hl=en&sa=X&ei=tn3eVO7VA8XxULevhOAI&ved=0CD4Q6AEwBQ#v=onepage&q=Osamu%20Shimomura%20economist%201910-89&f=false](https://books.google.co.uk/books?id=sT5WBQAAQBAJ&pg=PA101&lpg=PA101&dq=Osamu+Shimomura+economist+1910-89&source=bl&ots=g9uv_HoqGG&sig=g5OhiZIWGSRgji25zXyr3cJX5GU&hl=en&sa=X&ei=tn3eVO7VA8XxULevhOAI&ved=0CD4Q6AEwBQ#v=onepage&q=Osamu%20Shimomura%20economist%201910-89&f=false)

Note 15 See <https://medium.com/@georgetaitedwards/the-master-economist-2a744a336ece> and for the location of some of Shimomura's works in Western libraries, see <https://medium.com/@georgetaitedwards/there-are-now-three-books-by-dr-osamu-shimomura-1910-1989-in-the-national-library-of-e4f34c351402> and <https://medium.com/@georgetaitedwards/the-british-library-now-have-five-works-by-the-master-economist-dr-osamu-shimomura-1910-1989-c9c4b6df6af>. The Library of Congress have eleven of Dr Osamu Shimomura's works - more than those in any other Western library - but due to the dominance of the neoclassical mindset in the USA, these books have not conferred any advantage upon American economic understanding. See <https://medium.com/@georgetaitedwards/us-sources-for-several-of-the-works-of-dr-osamu-shimomura-1910-1989-eleven-in-the-library-91f4b75290d0>. According to the Development Bank of Japan, Shimomura's Major Works are

1. Keizai hendō no jōsū bunseki 経済変動の乗数分析, 1952 (Economic Fluctuation and Multiplier Analysis)
  2. Keizai seichō jitsugen no tame ni 経済成長実現のために, 1958 (Achieving Economic Growth)
  3. Nihon keizai seichōron 日本経済成長論, 1962 (A Theory of Japanese Economic Growth)
  4. Nihon keizai wa seichō suru 日本経済は成長する, 1963 (The Japanese Economy Will Grow)
  5. Keizaitaikoku Nihon no sentaku 経済大国日本の選択, 1971 (Japan's Choices as a Major Economic Power)
  6. Zero seichō dasshutsu no jōken ゼロ成長脱出の条件, 1976 (Conditions for Escaping from [Japanese] Zero Growth)
  7. Nihon keizai no setsudo 日本経済の節度, 1981 (Discipline and the Japanese Economy)
  8. Nihon wa warukunai 日本は悪くない, 1987 (Japan Is Not at Fault)
- See <http://www.dbj.jp/ricf/en/fellowship/>.

Note 17 Again, see <https://medium.com/@georgetaitedwards/the-master-economist-2a744a336ece>

Note 18 See "The Key Relevance of the Writings of Professor Kenneth Kenkichi Kurihara" at <http://londonprogressivejournal.com/article/view/1565/the-key-relevance-of-the-writings-of-professor-kenneth-kenkichi-kurihara>

Note 19 See Bryan Gould and George Tait Edwards, Policies for an Incoming Labour Government, published at <http://londonprogressivejournal.com/article/view/2122>

Note 20 "See "How long will the West lag behind Asian Economic Understanding?" at <https://medium.com/@georgetaitedwards/how-long-will-the-west-lag-behind-23df18600dab>

Note 21 For an article about the many possibilities made available by investment credit economics, see <http://londonprogressivejournal.com/article/view/1685/the-many-major-uses-of-investment-credit-creation-a-brief-walk-through-the-observed-results-so-far-and-the-future-possibilities-made-available-through-shimomuran-economics>

Note 22 See <https://medium.com/@georgetaitedwards/the-rough-guide-to-shimomuran-economics-e9dca42c6808>.

For further reading, see <http://londonprogressivejournal.com/user/view/2285> and <https://medium.com/@georgetaitedwards/the-rough-guide-to-shimomuran-economics-e9dca42c6808> and two 2014 books by the author at "Shimomuran Economics and the Rise of the Tokyo Consensus" at <http://www.lulu.com/shop/george-tait-edwards/shimomuran-economics/paperback/product-21688864.html> and "Lucky Bastards of the 20th Century - The Story of the Economic

Bomb” which is showcased at <https://medium.com/@georgetaitedwards/lucky-bastards-of-the-20th-century-8bd352881b6b> and available at <http://www.lulu.com/shop/george-tait-edwards/lucky-bastards-of-the-20th-century/paperback/product-21913362.html> To find many more works, search for Shimomuran Economics or my full name on the internet.