

# The economics of social reform across borders: Fukuda's welfare economic studies in international perspective\*

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## Abstract

*This article examines how, in the course of modernization, Japan learned from Germany and Britain about ideas and institutions concerning social reform, and attempted to implement and develop them at home. It focuses on Fukuda Tokuzo, a pioneering liberal economist and social reformer, who studied under the German historical economist Lujo Brentano, and who was also inspired by the British scholars Alfred Marshall, A. C. Pigou, and J. A. Hobson. By examining how Fukuda's ideas and work were developed and assimilated in Japan, this article shows how Japanese social reformers navigated the two key strands of economic thinking that witnessed a process of globalization during this period: neoclassical welfare economics, on the one hand, and an ethical-historical style of economics, on the other. It shows how the latter was stronger in a latecomer country to modernization such as Japan.*

**Keywords** Britain, Germany, Japan, social reform, transfer of ideas

## Introduction

This article explores how modernizing Japan learned principally from Germany and Britain about welfare ideas and institutions, and attempted to implement and develop them at home. It focuses on welfare economics in the work of Fukuda Tokuzo (1874–1930), a liberal pioneering economist at Tokyo University of Commerce (present-day Hitotsubashi University). He studied in Germany under the historical economist Lujo Brentano from 1897 to 1901, and was also inspired by the Cambridge neoclassical economists Alfred Marshall and A. C. Pigou, and by Oxford ethical-historical economists such as J. A. Hobson, whom Fukuda found most relevant for his own interests. By examining how Fukuda learned from various contemporary economists and

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how his ideas and work were developed and assimilated in Japan, this article shows how Japanese social reformers navigated the two key strands of economic thinking that witnessed a process of globalization during this period: neoclassical welfare economics, on the one hand, and ethical-historical welfare economics, on the other. It argues that an ethical-historical approach was much stronger in late-reforming countries such as Japan, as they attempted to deal with the social and political aftermath of economic modernization.

According to Joseph Schumpeter, in his well-known *History of economic analysis* (1954), ‘It was around 1870 that a new interest in social reform, a new spirit of “historicism”, and a new activity in the field of economic “theory” began to assert themselves.’<sup>1</sup> Classical political economy and laissez-faire ideology were increasingly called into question and socialism was in the air, as theorists began to consider the historical contexts in which economies and societies developed. This was the backdrop against which neoclassical economics grew, mainly under the Cambridge economists in Britain. Marshall laid the foundation for this movement in his *Principles of economics* (1890), and the movement was further shaped by Pigou. In his *Wealth and welfare* (1912), and especially in his *Economics of welfare* (1920), Pigou inaugurated the ‘official’, orthodox history of welfare economics.<sup>2</sup>

This was also the period in which the German historical school of economics emerged. This movement espoused an ethical-historical approach that linked political economy with social reform. It became a worldwide model for conceptualizing social ills and identifying possible solutions to them. Its main proponent, the Verein für Sozialpolitik (Association for Social Policy), was founded in 1872 against the backdrop of a number of ‘social questions’. The German historical school was witnessing a period of globalization at this time, with its central principles and core writings disseminated across national borders, crossing the Atlantic to the United States as well as to Japan. In Britain, the centre for this kind of ethical-historical approach was Oxford and the London School of Economics in its early years, epitomized by thinkers such as Arnold Toynbee, John Ruskin, J. A. Hobson, and Sydney and Beatrice Webb. They developed more practical, ethical, and radical perceptions of welfare economics, which laid the intellectual foundations of Britain’s twentieth-century welfare state.<sup>3</sup> While the Cambridge economists sought a scientific form of economics, at Oxford, the relationship between academic ideas and involvement in social reform was different.<sup>4</sup> It was the Oxford ethical-historical economists, who were more directly involved in politics and were instrumental in founding some of the institutions that sowed the seeds of Britain’s welfare state, with which Fukuda was most sympathetic.

For Fukuda, however, it was Germany, rather than Britain, that offered an initial model for thinking along these lines. Like other contemporary scholars from around the world, he went to

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- 1 Joseph A. Schumpeter, *History of economic analysis*, London: Allen & Unwin, 1954, p. 753.
  - 2 J. R. Hicks, ‘The scope and status of welfare economics’, *Oxford Economic Papers*, 27, 3, 1975, in *Collected essays on economic theory*, vol. 1, Cambridge, MA: Harvard University Press, 1981, p. 218. See, e.g., T. W. Hutchison, *On revolutions and progress in economic knowledge*, Cambridge: Cambridge University Press, 1978, chs. 3 and 4.
  - 3 See Erik Grimmer-Solem, *The rise of historical economics and social reform in Germany 1864–1894*, Oxford: Oxford University Press, 2003; G. M. Koot, *English historical economics, 1870–1926*, Cambridge: Cambridge University Press, 1987.
  - 4 See Daniel T. Rodgers, *Atlantic crossings: social politics in a progressive age*, Cambridge, MA: Belknap Press, 1998. Heinz D. Kurz, Tamotsu Nishizawa, and Keith Tribe, eds., *The dissemination of economic ideas*, Cheltenham: Edward Elgar, 2011.

study in Germany. His starting point was German ethical-historical economic thought, and he was later inspired by the British economist Alfred Marshall. Although widely regarded as a representative of neoclassical economics, Marshall had much in common with the ethical-historical and evolutionary school in Germany. It was this latter aspect of Marshall that inspired Fukuda. In Japan, Marshall's work was often portrayed as a contribution to organizational growth theory, which meant not only economic growth but also human and social development.<sup>5</sup>

Later, Fukuda was seen as closely allied to Hobson and to Britain's construction of the welfare state. Hobson was a well-known economic heretic and widely regarded as another 'welfare economist', particularly in the United States, where he came to greater prominence than his contemporary, A. C. Pigou.<sup>6</sup> Hobson was critical of Pigou's neoclassical welfare economics, as Fukuda was, because it was founded on utility-based economic welfare that was seen as measurable in monetary terms. From this perspective, Pigou's work seemed to ignore more general social and human welfare. In the 1930s the neoclassical, so-called 'new' welfare economics evolved separately from an earlier tradition that focused on social reform and the welfare state. Later, in the post-war period, welfare economics generally remained distinct from studies on the welfare state.

This article reveals how, in the formative stage of welfare economics – from the 1880s to the 1920s – the discipline echoed social reform arguments about the need for public welfare. Welfare economics in Fukuda's Japan were hence more ethical-historical, institutional, and practical. By highlighting these early personal and intellectual connections between Japan, Germany, and Britain, the article aims to shed new light on thinking about welfare economics, and on the intellectual foundations of the welfare state in Japan. Fukuda offers a meaningful case for understanding these developments. In the 1910s and 1920s, particularly in the wake of the First World War and the Bolshevik Revolution, Marxist economic ideas increasingly gained ground in Japan. During the same period, the state and modern capitalism were also growing stronger. In this context, Fukuda sought a third way, which he saw as the welfare economy, characterized by the welfare state. In this respect, he aimed to modify Japanese economic growth by introducing novel forms of social policy. By contrast, his colleague and adversary Kawakami Hajime (1879–1946) at Kyoto University, like many other Japanese academics, was drawn to Marxism. Fukuda persisted with his own way of thinking, even though the Japanese Association for Social Policy all but dissolved in the mid 1920s, owing to conflict over the growth of Marxism within the Association. Ultimately, however, it was Fukuda's line of thought that would come to shape Japan's modern welfare state.

## The German historical school and the making of modern economic thinking in Japan

Economic thinking in Japan evolved in response to various phases of Japan's historical development. Before the Meiji Restoration (1868) there were marked differences between

5 See below pp. 244–5 and n. 50.

6 M. Rutherford, 'Institutionalism and its English connections', *European Journal of the History of Economic Thought*, 14, 2, 2007, pp. 291–323. Roger E. Backhouse, 'J. A. Hobson as a welfare economist', in Roger E. Backhouse and Tamotsu Nishizawa, eds., *No wealth but life: welfare economics and the welfare state in Britain, 1880–1945*, Cambridge: Cambridge University Press, 2010, pp. 114–135.

Japanese and Western approaches to economic problems, though even in the Tokugawa era (1603–1867) difficulties common to the East and the West seem to have generated similar economic solutions. When Japan opened up to the West in 1867, and the state began to play a vital role in maintaining national independence and promoting rapid industrialization to catch up with the West, it was to be expected that laissez-faire economics had less appeal than the nation-centred developmentalism of the German historical school, which was largely propagated by the government-run Tokyo Imperial University. Even so, a tradition of British liberal political economy coexisted in Japan, especially at the private universities such as Waseda and Keio, two of the most well-known, and the Higher Commercial Schools, such as Hitotsubashi, which were originally founded by individual citizens. It was at Hitotsubashi (renamed the (Tokyo) Higher Commercial School in 1887, promoted to Tokyo University of Commerce in 1920, and finally called Hitotsubashi University in 1949) that Fukuda studied, and then taught as a pioneering economist and proponent and assimilator of Western contemporary economics and economic thinking of the past.

During the Edo period, the notion of the ‘economy’ (*Keizai*) was governed by Confucian thinking, influenced by the Chinese scholars of the late Ming and early Qing dynasties. The term *Keizai* originates from *Keisei Saimin*, the ancient Chinese words meaning ‘administering society (or the nation) and relieving the suffering of the people’. Some have claimed that Outo, a Confucian scholar in the Sui dynasty (581–618), used the word *Keizai* as a short form of *Keisei Saimin* in his *Bunchushi*. In Japan the first use of the term ‘economy’ in a book title was by Dazai Shundai (1680–1747), a prominent Confucian scholar in the mid Edo period, in *Economy records (Keizai-roku, 1729)*. Before then, the terms *Keikoku* (‘administering the nation’) and *Saimin* (‘relieving the suffering of the people’) were often used separately. The Japanese words *Keizai* or *Keikoku Saimin* were therefore used to denote political economy or political socio-economy, but never pure economics. This intellectual history resulted in an aversion to a laissez-faire approach to social problems. Economics was largely seen as a way to ‘administer the nation and relieve the suffering of the people’ and continued to exert a strong influence on Japanese political economists throughout the Meiji era, extending until after the Second World War. The notion of economics as a science rather than an art – the modern neoclassical view of economics – was, with few exceptions, generally ignored in Japan, particularly before the Second World War.<sup>7</sup>

With the Meiji Restoration, the flow of Western ideas into Japan swelled into a flood, and Western economic ideas and institutions were incorporated into Japan’s new knowledge base. The word *Keizaigaku* (‘economics’) was introduced as a translation of ‘political economy’ in such books as Kanda Takahira’s *Keizai-shogaku* (1867)<sup>8</sup> and Fukuzawa

7 See Bai Gao, *Economic ideology and Japanese industrial policy: developmentalism from 1931 to 1965*, Cambridge: Cambridge University Press, 1997; Tessa Morris-Suzuki, *A history of Japanese economic thought*, London: Routledge, 1989; Sugihara Shiro and Tanaka Toshihiro, eds., *Economic thought and modernization in Japan*, Cheltenham: Edward Elgar, 1998; Nishizawa Tamotsu and Ikeo Aiko, ‘Japan, economics in’, in Steven N. Durlauf and Lawrence E. Blume, eds., *The new Palgrave dictionary of economics*, 2nd edn, Basingstoke: Palgrave Macmillan, 2008, vol. 4, pp. 603–12.

8 This was the first translation of a Western economic book in Japan, being based on the Dutch translation of William Ellis’s *Outlines of social economy* (1846). See Nishizawa Tamotsu, ‘The emergence of the economic science in Japan and the evolution of textbooks 1860s–1930s’, in Massimo Augello and Marco Guidi, eds., *The economic reader: textbooks, manuals and the dissemination of economic sciences during the nineteenth and early twentieth centuries*, London: Routledge, 2012, pp. 305–23.

Yukichi's *Seiyō jijo* (*Western things*) (1867). Although Western economic liberalism captured the attention of modern Japanese intellectuals, it is helpful to think of the pre-Meiji knowledge traditions as providing the framework that determined the types of Western ideas that were most readily accepted. Japanese thinkers selected certain aspects of Western knowledge as relevant to their interests and gave them a Japanese slant, capitalizing on their status as latecomers to modernization.

For economic thinkers of the early Meiji era, the simultaneous introduction of an industrial capitalist system and Western economic theories posed formidable intellectual challenges. Two major theorists, Fukuzawa Yukichi (1835–1901) and Taguchi Ukichi (1855–1905), were deeply committed to the so-called ‘civilization and enlightenment’ movement. They were interested not just in economic thought, industry, and trade, but also in a broad range of subjects related to the humanities and ethics. Fukuzawa aimed to promote civilization by advocating wealth and virtue as a means to preserve national independence. His ambition was to make Japan a strong and wealthy nation, and he promoted economic protectionism as the best way forward. However, his attempt to offer a realistic response to Japan's status meant that his views were complex. This very complexity fostered the education of a number of major economists, industrialists, and businessmen, who studied with him at Keio Gijuku (later Keio University), which he founded in 1858 as a school of Dutch studies.<sup>9</sup>

By contrast, Taguchi, the author of Japan's version of ‘Manchesterism’, a classical, liberal approach to economics, believed in a harmonious natural law and the universal implementation of free trade. He raised the banner of *laissez-faire* in Meiji Japan in his journal *Tokyo keizai zasshi* (*Tokyo Economist*), which was founded in 1879 and remained in circulation until 1923. Another major journal, *Toyo keizai shinpo* (*Oriental economist*) was founded just after the Sino-Japanese War (1894–95), during Japan's first period of industrialization. It was edited by Amano Tameyuki, a liberal economist at Waseda who had translated John Stuart Mill's *Principles*, and his pupils. The journal propagated the ideas and policies implemented under Britain's ‘new liberalism’. From 1924 it was edited by Ishibashi Tanzan, who later became Japan's Finance Minister. Active in debates on abolishing the gold standard, he was sympathetic to the economic thinking of John Maynard Keynes.<sup>10</sup>

From the late 1880s to the mid 1890s (the Meiji 20s), Japan's economic studies increasingly diverged from English liberal political economy and tended towards the German historical school. This new historical and ethical thinking and the adoption of German financial science first came about through the 1880 English translation of Luigi Cossa's *Guida allo studio dell'economia politica* (1876). Richard T. Ely, an American historical economist and a founder of the American Economic Association, was also influential in introducing ideas from the German historical school to Japan. Moreover, economic tracts by H. C. Carey and the English translation of Friedrich List's *Das nationale System der politischen Ökonomie* were disseminated through the Japanese National Economics Association (Kokka Keizai Kai, established in 1890), and they appealed to those concerned

9 Sugiyama Chuhei and Mizuta Hiroshi, eds., *Enlightenment and beyond: political economy comes to Japan*, Tokyo: University of Tokyo Press, 1988. For the economic history of this period, see Odaka Konosuke and Yamamoto Yuzo, eds., *Bakumatsu, Meiji no nihonkeizai* (*The Japanese economy of the Bakumatsu and Meiji periods*), Tokyo: Nihon keizai shinbunsha, 1988.

10 Kumagai Jiro, ‘Enlightenment and economic thought in Meiji Japan: Yukichi Fukuzawa and Ukichi Taguchi’, in Sugihara and Tanaka, *Economic thought*, pp. 23–43.

with national independence and the protection of infant industries.<sup>11</sup> These trends seem to have been part of the globalization of the German historical school.

The Meiji governments espoused a developmental state policy, one that followed the Prussian model of rapid modernization and industrialization, but this approach gave rise to serious social problems. Against this backdrop, ethical-historical thinking of a practical nature flourished. The Tokyo Imperial University became the centre for the dissemination of German ideas in Japan, largely through the *Kokka gakkai zasshi* (*Journal of the State Science Society*), which was founded in 1887 as the organ of the State Science Society in the Law College of the Imperial University. In 1888, Wadagaki Kenzo (1860–1919), who succeeded Ernest Fenollosa, a famous American arts critic and the first university lecturer on economics in Japan, wrote a pioneering article on *Kodan Shakaito* (The Socialist Party of the Chair) for this journal.<sup>12</sup> He argued for the new social policy school as a middle way, rejecting both laissez-faire liberalism and socialism. Then Kanai Noboru (1865–1933), who had studied in Germany at Heidelberg and Halle and succeeded Wadagaki, was appointed professor of economics in 1890, and was instrumental in implementing German social policy in Japan and in establishing the historical school's political economy of social reform. His book *Shakai-keizaigaku* (*Socio-economics*) (1902) was highly regarded and widely read at the time. The approach of the German Kathedersozialisten (Socialists of the Chair) resonated with the *Keikoku Saimin* tradition. It was thus symbolic that Kanai, who led the Shakai Seisaku Gakkai (Japanese Association for Social Policy) during its early years, named his first four children Kei, Koku, Sai, and Min.<sup>13</sup>

The Japanese Association for Social Policy was established in 1896, in order to investigate factory laws abroad. It came into existence just after the Sino-Japanese War had spurred rapid industrialization. Faced with domestic labour disputes, the Association aimed to prevent class conflict and to maintain social and industrial harmony through a combination of economic freedom and state intervention. In its view, economics was interwoven with moral and political issues, and embodied the duty of the government to defend the social welfare of its subjects. The Association organized an annual conference and discussed not only factory legislation but also tariffs, small industries, the peasantry, and other issues.<sup>14</sup> The first official conference was held at the Tokyo Imperial University in 1907. It focused on factory legislation and labour problems, including papers on workers' compensation, sanitary conditions, and labour problems abroad. As the only formal academic society of world economics in Japan, the Association proved quite influential.

In the previous year the *Kokumin keizai zasshi* (*Journal of National Political Economy*), co-edited by the staff of the Higher Commercial Schools at Hitotsubashi and Kobe, first appeared. It was published soon after the Russo-Japanese War, which had further accelerated industrialization in Japan, resulting in steady economic growth. *Kokumin keizai zasshi*

11 Sugihara Shiro, *Seio keizaigaku to kindai Nihon* (*Western economics and modern Japan*), Tokyo: Miraisha, 1972. For the influence of List's ideas in latecomer countries, see Mark Metzler, 'The cosmopolitanism of national economics: Friedrich List in a Japanese mirror', in A. G. Hopkins, ed., *Global history: interactions between the universal and the local*, Basingstoke: Palgrave Macmillan, 2006, pp. 98–130.

12 *Kokka gakkai zasshi*, vol. 2, no. 13, 1888.

13 Morris-Suzuki, *History*, pp. 63–4.

14 Sumiya Etsuji, *Nihon keizaigakushi no hitokoma* (*An aspect of Japanese history of economic thought*), Tokyo: Ohatahoten, 1934, ch. 5.

became Japan's leading economics journal and a *de facto* organ of the Association for Social Policy. While Kanai and his followers at the Tokyo Imperial University came under the influence of Adolph Wagner's style of state socialism, Fukuda Tokuzo at Hitotsubashi and his followers at the Higher Commercial Schools were more sympathetic to reform liberalism, reflecting the thinking of British political economists. Fukuda and colleagues such as Seki Hajime (1873–1935) had already established themselves at the centre of economic academic circles in Japan, excelling at the Imperial Universities in Tokyo and Kyoto (the latter was inaugurated in 1897).<sup>15</sup> While Kanai represented and led the first phase of the Association for Social Policy, it was Fukuda who was in the vanguard in its second phase from around 1916, the year that the first factory law came into force. As we shall see, Fukuda proposed social policy as a means to ensure the right to life (to meet basic needs). In short, social policy was about securing a certain quality of life through setting a minimum standard of living. This change of tone from the 1910s reflected the growing influence of socialist and Marxist thinking on economics and social reform in Japan.<sup>16</sup>

In this context, Takano Iwasaburo (1871–1949), a key member of the Association who had studied with Georg von Mayr in Munich, established a new tradition of social statistics in Japan. Takano was a leading professor at the Tokyo Imperial University and in March 1920 was appointed Director of the Ohara Institute for Social Problems, which opened in 1919. The institute had been founded by an idealistic cotton magnate, Ohara Magosaburo (1880–1943), sometimes called the Robert Owen of Japan, in the midst of the Taisho democracy movement and the bitter social disputes following the Rice Riots of 1918. The Ohara Institute opened in the same year that the International Labour Organization (ILO) was established, and Takano was proposed as Japan's labour representative at the first ILO meeting in Washington. Owing to criticism of the government's selection procedure, however, he was forced to decline, and left the Faculty of Economics at Tokyo, which was set up in the same year. Other members of the faculty launched a journal, *Keizaigaku kenkyu* (*Economics Studies*), to which a young radical scholar, Morito Tatsuo (1888–1984), contributed an article on the social thought of the Russian anarchist Alekseevich Kropotkin. This proved controversial, and Morito and the journal editor, Ouchi Hyoe (1888–1980), a young Marxist scholar at Tokyo, were forced to resign. They too took up appointments at the Ohara Institute, which served as a centre for Marxian studies before the Second World War. Following the Russian Revolution and the Rice Riots, the labour movement was becoming increasingly militant in Japan, and socialism and especially Marxism were gaining influence within academia, particularly in the 1920s. Owing to the conflict between progressive social reformers such as Fukuda and Marxists such as Ouchi, the Japanese Association of Social Policy virtually collapsed in 1924 and thereafter became dormant.<sup>17</sup>

15 Ouchi Hyoe, *Keizaigaku gojumen* (*Fifty years of economics*), Tokyo: Tokyo University Press, 1970, vol. 1, ch. 2.

16 For a detailed account of the adoption of German *Sozialpolitik* in Japan, see Kenneth B. Pyle, 'Advantages of followership: German economics and Japanese bureaucrats, 1890–1925', *Journal of Japanese Studies*, 1, 1, 1974, pp. 127–64. See also Fujii Takashi, 'The Japanese social policy school: its formation and breakup', in Sugihara and Tanaka, *Economic thought*, pp. 44–59.

17 *Shakai Seisaku Gakkai shiryō*, bekkon (*Japanese Association for Social Policy, historical documents*), supplementary volume, Tokyo: Ochanomizu shobo, 1978. For a longer-term perspective, see Sheldon Garon, *The state and labour in modern Japan*, Berkeley, CA: University of California Press, 1987. For the economic history of this period, see Nakamura Takafusa, *Meiji, Taisho-ki no keizai* (*The economy of the Meiji and Taisho periods*), Tokyo: Tokyo University Press, 1981.

## Globalization of the economics of social reform

The link between *Sozialpolitik* (social policy) and historicism was clearly German in origin, and the connection between these approaches to social problems proved important to economics from the 1870s until the First World War and beyond. The ethical claim served as the basis of German ideas on *Sozialpolitik*: the research programme of the German historical school was explicitly formulated by Gustav von Schmoller as an ethical-historical approach to economics, and his historical and ethical economics evolved into an applied science, one that offered practical solutions to social reform in Germany.<sup>18</sup>

There was an international dimension to this historical and ethical economic thinking. The historical economists at Oxford, represented by Toynbee and his followers, can be seen as an offshoot of the German historical school, and the British New Liberal social reform movement can be compared with the better-developed German social policy. In fact, a renowned British economic historian, William Ashley, noted Toynbee's resemblance to Germany's Kathedersozialisten.<sup>19</sup> Toynbee's slant on social reform was part of a new movement in English social policy, led by the Webbs, R. H. Tawney, and others. This group influenced the New Liberal social reformers such as Hobson and Hobhouse, who had also drawn on the Oxford idealism of the philosopher T. H. Green and the art and social critic John Ruskin. These reformers had close ties to the London School of Economics (LSE), and can be seen as the 'English school of welfare economics', as the American institutionalist Walton Hamilton called the Webbs, Hobson, Edwin Cannan, Tawney, and Henry Clay.<sup>20</sup> By contrast, the Cambridge economists Pigou and Marshall were not associated with this group. There were therefore divergent ways of thinking about welfare economics and the welfare state in this formative period in Britain, characterized by the Cambridge school and the Oxford approach.<sup>21</sup> The latter seems to have been much stronger in Japan, and it proved influential in the United States by the 1920s.

For social reformers around the world during this period, the German historical school of economics and its English proponents proved most significant. The roots of the American institutionalist movement, the American Economic Association, with its interest in empirical investigation and applied policy analysis, can be traced to the impact of the German historical school on the United States in the 1880s and 1890s, as well as to the American progressive reform movement of the same period.<sup>22</sup> Similarly, the Japanese Association of Social Policy was inaugurated in 1896 by young scholars at the Tokyo Imperial University who had studied in Germany.

These various economic and social policy movements in Germany, Britain, the United States, and Japan were not isolated phenomena. Rather, they were part of a worldwide

18 Shionoya Yuichi, 'Schmoller and modern economic sociology', *Schmoller Jahrbuch*, 126, 2, 2006, p. 179. See also Grimmer-Solem, *Rise of historical economics*.

19 W. J. Ashley, *Surveys, historic and economic*, New York: A. M. Kelley, 1966 (reprint), p. 430. Ashley himself was later called a 'socialist of the chair': see B. Semmel, 'Sir William Ashley as "socialist of the chair"', *Economica*, n.s., 24, 96, 1957, pp. 343–53.

20 Walton H. Hamilton, 'The institutional approach to economic theory', *American Economic Review*, 9, 1, suppl., March 1919, p. 318. See also Walton H. Hamilton, 'Economic theory and "social reform"', *Journal of Political Economy*, 23, 1915, pp. 562–84.

21 See Backhouse and Nishizawa, *No wealth but life*.

22 Rutherford, 'Institutionalism'; Rodgers, *Atlantic crossings*.



intellectual movement that offered a variety of economic approaches to social reform. This movement was, in turn, part of a much larger wave of dissent against neoclassical economics, which itself was taking off across the world at this time.<sup>23</sup> Witnessing these economic movements, social reformers in Japan at the turn of the twentieth century began to call for fundamental change at home.

## Fukuda, Brentano, and Marshall

As a promising young scholar, Fukuda left for Germany in 1897 to study first at Leipzig and then at Munich under Lujo Brentano, with whom he co-authored a book in Japanese entitled *Rodo keizai-ron* (*Labour economics*) in 1899.<sup>24</sup> This was the formative stage of Fukuda's welfare economic and social policy studies, which was to culminate in his final book, *Kosei keizai kenkyu* (*Welfare economic studies*) in 1930.<sup>25</sup> Raised Christian, Fukuda had been inspired to investigate workers' welfare in the silk industry since his student days at the Tokyo Higher Commercial School in the 1890s.<sup>26</sup> While still a student he wrote: 'I often wished that I could attend just once a lecture by [Wilhelm] Roscher.' Although Fukuda went to Leipzig to study with Roscher, the latter had died by the time that Fukuda arrived, leading Fukuda to Munich to study under Brentano. Fukuda was inspired by Brentano's lectures on European economic history, which were based on a stage theory of economic development. He later applied this theory in his dissertation on the 'Social and economic development of Japan'. Published in Germany in 1900, the revised dissertation described the Tokugawa era as an age of a 'despotic police state', which would later give way to a more advanced stage of social and economic development.<sup>27</sup> The book was well received and widely read in the German-speaking world as an introduction to the economic and social history of Japan.

In the previous year, Fukuda had co-authored *Labour economics* with Brentano, which he published in Japan. This book included a translation of a major work written by Brentano on wages and working hours, preceded by a lengthy introduction by Fukuda.<sup>28</sup> The purpose of their joint project was to introduce to Japan Brentano's ideas on recent labour questions, especially regarding the relationship between working hours, workers' wages, and their output. Fukuda was particularly keen to investigate whether Brentano's theory could be applied in Japan. In fact, he visited several companies' welfare facilities, including the Krupp works in Germany, with an eye to improving both the Japanese economy and the wellbeing of Japanese workers. After his return home, Fukuda advised several companies on these

23 Kenneth Boulding, 'A new look at institutionalism', *American Economic Review*, 47, 2, 1957, p. 3.

24 Lujo Brentano and Tokuzo Fukuda, *Rodo keizai-ron* (*Labour economics*), Tokyo: Dobunkan, 1899, reprinted in Fukuda Tokuzo, *Keizaigaku zenshu* (*Collected works on economics*), 6 vols. Tokyo: Dobunkan, 1925–6, vol. 5, part 2.

25 Fukuda Tokuzo, *Kosei keizai kenkyu* (*Welfare economic studies*), Tokyo: Tokoshoin, 1930, p. 2.

26 Fukuda Tokuzo, 'Preface', in *Collected works*, vol. 5, pp. 19–20.

27 Tokuzo Fukuda, *Die gesellschaftliche und wirtschaftliche Entwicklung in Japan*, Stuttgart: Cotta, 1900, published as one of the *Münchener volkswirtschaftliche Studien*, edited by Lujo Brentano and Walter Lotz.

28 Lujo Brentano, *Über das Verhältnis von Arbeitslohn und Arbeitszeit zur Arbeitsleistung*, Leipzig: Duncker & Humblot, 1876; 2nd edition 1893.

matters, among them the big cotton spinning firms Kanegafuchi-boseki and Kurashiki-boseki, the latter run by Ohara.<sup>29</sup>

Although Fukuda was profoundly influenced by Brentano and Roscher, his writings in this period were also shaped by the Cambridge school. In 1894, three years before going to Germany, he submitted to his home university, the Higher Commercial School in Tokyo, a report on his final year study trip. It was a substantial piece of field research on the silk textile industries in Gunma, Tochigi, and Nagano prefectures. In Part I, he discussed production, exchange, consumption, and distribution, and concluded that ‘improving people’s morality gives rise to progress in a country’s production’. He had identified what he saw as the relation between people’s moral standards and social wellbeing, and he referred to work by both Marshall and his fellow Cambridge academic Henry Sidgwick.<sup>30</sup> Fukuda stressed the importance of raising workers’ morals by means of education and training, and he appealed not to the government but to business entrepreneurs in order to achieve this.<sup>31</sup> Later, while studying in Munich, he drafted a note on the history of the silk-weaving industry in Japan which he discussed with Brentano. Fukuda connected Brentano’s studies on working conditions, productivity, and wages with his own earlier research on the silk weavers, which had also been influenced by the Cambridge school.<sup>32</sup> In fact, something like a theory of efficient wages was shared by Brentano and Marshall; the two men were fairly close and corresponded frequently.

In his memoirs, Seki Hajime, a close friend of Fukuda, recalled how Fukuda had been influenced by both British and German economic thought in his writings on social reform. As a postgraduate at the Higher Commercial School in 1895–96, Fukuda told Seki: ‘My close reading of Roscher’s volumes on economics led me to develop an interest in the German historical school.’ In the summer of 1895, when both were teaching at Kobe Commercial School, Fukuda’s favourite book was Marshall’s *Principles of economics*. It is not certain how much of Marshall’s work Fukuda and Seki had read in the early 1890s. However, in ‘Notes on readings’, which Seki is believed to have written in January 1893, there is a thirty-five-page passage entitled ‘Some notes on Marshall’s *Principles of economics*: discusses mutual benefitism, discusses “cooperation”’,<sup>33</sup> which shows that he was familiar with Marshall’s writing. He did not focus on the theoretical core of the *Principles* but concentrated instead on the real production system, the organization of business, cooperation, and workers’ morality. As his study of silk weavers showed, Fukuda stressed the significance of labour among agents of production because he thought that other things, such as materials and machines, would be equally available in every country. Perhaps he also recognized that Japanese labour power had

29 See *Letters from Tokuzo Fukuda to Lujo Brentano 1898–1931*, transcribed and translated by Yanagisawa Nodoka and revised by Nishizawa Tamotsu, Centre for Historical Social Science Literature, Hitotsubashi University, *Study Series*, 56, 2006; Nishizawa Tamotsu, *Marshall to rekishigakuba no keizaishiso (The economic thought of Marshall and the historical school)*, Tokyo: Iwanami Shoten, 2007, ch. 4, s. 3; Fukuda, ‘Preface’, pp. 19–20.

30 Henry Sidgwick, *Principles of political economy*, London: Macmillan & Co., 1883, book 3, ch. 9, on ‘private morality’; Alfred Marshall, *Principles of economics*, 9th edition, ed. C. W. Guillebaud, vol. 1, London: Macmillan, 1961, book 1, ch. 1.

31 Fukuda Tokuzo, ‘Shugakuryoko hokokusho (Report of the final year study trip)’, Tokyo Higher Commercial School, 1894, pp. 68–9.

32 Fukuda’s manuscripts are held in the Hitotsubashi University Library. See Nishizawa, *Marshall*, pp. 521–2.

33 Seki’s manuscripts ‘Notes on readings’ are held in the Seki Archives (Osaka City Central Library). See Nishizawa, *Marshall*, pp. 522–3.

untapped potential, even if Japan did not have many other natural resources. Fukuda argued that the productive power of labour would be affected by the health and vigour of the population, in conjunction with training and aptitude, wage levels, and working hours. He therefore called for theoretical studies on the relationship between working conditions and productivity. Quoting John Rae's *Eight hours for work* (1894), he claimed that the only variable that countries could determine was their approach to labour, and he concluded that the country with the most powerful and skilled workers would dominate the world market.<sup>34</sup>

## **Labour economics and national development**

Fukuda's approach to the labour question had clearly been influenced by his mentor, Lujo Brentano. In 1868, Brentano had gone to Britain with Ernst Engel of the Prussian Statistical Office, in order to investigate the labour question from a comparative perspective. This resulted in his influential study on the history of guilds. Engel had been interested in forging 'industrial partnerships' involving profit-sharing between employers and workers, which drew Brentano's attention to the social reform movement in England at the time.<sup>35</sup> With the help of J. M. Ludlow, a Christian socialist who also inspired Marshall, he published *On the history and development of guilds, and the origin of trade-unions* in 1870.<sup>36</sup> It was in England that Brentano learned about the importance of trade unions, and he also stressed that high wages and good working conditions made labour more efficient, which could prove a useful lesson for Germany. The late 1860s had seen wages theory change from a classical understanding, which saw income as directly linked to output, to a concept that prioritized higher wages as a means to achieve efficiency. This novel theory was shared by Brentano and Marshall, and later by Fukuda.

While Brentano and Engel were working in Britain, the economic and social climate there was rapidly changing. On the one hand, legislation enacted in 1871 empowered trade unions in Britain, resulting in growing demands for better living and working conditions. On the other hand, the years around 1870 saw 'a major turning-point' in economic policy in Britain, with a 'long re- or e-volution in the economic role of government'. It was in this period that the so-called marginal revolution in economic theory took off, and marginal utility theory became the basis of neoclassical economics. From this perspective, welfare economics was seen as a means to measure welfare according to its utility to individuals.<sup>37</sup>

During this period, Marshall began to investigate the labour question from a perspective that combined ethics with economics.<sup>38</sup> For him, the question was 'whether progress may

34 Fukuda, *Collected works*, vol. 5, pp. 2304–8, 2313–15.

35 James J. Sheehan, *The career of Lujo Brentano: a study of liberalism and social reform in imperial Germany*, Chicago, IL: University of Chicago Press, 1966, pp. 16–17.

36 See Lawrence Goldman, 'Civil society in nineteenth-century Britain and Germany: J. M. Ludlow, Lujo Brentano, and the labour question', in Jose Harris, ed., *Civil society in British history: ideas, identities, institutions*, Oxford: Oxford University Press, 2003, pp. 97–113.

37 T. W. Hutchinson, *On revolutions and progress in economic knowledge*, Cambridge: Cambridge University Press, 1978, pp. 94–5.

38 In 1873 Marshall gave lectures to women on 'Some economic questions directly connected with the welfare of labour'. See Tiziano Raffaelli, Eugenio Biagini, and Rita M. Tullberg, eds., *Alfred Marshall's lectures to women: some economic questions directly connected to the welfare of labour*, Aldershot: Edward Elgar, 1995. His initial inquiry resulted in 'The future of the English working classes', a paper read at the Cambridge Reform Club in 1873, and reprinted in A. C. Pigou, ed., *Memorials of Alfred Marshall*, London: Macmillan, 1925.

not go on steadily if slowly, till the official distinction between working man and gentleman has passed away; till, by occupation at least, every man is a gentleman'.<sup>39</sup> As Eugenio Biagini notes, Marshall's approach was characterized by a 'moralizing capitalism' that embodied aspects of the idealist philosophy associated with the Oxford scholar T. H. Green.<sup>40</sup> In this respect, he distanced himself from contemporaries such as Sidgwick, William Jevons, and Francis Edgeworth, who supported a closer relationship between economics and utilitarianism.<sup>41</sup> Marshall sympathized with the aims of socialism and spoke against the 'evils of inequality'.

Sharing with Marshall the theory of efficient wages, Brentano believed that, to become as prosperous as Britain, Germany would need to raise wages and shorten working hours. Thus, he sought to show that both were linked to increased productivity. For Brentano, the most important issue at the time was the creation of trade unions and the introduction of labour laws, to protect the economic interests of workers. He emphasized fostering improvements from the bottom up through trade unions and expounded his social liberalism and production-oriented theories of social policy in his work on guilds. Beginning by mastering the available information on British trade unions, he found that wages in Britain were twice as high as in Germany, and that British workers had a nine-hour working day, compared with German workers' eleven. He argued that Germany's labour efficiency came nowhere near to matching Britain's because of its long working hours and low wages. For those who wanted to make the country prosperous and strong, studies on the relationship between wages and working hours and productive powers were 'the alpha and omega of social reform'.<sup>42</sup> Following Brentano, Fukuda concluded that social reform should not only benefit the working classes but should also have the power to bring about the political and economic *Machtstellung* (position of power) of the nation as a whole.<sup>43</sup> This was the gist of the proposal put forward by Fukuda's disciple Ichiro Nakayama for 'doubling wages', which was published nearly a century later.

## Fukuda, Marshall, and beyond: 'From price struggle to welfare struggle'

In October 1905, Fukuda began lecturing at Keio Gijuku, where he used Marshall's *Principles of economics* as his textbook. He compiled commentaries on the first four books of the *Principles* for his lectures, and published them as *Keizaigaku kougi* (*Lectures on economics*) in three volumes between 1907 and 1909; they were later revised and enlarged to

39 Alfred Marshall, 'The future of the English working classes', in Pigou, *Memorials*, p. 102.

40 Raffaelli, Biagini, and Tullberg, *Alfred Marshall's lectures*, pp. 27–31; Gareth Stedman Jones, *Outcast London: a study in the relationship between classes in Victorian society*, Oxford: Clarendon Press, 1971, p. 7.

41 S. Collini, D. Winch, and J. Burrow, *That noble science of politics: a study in nineteenth-century intellectual history*, Cambridge: Cambridge University Press, 1983, p. 318.

42 Brentano, quoted in Fukuda, *Collected works*, vol. 5, p. 2360.

43 *Ibid.*, vol. 5, pp. 2359–60, 2466.

become the first volume of his *Collected works* (1925).<sup>44</sup> At the time that he started to lecture at Keio, the German translation of Marshall's *Principles* came out with Brentano's introduction, the latter being translated and included in the first Japanese translation of the *Principles* by Fukuda's former student Otsuka Kin-nosuke. Fukuda attached a 'reviser's supplementary introduction' to Otsuka's translation, in which he stated that Marshall's *Principles* were 'the pinnacle of contemporary economics, as my mentor Brentano wrote in his introduction to the German translated edition, so there was no need to attempt to add anything further'.<sup>45</sup> It is important to note, however, that only the first four books of Marshall's *Principles* received much attention in Japan at this time. Otsuka worked on the Japanese translation of the seventh edition, submitting it to Fukuda for publication in 1919. It was launched without the fifth and most theoretical book of the vast compendium. This shows again how Marshall's ideas were accepted in Japan at the time: they offered an economics of social reform, rather than a neoclassical version of economics.

Fukuda began his *Lectures on economics* with the first passage from Marshall's *Principles*: 'Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing.' He argued that the problems of poverty and ignorance cannot be totally eradicated by economics alone. However, the greater part of the facts and reasoning necessary to resolving these problems was encompassed within the sphere of economic research, and his greatest interest in this field of study lay therein.<sup>46</sup>

Fukuda probably saw 'the spirit of the age' in Marshall's position, using the phrase coined by Edgeworth in his review of the *Principles*.<sup>47</sup> This sentiment was shared by Ruskin, Hobson, Pigou, Cannan, and the Webbs, and by both the Cambridge school and the economists of Oxford and the LSE, who favoured the ethical-historical approach. They had much in common in their historical background, but their theoretical framework rested on different philosophical and ethical foundations. While Pigou drew on Sidgwick's utilitarianism, Hamilton's 'English welfare school' was inspired by Green's ethics of virtue and Ruskin's idealism. Marshall's question – 'whether it is really impossible that all should start with a fair chance of leading a cultured life, free from the pains of poverty' – was arguably common to Fukuda and Brentano, who shared an economic approach to social reform. For Marshall, the solution to economic problems was a prior condition to the

44 Fukuda used the fourth edition of Marshall's *Principles*. Thus the structure of Book I of his *Lectures* is as follows: ch. 1 'Introduction', chs. 2 and 3 'The growth of free industry and enterprise', ch. 4 'The growth of economic science', ch. 5 'The scope of economics', ch. 6 'Economics as science'. Book V is something called 'Circulation' (in fact, exchange and distribution); it is not Marshall's Book V 'Theory of the equilibrium of demand and supply' or 'General relations of demand, supply and value', which is the core of the economic analysis. Fukuda thought historical narrative more important and did not recognize the significance of the static core of Marshall's Book V.

45 After a period studying abroad, Otsuka returned to Japan and completed the first full Japanese translation of the eighth edition of the *Principles* in 1925–26. It was not until the mid to late 1920s that the general equilibrium theory was understood in Japan, first by Nakayama Ichiro and Takada Yasuma in the 1920s, and later by Yasui Takuma in the 1930s.

46 Marshall, *Principles*, pp. 1–4; Fukuda, *Collected works*, vol. 1, pp. 1–6.

47 F. Y. Edgeworth, 'Review: *Principles of economics* by Alfred Marshall', in Peter Groenewegen, ed., *Alfred Marshall: critical responses*, London: Routledge, 1998, vol. 2, p. 12.

exercise of man's higher faculties. For him, economics was 'a handmaid of ethics, not an end itself, but a means to a further end: an instrument, by the perfecting of which it might be possible to better the conditions of human life'.<sup>48</sup> Economics grew and grew in practical urgency in his mind, 'not so much in relation to the growth of wealth as to the quality of life'.<sup>49</sup> It was this aspect of Marshall's work that appealed to Fukuda.<sup>50</sup>

Fukuda soon came to emphasize the need to move 'from [a] price struggle to [a] welfare struggle'.<sup>51</sup> What he sought was liberation from price economics in order to produce a new form of economics, one that was responsive to the demands of the times. He claimed that

it would be the great British economist Alfred Marshall himself who should be seen as the forerunner in this trend of economic thinking outside of the German ethical school of economics. Book I of his most influential work, *Principles*, should be seen as a declaration of welfare economics. But with regard to the true intention of Marshall, the apostle of welfare economics, we should look at his entire academic activity rather than this work alone.<sup>52</sup>

He also wrote:

Marshall's contention that economics is the research of the relationship between man and wealth should mean that the genuine purpose of economics could be achieved only by mastering the studies of both man and wealth. Thus, this relationship should concern not only the amount of wealth but also the possibility of providing human beings with equal material means that would be necessary to perform their higher developments and nobler activities. The new school, the historical school, the ethical school, or whatever, definitely does no more than this conception ...<sup>53</sup>

According to Fukuda, Marshall's notion of social welfare and welfare economics had been accepted in Britain and was gradually being institutionalized. It could be found in social legislation of the time, such as the Old Age Pensions Act 1908, the National Health Insurance Act 1911, and other so-called liberal welfare reforms. The *Reports of the Poor Law Commission* from 1909 also seemed to demonstrate that the ideas had generally been accepted. The Commission's *Minority report*, as well as the Webbs' *Prevention of destitution* (1912), took on great importance for Fukuda. He did not focus on specific points in either work, but in his opinion they laid the foundation for social policy in general. He was also

48 J. M. Keynes, 'Alfred Marshall, 1842–1924', in his *Collected writings*, vol. 10, London: Macmillan, 1972, p. 170.

49 Marshall to James Ward, 23 September 1900, in John K. Whitaker, ed., *The correspondence of Alfred Marshall*, Cambridge: Cambridge University Press, 1996, vol. 2, p. 285.

50 For this aspect of Marshall, see Katia Caldari and Tamotsu Nishizawa, 'Progress beyond growth: some insights from Marshall's final book' and 'Marshall's "welfare" and "welfare economics": a reappraisal based on his unpublished manuscript on progress', both forthcoming.

51 Fukuda, *Collected works*, vol. 5, p. 265.

52 *Ibid.*, 275.

53 *Ibid.*, vol. 1, pp. 24–5. Fukuda's interpretation of Marshall is complex, just as Marshall himself was complex. Keynes wrote of his 'double nature', i.e., while Marshall was a member of 'the tribe of sages and priests', he was very much a scientist too (Keynes, 'Alfred Marshall', p. 173). See also Fetter's interpretation below.

inspired by Pigou's *Economics of welfare* (1920), which further developed Marshall's concept of an ethical capitalism. Fukuda sought to compare these with his own ideas in 'From price struggle to welfare struggle', which appeared in 1921 in the journal *Kaizo* (*Reconstruction*).<sup>54</sup>

## From welfare economics to the welfare state

Fukuda viewed social policy as an alternative to socialism and Marxism, which were increasingly influential in Japan after Russia demonstrated a successful model in 1917. He thought that social policy should be concerned with defending social welfare from both capitalism and socialist intervention. During this period, he contended that 'economics in the future will be social policy studies'. When he called for 'social policy studies', he saw that they were crucial in formulating a concept of 'society'. For Fukuda, social affairs were separate from both the state and the individual, and so should be developed accordingly. Social policy should prevent the state from interfering in social life. The state should be flexible in its response to social affairs, permitting a striving for social life insofar as that was possible, and not be concerned only with defending property rights.<sup>55</sup> Fukuda certainly thought this approach would modernize and democratize the Japanese constitution, and as a result gradually restructure the 'acquisitive society'. As for the discovery of 'society', the social question, and theories of social rights, he was also inspired by the pioneering work of the German administrative scholar Lorenz von Stein. In his discussion of welfare economy, Fukuda saw the welfare state, or welfare society, as the 'third way', as his student Yamada Yuzo (1902–96) later recalled.<sup>56</sup> It meant standing above the conflict between capitalism and socialism and offering an alternative to Marxism.

Fukuda appropriated ideas for social reform from a variety of sources, just as Japan looked to various sources of inspiration in its attempt to modernize and industrialize. Under the influence of the Austrian legal scholar Anton Menger, younger brother of Carl Menger, the founder of the Austrian school of economics, he developed a theory of social rights. He called for a right to life (to meet basic needs) beyond both the right to work and the right to receive the whole production of one's labour. These ideas formed the foundation of his social policy. Fukuda thought that the 'principle of a national minimum', as advocated by the Webbs, who travelled to Tokyo to deliver this message in 1911, was basically the same. Referring to Carl Fuchs's *Volkswirtschaftslehre* (1905), he wrote that the aim of political economy was to provide the economic or material basis necessary for the minimum requirements of human life and to make it possible for people to lead a cultured life. Fukuda saw that a national minimum was the prerequisite for the cultural and moral development of the majority of the people. Investigating Britain's welfare institutions and the Old Age Pensions Act, he wrote that recent British social policies could provide a model for grappling with social problems into the twentieth century. Thus Fukuda shared, or rather developed,

54 This article was first included in Fukuda's *Shakai seisaku to kaikyū toso* (*Social policy and class struggle*), 1922, and later in his *Collected works*, vol. 5.

55 Fukuda, *Collected works*, vol. 5, pp. 27, 122–6.

56 Yamada Yuzo, 'Fukuda keizaigaku to fukushi kokkaron (The economics of Fukuda and the welfare state)', *Nihon Gakushūin kiyō* (*Bulletin of the Japanese Academy*), 37, 3 (1981–82), pp. 181–4.

the ideas of the right to life (basic needs) quite early in the global context, and he drew in part here from the experiences of the Rice Riots of 1918 and the great earthquake of 1923 to address the ‘right to extreme need’.<sup>57</sup>

Fukuda sought freedom from the constraints of price economics and saw welfare economics as the way forward to ensure the basic right to life.<sup>58</sup> In his monumental paper ‘From price struggle to welfare struggle: especially labour disputes as welfare struggles’ (1921), he drew a distinction between welfare economics and price economics. For Fukuda, price economics and price struggle were based on ‘the measuring rod of money’ and wages, while welfare economics was based on more fundamental questions about the quality of life and the promotion of human wellbeing. Fukuda’s main concern was what Marshall had called ‘life all round, individual and social, moral and religious, physical and intellectual, emotional and artistic’.<sup>59</sup> In short, ‘life all round’ was not simply about economic progress, but also had a broader sense that seemed to reflect the writings of Marshall’s contemporary, the art critic and social reformer Ruskin. Fukuda believed that this approach was more realistic and also a more persuasive means to democratize Japan and bring about cultural change in the Taisho era.

As an alternative to socialist economic policy, Fukuda therefore looked to Britain. He praised Marshall as ‘the greatest authority among the contemporary economists’, but nonetheless remained reluctant about appropriating Marshall’s theories outright. Marshall, he claimed, started his *Principles* with a clear and bold statement in favour of welfare economics, but then ‘gradually follows the conventional beliefs of price economics, and in the end falls to the lowest point of view, one that is no different at all from that of his fellow price economists’.<sup>60</sup> Here, Fukuda was referring to the American economist Frank A. Fetter, who wrote on ‘Price economics versus welfare economics’ in 1920. According to Fetter, price economics was represented by Ricardian economics, which was at its most influential between 1818 and 1860 in Britain. Thomas Carlyle (and later Ruskin) protested against the policy, bitterly attacking the ‘mercantile economy’ because it stressed financial over moral values. Fetter viewed Toynbee and Hobson, and in some respects all the modern social reformers of the Fabian Society, as following the path of moral welfare economics.<sup>61</sup> Just as Fukuda would soon argue, Fetter claimed that ‘there is, indeed, a thoroughgoing inconsistency in Marshall’s view as to the central aim of economics’. Marshall aimed to be a welfare economist, aspiring to make economics a study of real human life, but he also sought to make economics an exact science with the mathematical precision of the physical sciences. This led him to abandon welfare and to view money as ‘the centre around which economic science clusters’.<sup>62</sup>

57 Fukuda, *Collected works*, vol. 4, p. 1051, and vol. 6, pp. 1934–5.

58 In this context Fukuda referred to Robert Liefmann, ‘Theorie des Volkswohlstands’ (unpublished); S. N. Patten, *The theory of prosperity*, New York: Macmillan, 1902; and W. Mitscherlich, *Der wirtschaftliche Fortschritt*, Leipzig: C. L. Hirschfeld, 1910.

59 This is from Marshall’s manuscripts on ‘Progress’: University of Cambridge, Marshall Library, Marshall papers, folder 5.6.

60 Fukuda, *Collected works*, vol. 5, pp. 275–6.

61 Frank A. Fetter, ‘Price economics versus welfare economics’, *American Economic Review*, 10, 3–4, 1920, pp. 472, 476–9.

62 *Ibid.*, pp. 721–3.



## Fukuda, Hobson, and the economics of social reform

Fukuda later turned to Hobson's ethical and humanist approach to welfare economics, or the 'human valuation' of goods. In his own words, he had been inspired by Hobson's *The industrial system: an inquiry into earned and unearned income* (1909) and *Work and wealth: a human valuation* (1914), and compared the theories that these books proposed with those set out in Pigou's *Wealth and welfare* (1914) and Cannan's *Wealth* (1928). Fukuda disagreed with separating welfare (economic welfare) from wealth as Pigou did. When Fukuda wrote 'I can't stop smiling' after reading Hobson's *Wealth and life: a study in values* (1929) and Cannan's *A review of economic theory* (1929), he was expressing his belief that their studies were moving in the same direction as his own final work, *Welfare economic studies*. In fact, he attempted to meet Hobson in London when he visited Europe in 1925.<sup>63</sup>

Thus it was Hobson's welfare economics, not Pigou's, that were taken most seriously in modernizing Japan. The same was true in the United States until the 1920s, thanks to Walton Hamilton's 'Economic theory and "social reform"' (1915).<sup>64</sup> Hamilton presented a detailed discussion of Hobson's *Work and wealth*, which was concerned with the problem of establishing a standard of 'vital' values by which society could be organized. The idea stood in line with Ruskin's notion of 'no wealth but life', or an economics of 'life'. Hobson aimed to 'substitute for the monetary standard of wealth a standard of human well-being'.<sup>65</sup> There were therefore links between Hobson and American institutionalism, and the flow of these ideas was complex. For example, Fetter's 'Price economics versus welfare economics' was taken up not only by Fukuda but also by a Chinese scholar, William Tien-Chen Liu. Liu probably wrote his PhD at Northwestern University, and was later a Fellow there, publishing *A study of Hobson's welfare economics* in 1934. He argued with Fetter that the economist's task was a deeper study of the human factor and that 'the truer political economy is a theory of welfare and not a theory of value'.<sup>66</sup> However, the so-called new welfare economics, based on Lionel Robbins' critical separation of economics and ethics, was taking shape by this point. Hobson was never mentioned in the literature grounded in economic welfarism, such as the works by Hicks and Samuelson.<sup>67</sup>

Fukuda aimed to absorb the aspects of welfare economics that were embodied in Marshall's work as well as in the writings of Pigou, Hobson, and others. He argued that 'our study of prices is not conducted for its own sake, but because we believe that it is related to wealth and social welfare, so by studying economics we hope to advance welfare studies'. His aim was 'fruit, but not light'.<sup>68</sup> He did not seek a pure theory, nor was he interested in

63 Fukuda, *Welfare economic studies*, pp. 2–3.

64 *Journal of Political Economy*, 23, 1915, pp. 562–84.

65 J. A. Hobson, *Work and wealth: a human valuation*, London: Routledge/Thoemmes Press, 1992 (first published 1914), p. 9. Following Ruskin, Hobson defined 'the essential work of the political economist' as being 'to determine what are in reality useful or life-giving things, and by what degrees and kind of labour they are attainable and distributable' (*ibid.*, p. 10).

66 William Tien-Chen Liu, *A study of Hobson's welfare economics*, Beijing: Kwang Yuen Press, 1934.

67 See Roger E. Backhouse, 'Scientific welfare economics: the origins of Bergson–Samuelson welfare economics, 1936–1947', unpublished paper presented at Hitotsubashi University, 18–19 March 2013; Nishizawa Tamotsu, 'Kousei-keizaigaku no genryu: Marshall, Ruskin, Fukuda Tokuzo (Origins of welfare economics: Marshall, Ruskin, Fukuda Tokuzo)', *Keizai kenkyu* (Economic review), forthcoming.

68 Fukuda, *Collected works*, vol. 5, pp. 280–1.

developing a scientific form of welfare economics. Instead, he was more concerned with relieving the suffering of people and helping them to gain the material necessities for wellbeing. This took on special urgency as the voices of hardship grew louder in Japan in the wake of both the Russian Revolution and the Rice Riots.

Fukuda believed that Pigou's analysis was insufficient for the study of welfare. The latter's measure of economic welfare, in the form of a national dividend, was too limited. In order to professionalize welfare economics, Pigou restricted his scope to economic welfare, to 'the measuring rod of money'. As a result, non-economic aspects of welfare, such as wellbeing, 'quality of life', and 'basic needs', were ignored. By contrast, Fukuda believed that enhancing human life was the most important way to ensure the welfare of working people.

In his criticism of Pigou, Fukuda argued that aiming for a broader approach to welfare was still necessary, even if Pigou's analysis was right. For Fukuda, the welfare struggle required income redistribution, justice for workers, and fair working hours, achieved partly through labour disputes.<sup>69</sup> His welfare economic studies, like Hobson's, thus went beyond Pigou's economic welfarism and returned to the Oxford approach of ethical-historical thinking, involving ethical policy and praxis. In this he was closer to the historical and ethical school of economics for social reform which had its roots in both Oxford and the German historical school.

Fukuda tentatively called for the development of communal principles in capitalist society.<sup>70</sup> By this he meant the redistribution of the social surplus, or the socialization of the surplus. This echoed Hobson's discussion of organic surplus value, Hobson having called for the socialization of unearned income.<sup>71</sup> For Fukuda, the communal principles of 'from each according to his ability, to each according to his needs' were 'woven into the texture of contemporary capitalist society, like the thread of fate, through the whole production, exchange, and distribution'. These principles appeared not in price theory but in income theory, and could not be found in cost principle or utility principle but in surplus principle. In a capitalist society, the struggle for the socialization of surplus value would develop incrementally, through class struggle, labour disputes, minimum wages, and workers' insurance or public unemployment insurance. It would be further achieved through taxation and various public corporations and institutions.<sup>72</sup> These ideas were later to be developed by Tsuru Shigeto (1912–2006).

Fukuda's arguments on the principles of needs and surplus were heavily influenced by Hobson's thinking on 'earned and unearned income' and the 'human interpretation of industry'.<sup>73</sup> Hobson saw industrial and social legislation as an endeavour to regulate the disposal of the surplus in order to improve the conditions of the working classes and to

69 *Ibid.*, pp. 292–3.

70 See Fukuda, *Welfare economic studies*, chs. 1 and 2, 'Justice in circulation (*justitia commutative*) by Aristotle' and 'Production, exchange, and distribution of surplus'.

71 See John Allett, *New liberalism: the political economy of J. A. Hobson*, Toronto: University of Toronto Press, 1981, especially ch. 3, 'Society as a maker of values'.

72 Fukuda, *Welfare economic studies*, pp. 178–9.

73 See J. A. Hobson, *The industrial system: an inquiry into earned and unearned income*, London: Longmans, Green and Co., 1909, reprinted New York: A. M. Kelley, 1969, esp. ch. 19, 'The human interpretation of industry'.

expand the productive and regulative activities of the state. In his view, social progress required a calculus of hedonism to be reduced to terms of social good. The purposeful control of industry would therefore contribute towards politics more generally. Social economy within industry aimed at securing a natural relationship between production and consumption among classes and individuals. This was a general law of distribution in the organic world and could be seen in the shift from individualism to socialism.<sup>74</sup>

Fukuda believed that the development of communal principles could be noted in the progress of capitalist society, and he saw its tentative advance in the growth of the British welfare state. On 10 June 1929, immediately after the inauguration of the second Labour government in Britain, he wrote:

I learned from this morning's newspaper that Mr MacDonald, in his inaugural speech on the evening of the 8th, stated that the major tasks of his new cabinet would be to reform the industrial system and solve the unemployment problem. The formation of this cabinet may mark a major 'development of communal principles' in Britain, and I think it may affect the future of British capitalism significantly, thereby deepening my own interest in the subject.<sup>75</sup>

Fukuda was also inspired by Ruskin's ideas on community, perhaps by way of Hobson. Following Ruskin's *Unto this last*, he called for a minimum wage as a basic 'need' as well as a 'right'. He recognized that the principle of 'basic needs' or a 'civil minimum' not only stood at the core of Ruskin's and other utopian thinking about social problems, but also provided the foundation for the British welfare state.<sup>76</sup> With British economic and social theory, as well as Britain's new social policies, as his inspiration, Fukuda called for the 'democratic control of industry'. He saw this policy as the only way to relieve workers of their 'painful exertion'.<sup>77</sup>

## Further development by Nakayama Ichiro

Social policy to ensure the 'right to life' (basic needs) was at the root of Fukuda's welfare economic studies and provided the basis of thinking for the Japanese welfare state from the 1940s onward. Indeed, article 25 of the present Japanese constitution (1946) states that 'all Japanese people have the right to a minimum healthy and cultural life', which resonates with Fukuda's ideas, even though there is no direct link to them. Both Yamada Yuzo, who developed Fukuda's ideas in theory, and Nakayama Ichiro (1898–1980), who extended those ideas in practice after the Second World War, further elaborated this strand of thinking. For them, welfare policy was about the right to life, or the material needs of human wellbeing, which would ensure a healthy and cultural life not only for individual workers and their families but for Japan as a whole.<sup>78</sup> This idea was developed by Tsuru Shigeto, an advocate

74 *Ibid.*, pp. 312, 327–31.

75 Fukuda, *Welfare economic studies*, p. 183.

76 Tsuru Shigeto, *Kagakuteki hyumanizumu wo motomete (The pursuit of scientific humanism)*, Tokyo: Shin-nihon Shuppansha, 1998, pp. 96–7, 150.

77 Fukuda, *Collected works*, vol. 6, pp. 1376–7.

78 See Tamotsu Nishizawa, 'Ichiro Nakayama and the stabilization of industrial relations in postwar Japan', *Hitotsubashi Journal of Economics*, 43, 1, 2002, pp. 1–17.

of Ruskin's critical acumen, who called for welfare rather than growth, to enhance people's quality of life, achieving a 'full life' as a component of wellbeing. He claimed repeatedly that these aspirations should be the focus of economic policy, 'in place of GNP'.<sup>79</sup>

Nakayama, who studied at Tokyo University of Commerce under Fukuda, had become one of the most prominent theoretical and mathematical economists in pre-war Japan. He also played a major role in economic and industrial policy, particularly in fostering labour-management relations in post-war Japan through government advisory councils and various intermediate organizations. 'My economics started with my teacher Fukuda', he recalled. 'If I had not attended the lectures of my teacher Fukuda, I would undoubtedly not have become an economist.' Nakayama's involvement with labour problems also began with Fukuda. He was effusive in his praise of Brentano and Fukuda's *Labour economics* at his memorial lecture for the centenary of Fukuda's birth. As we have seen, Brentano and Fukuda argued that, like Britain, Germany needed to improve wages, shorten working hours, and raise labour productivity in order to pursue its optimal course of economic development. Nakayama applied this argument to Japan. He contended that, as late as the 1970s, which was an era of high-speed economic growth in Japan, the country still faced similar problems, namely those of whether the Japanese economy would be able to offer higher wages and shorter working hours.<sup>80</sup>

In the post-war period, Nakayama played a part in labour-management relations through the Central Labour Commission. While employed at Hitotsubashi as professor and president, he was closely involved in industrial relations and industrial disputes from the stormy post-war period through to the age of stability, contributing to stabilizing labour-management relations, and in so doing promoting industrial development in general. As the Central Labour Commission later noted, Nakayama, 'over a period of fifteen years following the war, provided leadership unsurpassed in the area of labour-management relations for our country, and was the man who produced an epoch in industrial relations'.<sup>81</sup> In addition to the Central Labour Commission, he served on the Central Wages Council, drafting a proposal that became the basis for establishing Japan's minimum wage law. He was also appointed vice-chairman of the Japan Productivity Centre when it was founded in 1955. Two years later, he was appointed chairman of its Standing Committee for a Labour-Management Consultation System, a position in which he served until his death. In this and other ways he greatly contributed to the propagation and diffusion of the labour-management joint consultancy system.<sup>82</sup>

79 Tsuru Shigeto, "'Kokumin shotoku" gainen heno hansei (Reflections on the "national income" concept)', *Hitotsubashi ronso (Hitotsubashi review)*, 12, 6, 1943; Tsuru Shigeto, 'In place of GNP', originally presented at the 'Symposium on political economy of environment', Paris, 5-8 July 1971, reprinted in S. Tsuru, *Towards a new political economy*, Tokyo: Kodansha, 1976.

80 Nakayama Ichiro, *Wagamichi keizaigaku (My way to economics)*, Tokyo: Kodansha, 1979, p. 12; Nakayama Ichiro, 'Kosei keizaigaku to Fukuda Tokuzo (Welfare economics and Fukuda Tokuzo)', in Minoguchi Takeo and Hayasaka Tadashi, eds., *Kindai keizaigaku to Nihon (Modern economics and Japan)*, Tokyo: Nihon Keizai Shinbunsha, 1978, pp. 78-81.

81 Chuo Rodo Iinkai (Central Labour Commission), ed., *Nakayama Ichiro sensei to Rodo Iinkai (Professor Nakayama Ichiro and the Labour Commission)*, 1981, p. 5.

82 From the autumn of 1957, Nakayama wrote a series of articles entitled 'Industrial relations from now on' for the *Asahi newspaper*; in 1958 he wrote *New managers, new workers*, and also published *The labour management consultation system* as one of the Productivity Library series. See Nishizawa, 'Ichiro Nakayama', p. 10.

The following year, Nakayama published his well-known article ‘A proposal for doubling wages: it’s not a dream if production increases’. He argued: ‘When thinking about the future of Japan’s economy in abstract form, the most comprehensive phase is the welfare state .... But how can we move toward the ideal of the welfare state just when we are poor? When facing this problem, in concrete form, I want to boldly advocate doubling wages.’<sup>83</sup> Just two months after this article was published, the future prime minister Ikeda Hayato wrote ‘A proposal for doubling my salary’.<sup>84</sup> Nakayama’s article may have provided the intellectual basis of Ikeda’s national income-doubling policy.

Nakayama’s post-war work, on stabilizing industrial relations (the progress of ‘industrial democracy’, in Fukuda’s words), the institutionalization of Japanese management, and the improvement of workers’ welfare through ‘doubling wages’, originated in part in Brentano and Fukuda’s *Labour economics*. He sought to ameliorate workers’ welfare primarily through efficient wages, something desired by Marshall. Nakayama, though trained in orthodox economics, was also sympathetic to the traditional Japanese notion of economy, that is, ‘administering the nation and relieving the suffering of the people’. For Fukuda and, later, Nakayama and even Tsuru, the political economy of human wellbeing, of enhancing the quality of life, was key to modernizing Japan and the foundation of its welfare state.

## Conclusion

In the formative age of welfare economics and the welfare state around the turn of the century, from the 1880s to the 1920s in Britain, economic studies related to social reform were diverse and pluralistic. ‘Welfare’ and ‘wellbeing’ were extensively debated, when poverty was endemic and came to the fore. Welfare economic studies at that time culminated in the making of Pigou’s *Economics of welfare* in one orthodox and scientific way, based on utilitarianism and consequentialism (the maximization of quantifiable utility). There were also more realistic and radical perceptions of welfare economic studies for securing individual wellbeing and the welfare state, represented by dissenting thinkers such as Ruskin and Hobson and based on idealism and social organicism.

The economics of social reform which emanated from the German historical school, and from the historical and ethical economics practised in Britain, proved more attractive to late-modernizing countries such as Japan. Fukuda, having studied with Brentano, yet also inspired by Marshall and Pigou, shared the spirit of the age of social reform and sought the eradication of poverty. He was not, however, drawn to marginal utility theory and the analytical core of the neoclassical school of economics. He saw that, for Japan, a mixture of Brentano’s historical economics and the more classical approach characterized by the Cambridge-based scholar Marshall, in the non-utilitarian, more ethical, and evolutionary aspects of his ideas, was the best way forward.

As a result, Fukuda arrived at a similar position to that of the British social democratic New Liberal economist Hobson, and the Oxford approach to social philosophy and reform. For him, scientific welfare economics were not relevant to the social and economic problems

83 Nakayama Ichiro, *The collected works of Nakayama Ichiro*, vol. 14, Tokyo: Kodansha, 1972, pp. 32–4.

84 Ikeda’s article appeared in the *Nihon Keizai Shinbun* (*Japanese Economic Newspaper*), 9 March 1959.

of early twentieth-century Japan. Instead, he focused on the combination of people's life and work and saw the right to life (basic needs) as a necessary civic minimum. In these respects, he laid some of the foundations of the welfare state in Japan. His non-utilitarian concept of wealth and welfare, of wealth and the advancement of human life, had something in common with Ruskin's idea of 'no wealth but life' and the Hobsonian political economy of a human standard of valuation. A hundred years later, these notions echo in Amartya Sen's approach to economics, which sees that there is a far more appropriate index of welfare than the relationship between material goods and utility.<sup>85</sup>

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85 I organized a conference with the help of Roger Backhouse and others on the 'History of welfare economics reconsidered: from Ruskin to Sen' in March 2013 at Hitotsubashi University, Tokyo. We shall continue this joint project, which is supported by the Japanese Society for Promotion of Science.