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ECONOMICS FOR HUMANITY

INTEGRATING WELL-BEING, COMMUNITY, AND PRACTICAL PHILOSOPHY

Mitsuaki Okabe

ROUTLEDGE

"Pioneering work that usefully broadens our common understanding of Economics itself."

Kent Calder, *Director, Reischauer Center for East Asian Studies, Johns Hopkins University SAIS, USA*

"Mainstream economics assumes, most of the time, man as *homo economicus*, which is very convenient to build up an elegant scientific discipline. Accordingly, economics is often praised as 'queen of social sciences'. But, if economics integrate more diverse human motives, we can expand the scope and the depth of mainstream economics toward more fruitful humane economics. This book rigorously and convincingly agues, probably for the first time in the literature, that this is the direction of economics to expand."

Nobuhiro Suzuki, *Professor, University of Tokyo, Japan*

Economics for Humanity

Economics is often referred to as "the queen of social sciences." This is because mainstream economics has been established as an elegant academic discipline by assuming mankind simply to be homo economicus—an image of human beings showing interest in only material fulfilment and acting solely in his interest. This book challenges this basic perception of human beings.

By replacing it with a more realistic and multifaceted human motive as supported by research in various academic disciplines, the book tries to provide a novel and more plausible picture of human society. Specifically, the book takes in such human aspects as pursuing well-being, forming human networks, and the realisation of potential of ability. Thus, if we try to better understand human motives and the society, it becomes necessary to replace the conventional two-sector (market–government) social model with a more general and theoretically superior social model, the "three-sector model" consisting of market–government–non-profit sectors. This book demonstrates the validity of this new view by utilising basic principles of economic policy and social welfare analyses. Moreover, the book has introduced a newly developing practical philosophy in Japan over the last 50 years to achieve both individual well-being and better human society.

Mitsuaki Okabe is Professor Emeritus of Keio University, Japan.

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Preface

The goal of economics is to contribute academically to building a society in which goods and services are adequately secured, both at the level of the individual and at the level of society as a whole. What is more important is, though, that individual happiness (well-being) needs to be ensured both ex-ante and ex-post in this process.

Accordingly, this book aims at two goals. Firstly, it tries to critically evaluate the mainstream economics (neoclassical economics) which has achieved a proud status called 'the queen of social sciences,' and the book attempts to provide an alternative and unconventional framework to achieve goals of human society: as research not only for sufficiency of goods and services, but also for human well-being.

Secondly, from a similar perspective, the book systematically outlines a newly developing 'practical philosophy' in Japan, and academically evaluate it, for the first time in English. This practical philosophy asserts that humans working is not necessarily 'disutility' or dissatisfaction, as mainstream economics sees it, but this book understands that it has a deeper meaning for both individuals and society (thus deeply related to individual well-being) than has traditionally been assumed in economics. Therefore, if we each realise our hidden potential and discover our own mission, this will not only enhance our individual well-being but also contribute more to society through the division of labour, thus making a better society.

In short, this book is intended to present hopefully a fruitful direction for future economics that may be described as *Economics for Humanity*. The gist of the book is given in the introductory chapter, which the author hopes to be read first.

Acknowledgements

This book is a condensed English version of my recent book *Humanomics: Exploring Economics Based on Human Nature,* (14 chapters, 440 pages), published in Japanese in 2022 by Nippon Hyoronsha, Tokyo, which was with the above-mentioned issues in mind. This English version compresses the main issues of the Japanese version into about two-thirds the number of pages.

The Japanese version is based on 16 related papers published by the author in recent years. These papers were initially presented at the Japanese Economic Association, the Japan NPO Research Association, the Japan Economic Policy Association, the Japan Association for Planning and Public Management, the Japan Society for Integrated Human Studies, the Japan Society of Monetary Economics, and the Keio SFC Academic Society, where I received useful comments and suggestions. I would like to thank those who acted as designated discussant or session chairperson at these conferences, especially Masao Ogaki (Keio University), Yukinobu Kitamura (Hitotsubashi University), Akinori Isogai (Kyushu University), Yoshiro Tsutsui (Osaka University), Tetsuji Okazaki (University of Tokyo), Hiroyuki Arayama (Kyoto Sangyo University), Shuji Kitami (Tsuda College), Koyu Furusawa (Kokugakuin University), Ienori Tatefuku (Nihon University), Yoji Taniguchi (Chuo University), and Masaharu Hanazaki (Hitotsubashi University).

The author's research interests were initially in mainstream economics, but gradually and over the years have moved towards the areas covered in this book. Initially, the interests centred on macroeconomics, monetary theory, monetary policy, and central banking, as he worked for the Bank of Japan for 20 years. However, this gradually changed as opportunities for research and teaching at universities in Japan and abroad arose, and the emphasis gradually shifted to economic policy, corporate governance, uniqueness of the Japanese economy, social science methodology, humanistic theory, and practical philosophy. The support and encouragement I have received from many people throughout this process (in some cases for more than 40 years) has been immeasurable. I would like to take this opportunity to thank them all.

They are, among others, Nobuhiro Suzuki (University of Tokyo), Shinzo Kato (Keio University), Yoshinori Hiroi (Kyoto University), Sadahiko Kano (Waseda University), Toshiaki Tachibanaki (Kyoto University), Hiroshi Yoshikawa (University of Tokyo), Kunio Shirahada (Japan Advanced Institute of Science and Technology), Yukio Rimbara (Ritsumeikan University), Katsuhito Iwai (University of Tokyo), Masahiro Okuno (University of Tokyo), Kazumasa Iwata (Japan Economic Research Center), Ryuhei Wakasugi (Kyoto University), Yoshiaki Shikano (Doshisha University), Kunio Okina (Kyoto University), Hirohiko Okumura (Gakushuin University), Masahiko Takahashi (Yokohama National University), Yoshio Suzuki (Bank of Japan), Toshihiko Fukui (Bank of Japan), Masaaki Shirakawa (Bank of Japan), Masataka Honke (Bank of Japan), Miki Akiyama (Keio University), Yoko Hirose (Keio University), Toshiyuki Kagawa (Keio University), Iwao Kaneyasu (Keio University), Yuzo Honda (Osaka University), Akira Furukawa (Kyoto University), Takenori Inoki (International Research Centre for Japanese Studies), Kotaro Suzumura (Hitotsubashi University), Kazuhito Ikeo (Keio University), Yutaka Kurihara (Aichi University), Takayasu Ito (Meiji University), Yayoi Tanaka (National Institution for Academic Degrees and University Evaluation), Tomofumi Anegawa (Keio University), Shin Kawai (East Japan International University), Takashi Yamamoto (Takushoku University), Makoto Katsumata (Meiji Gakuin University), Thomas Gill (Meiji Gakuin University), Soichiro Maeyama (Fukuyama City University), Hironobu Nakamaru (Konan University), Masaaki Inutake (Tohoku University), Takeo Hoshi (Stanford University), Kent Calder (Princeton University), Gene Grossman (Princeton University), John Taylor (Stanford University), Max Corden (Australian National University), Hugh Patrick (Columbia University), Richard Marston (University of Pennsylvania), Peter Drysdale (Australian University), Leslie Stein (Macquarie University), Jenny Corbett (Oxford University), Robert Heath (International Monetary Fund), and Phillip Turner (Bank for International Settlements).

The advice and support I received from Andy Humphries of Routledge in publishing this book was invaluable. And, I am delighted that this book is now part of the respected series of Routledge Frontiers of Political Economy.

Lastly, I would like to express my sincere thanks to my wife, Michiko, for all the shared experience and the encouragement to my activities for more than 50 years, at my place of work in not only Hiroshima and Tokyo but also London, Philadelphia, Princeton, and Sydney.

March 2024
Mitsuaki Okabe

Introduction and overview

The area covered by economics is remarkably wide. However, this book is not intended to take up and analyse some specific economic issues. But it is an attempt to broadly question today's mainstream economics from the fundamental perspective of a desirable social science when dealing with various issues.

In other words, in current mainstream (neoclassical) economics, the general understanding is that humans are beings who act with the aim of increasing their own consumption (maximising utility) and that society is a set of such individuals. Both of these perspectives are assumptions that facilitate economic analysis, which has induced the mathematical development of economics, and has also led to the construction of a rigorous and beautiful intelligent system that is not found in any other social sciences. As a result, economics has often been described as the 'queen of the social sciences'.

The basic goal of this book is to provide a critical assessment of the mainstream economics and to propose an alternative and humane economics.[1,2] No matter how scientific the research may be, it is unacceptable to ignore humanity. Indeed, Mahatma Gandhi, who contributed to India's independence, noted in 1925 that 'science without humanity' is one of the Seven Social Sins. The other six he listed were: wealth without work, pleasure without conscience, knowledge without character, commerce without morality, religion without sacrifice, and politics without principle (Wikipedia: Seven Social Sins). Thus, it may be natural that such expressions as 'Humane Economics' or 'Humanomics' can already be found as the title of some books[3], as well as in several research papers[4]. However, they generally and merely assert that 'economics needs to incorporate more of the diverse nature and aspects of human beings,' and thus are clearly limited in their content.

This book, by contrast, is not only unique in its title itself, but also goes much further in its argument than books with similar titles. The author explores and presents in this book his own answers to a series of such challenging questions as follows. Namely, (1) where we can find a scientific basis for changing the conventional view of human beings assumed by economics, (2) what kind of social view (specifically, the three-sector model to

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understand human society as presented in Chapter 6) will result from such a change, (3) how we can explain the validity and superiority of such a social view by using the analytical tools of economic and public policy theories (Chapter 7), and (4) whether there is a way to achieve both the pursuit of individual happiness (e.g. self-fulfilment) and the building of a better society (Chapters 8 and 9)[5,6].

This publication is intended to present the author's academic analysis congenial to international research community. However, he hopes the reader may find that in some respect the underlying value and the way of thinking therein partly reflect the Japanese or Oriental tradition[7].

Overview of this book

This book consists of three parts. The nature of each parts is shown below, and a brief chapter-by-chapter overview covering the above-mentioned issues is presented.

In **Part I 'Groundwork for bettering economics,'** we critically review the essence of mainstream economics, and explore key elements that are to be integrated in order to make economics more humane scholarly research.

Chapter 1 'Need for economics to fully integrate human nature' presents the current features of mainstream economics in somewhat theoretical way, points out that there are basic problems with it, and suggests the research directions needed to overcome the problem. In other words, the chapter argues that: (1) mainstream economics has traditionally assumed simple characters of human beings (materialism, selfishness, individualism); (2) human society has been understood as a set of such individuals (the way to understand it being termed as 'methodological individualism'); (3) on the contrary many related fields (psychology, cultural anthropology, sociology, neuroscience, etc.) have demonstrated that human is social creature (having some sense of being connected, ethics, and altruism); and (4) economics needs to be developed as a discipline that incorporates such human characteristics (and need to become *Economics for humanity*).

Chapter 2 'Inheriting from Adam Smith: ethics and other human nature' examines how humans should be understood from the perspective of the history of ideas and social philosophy. The chapter argues that: (1) Adam Smith 'the father of economics' actually has, along with *The Wealth of Nations* (1776), another major work, *The Theory of Moral Sentiments* (1759); (2) Smith argued in the latter that human beings have not only self-interest but also sympathy for others, beneficence, and a moral sense; (3) Smith understood further that human beings usually have a potential capacity that is not yet manifested; (4) economics needs to reaffirm and inherit Smith's view of human nature and develop it in a new way; and (5) it would enable broader arguments that are not solely market-oriented (e.g. also considering ethical aspects of public policy and happiness through the flowering of potential), thus broadening the scope of economics.

Chapter 3 'Considering humanity (1): altruism' defines altruism and outlines traditional understandings of it, by taking into researches from a number of academic disciplines. And the chapter asserts that: (1) altruism is usually understood to include two kinds: pure altruism (cases in which self-interest is not taken into account at all) and impure altruism (cases in which satisfaction from altruistic behaviour is involved), (2) research from many academic disciplines (psychology, sociology, anthropology, biology, neuroscience, etc.) has shown that humans have altruistic sentiments; (3) there is also a movement to promote altruistic behaviour, to take advantage of the fact that altruistic behaviour brings happiness and health to people; and (4) some theoretical models have been proposed to incorporate altruistic behaviour into the standard model of economics (individual's utility maximising behaviour with additional constraints).

Chapter 4 'Considering humanity (2): social networks' utilises modern network science and discusses the nature of human network, a trait closely related to altruism. It argues that: (1) humans tend to be intrinsically connected (tend to form social networks); (2) this characteristic is supported by research in many academic disciplines (evolutionary theory, genetics, biology, behavioural science, etc.) and there is a strong view that it originates in human nature; (3) individual thoughts and behaviour are influenced by social networks, while conversely they clearly influence others (but only up to three degrees of separation); (4) in social networks, the inescapable awareness of the other generates altruism in humans, while at the same time creates shared resources ('social relational capital' useful to human society) that enable human societies to fulfil their potential; and (5) mainstream economics, which is founded on methodological individualism, therefore takes little account of these matters, so that economics needs to broaden its horizons in the future.

In the above four chapters, it was argued in turn that there are major problems with contemporary mainstream economics. In other words, it has been assumed that humans are *homo economicus* (economic man) and that they are subjects who behave in a one-dimensional and simple way (Chapter 1); that Adam Smith had a broad view of humans but researchers have long misunderstood or ignored it (Chapter 2); that humans are assumed to be selfish and the view that they have altruism has usually been rejected (Chapter 3); and as a result, mainstream economics has the problem to look at society as an arithmetical sum of self-interested individuals and lacks the important aspect of human networks (Chapter 4).

Part II 'Overview of *economics for humanity*' discusses the direction and the nature of economics for humanity, and provide a theoretical proof of that direction. In **Chapter 5** "Towards 'economics for humanity' " clarifies that the basic idea of modern mainstream economics, which have the above problems, is only a too easy way to understand the society (oversimplification) and argues that a broader perspective that incorporates 'human nature' is necessary to better understand the human society. Accordingly, this chapter discusses that: (1) there are three main ways or frameworks for understanding

the link between human behaviour and society [(a) methodological individualism, (b) methodological holism, and (c) science of social networks]; (2) the most appropriate view of society is not simply based on the above (a) but is obtained by adding the viewpoint (c) (a view of human beings that may be called *homo socialis* or societal man); and (3) if based on such a view of man and society, economics can become a social science with a richness that can be expressed as 'economics for humanity' .

In **Chapter 6** 'Three-sector model of the economy', a detailed argument is presented that, if the human and societal view in the previous chapters is to be embodied to understand the society, it becomes necessary and appropriate to extend the conventional theoretical framework of the so-called 'two-sector (market–government) model' to 'three-sector (market–government–community) model'. And, the book argues further that: (1) the third sector to be newly introduced can generally be described as 'community,' and its form and principles of action are characterised by a more humane element than those of the market or government; thus (2) the three-sector model, which has an economic-anthropological basis, should become a basic perspective for understanding human society regardless of time and culture; (3) the newly introduced third sector is often referred to as the 'non-profit sector' (NPO) in the United States and the 'third sector' in Europe; and (4) this sector, regardless of the name, has the function of providing quasi-public goods or quasi-public services, and brings significant benefits to society.

Chapter 7 'Theoretical bases of the three-sector model' argues that the paradigm shift from 'two-sector (market–government) model' to 'three-sector (market–government–community) model' is valid not only from the viewpoint of economic-anthropology, as shown in Chapter 6, but also on the ground of basic theories of economic policy. The argument here is that: (1) the basic policy prescription of mainstream economics is problematic in that it puts too much, if not exclusive, emphasis on efficiency and excludes human or ethical factors so that some such factors need to enter; (2) the addition of policy goals can logically be justified by understanding the economy to consist of three sectors in light of the basic propositions of economic policy theory (Tinbergen's principle, Mundell's theorem and Poole's proposition); (3) public policy based on the three-sector model can theoretically achieve a higher level of social welfare than in the case of the two-sector model; and (4) although there have already been several proposals for the idea of 'three-sector models,' no author so far has theoretically discussed the appropriateness and effectiveness of the scheme in terms of economic policy theory or in terms of improving social welfare. Therefore, the author presumes that the theoretical discussions in this chapter is novel.

Part III 'Enriching human society: a practical philosophy' explains a system of new thought of self-improvement which deeply relates both to individual well-being and better society. This topic may seem to be unusual and too overly an extension for economics. But, given the ultimate objective of

economics, the author conjectures that this kind of academic research may be regarded to one new direction of economic or social researches.

Chapter 8 'A practical philosophy for well-being and better society (I)' first, (1) takes up a general topic of 'self-improvement,' and consider its significance by reviewing some related books on the topic, including the 'practical philosophy' which was born in Japan, then, (2) explains the basic elements and the framework of the practical philosophy.

Finally, **Chapter 9** 'A practical philosophy for well-being and better society (II)' explains the essence of that practical philosophy developed by Keiko Takahashi (1956–) in Japan since the 1970s, and evaluates it by referring such works as Adam Smith and Amartya Sen, as well as referring to modern psychology and the statistical evidence. And, the chapter concludes that: (1) the improvement of human character (personality) is required in order to realise one's potential, (2) the work for every man or woman has the important function of connecting oneself with society and bringing a sense of purpose to one's life, (3) the practical philosophy fulfils these conditions effectively, (4) the number of sympathisers and practitioners has recently been increasing both nationally and internationally, partly due to the diversification and flexibility of the study methods of the practical philosophy, and (5) future developments of this practical philosophy is worth closely watching, owing not only to an affinity with the spirituality orientation of modern people but also to a growing number of cases where the practice is contributing to building a better society through the practitioner' own profession and work.

Notes

1 An example of building on this awareness is a recent report by an international organisation (OECD 2020). The report points to the need to break away from the traditional focus on economic growth and switch to a perspective that emphasises four multidimensional concepts (environmental sustainability, improving living conditions, reducing income and asset inequalities, and improving crisis preparedness). It also emphasises the need to switch from the selfish and individualistic image of the human being conventionally assumed by economics to an understanding of the 'social human being' (ibid.22). The image of the human being assumed there is consistent with one of the perspectives of this book (see Sections 1.3 and 2.4).
2 Note that a global pandemic of COVID-19 after 2020 has a major impact on the lives and well-being of people worldwide (OECD 2021) and has been an urgent and important problem to consider. But this book does not discuss that issue directly.
3 As a book title, *Humanomics* is used in Heuser (2008; in German), Smith and Wilson (2019), and McCloskey (2021). Similarly, *Humane Economics* is the book title of an edited volume by High (2006).
4 McCloskey (2016: title of article), and Morson and Schapiro (2017: 8, 288).
5 The author of this book once stated the need for a new economics to meet these challenges in his book (in Japanese) *Humanity and Economics - Towards a New Paradigm for Social Science* (Okabe 2017a). And, he developed that direction

further in a more recent book (in Japanese) *Humanomics: Exploring Economics Based on Human Nature* (Okabe 2022a). The present publication is, as already mentioned, the condensed version written in English of the latter.

6 Fortunately, a group of researchers in physics, who proposes a new system of understanding from a larger perspective than the current particle physics, has drawn attention to the proposal of a new framework developed in Okabe (2022a) evaluating it as research of similar nature (Sakuma et al. 2024: 19). This observation is very much appreciated.

7 For instance, the author's earlier book (Okabe 2017a) academically discussed for the first time the Japan-born practical philosophy (as in the present book in chapters 8 and 9). Also the same book took up the importance of morality quoting Indian-born philosopher-economist Amartya Sen's argument as in this book (as in Chapter 1–Section 3). More broadly, the book reflects such view as the general image of business corporation perceived not as accumulated capital but rather as a human group, which used to be a powerful perspective on the characteristics of Japanese companies (Itami 1987). Still further it has been the historical Japanese view to unify economy and moral (Shibusawa 1938).

Part I

Groundwork for bettering economics

1 Need for economics to fully integrate human nature

1.1 Developments in economics in recent years

Economics is the social science that[1] studies the production, distribution, and consumption of goods and services (Krugman and Wells 2009: 2). It may alternatively be said that it is a study of the sufficiency of goods and services, for both individual and society as a whole.

More specifically, then, from what perspectives or assumptions has economics developed? In this section, we will present a brief framework for understanding the development of economics in recent years and characterise the state of contemporary economics based on this framework.

1.1.1 Assumptions in economics

In economics (and especially in its theory) characterised as above, several basic assumptions have been made over the years to facilitate analysis, under which the system of economics has been built. These are, for example, the assumptions of: (1) perfect information (bargaining parties have the same information), (2) rational choice behaviour, (3) profit-maximising behaviour of firms, and (4) selfish utility-maximising behaviour of humans.

However, analyses that do not make such assumptions have gradually developed, as there are aspects of these assumptions that diverge significantly from reality. Examples include the followings.

First, with regard to (1) above, the concept of 'information asymmetry,' which does not assume perfect information, was introduced, and human behaviour and markets under such conditions have been analysed by Stiglitz and others since the 1970s. As a result, a new understanding of economic transactions has emerged.[2]

Regarding (2) above, the idea of 'bounded rationality' (i.e. that humans do not always behave rationally in their choices) was asserted relatively early on by Simon[3] and it became clear that in such cases, human and organisational decision-making would differ from conventional understanding. This was the

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first time that the idea of 'limited rationality' (bounded rationality) had been proposed. Furthermore, later, psychological research by Daniel Kahneman and others revealed that human judgement and decision-making have specific 'biases,' and a new field of 'behavioural economics' (see below) has emerged based on this assumption.[4]

Furthermore, while (3) above refers to an understanding of the company that places shareholders and management at the centre (Anglo-American view of the company), there is also a more influential view of the company (German-Japanese view of the company) that emphasises that the company is also made up of a diverse range of other stakeholders, including employees and banks. In this case, it is not appropriate to view the nature of companies and governance issues on the basis of simple profit-maximising behaviour.[5]

On the other hand, so far there has been little effort to remove the assumption of 'selfish utility-maximising behaviour' in (4) above, and to actively assume a different image of man instead (or at least that kind of effort has not become prominent). The reason for this is that without such an assumption, i.e. without the assumption of *homo economicus* (economic man), in which humans act in an individualistic manner with the sole criterion of maximising their own economic interests, building economics would not easily be possible in the first place.

In other words, if one were to remove the assumption of *homo economicus*, it would be as if one had opened Pandora's Box, which should not be opened because it would bring disasters, so that all the problems of conventional economics would pop up and become unresolved (or economics would disintegrate in the air and cease to exist as a magnificent discipline). So that it could be said that such a behaviour has been a taboo for economists.[6]

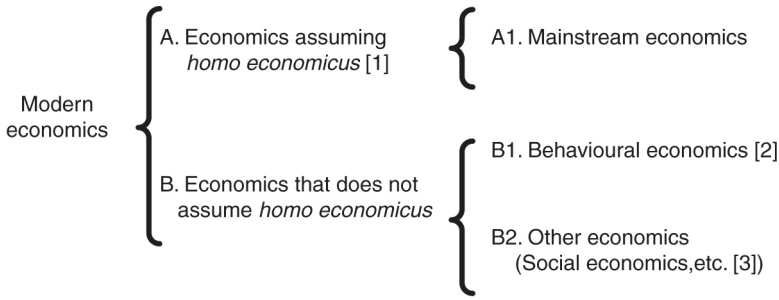
Thus, as the name of the discipline suggests, economics has clearly developed around the assumption of the *homo economicus*. Given this reality, the development of modern economics (and its limitations) that has been observed so far can be classified on the basis of the existence or non-existence of such a premise.

1.1.2 Developments in modern economics: a bird's eye view

From this perspective, a bird's-eye view of contemporary economics (Figure 1.1) shows that economics can be divided into two broad categories. One is (A), namely the economics that develops on the assumption that humans are *homo economicus* and act selfishly and rationally; and the other is (B), the economics that does not make such an assumption.

In the former, category A, it is assumed that present-day humans (*homo sapiens*) are economic man (*homo economicus*), and research based on this perspective generally corresponds to A1, i.e. the current mainstream economics.

Here, let us briefly review the term 'mainstream economics'. This name came into use near the end of the 20th century. And, in the prominent



[1] *Homo economicus* is an image of human who act selfishly and rationally with the aim of maximising utility through increased consumption.

[2] Behavioural economics is economics that makes no assumptions about selfish and rational economic people. It is the economics that starts from observations of human behaviour. It is characterised by the ease with which it can be linked to realistic policy means.

[3] Other economics has various designations such as Social Economics, Socioeconomics, New economics, etc. and is diverse in content.

Figure 1.1 Major categories of modern economics.

Source: Okabe (2022a) table 1-1.

economics textbook *Economics* (Samuelson and Nordhaus 2001), and the phylogeny of economics is depicted as a confluence of Keynesian and neoclassical economic streams (Wikipedia—Mainstream economics). In other words, it generally refers to the confluence of macroeconomics and neoclassical economics—the latter being the late 20th century version of the economics developed by Marshall and other British economists in the first half of the 20th century. However, in recent years, macroeconomics has also been theoretically reconfigured on the basis of micro (neoclassical) economics (see Section 1.2), so modern economics can be understood as having the colour of neoclassical economics in its entirety. When we refer to mainstream economics in this publication, we will exclusively refer to modern economics with such colours.

In the latter, category B, two types of economics can then be distinguished. One is behavioural economics as 'economics that does not place assumptions on selfish and rational economic people' (Ogaki and Tanaka 2014: 4). In the latter, the emphasis is on research directions such as elucidating, through observation of real human behaviour and psychology, that their motivations may be irrational, and then building economics on this basis, or identifying methods to improve the effectiveness of policies.[7]

The characteristics and problems of mainstream economics (above A) will be discussed in detail in the next section, so here, we will look briefly at the main points of behavioural economics, B1, and other economics, B2, which fall into category B.[8]

1.1.3 Behavioural economics in the limelight

First, let us look in some detail at behavioural economics, which is based on observations of human behaviour and the psychology that humans exhibit in reality. In the field of behavioural economics, which has become increasingly popular in recent years, the Nobel Prize in Economics has already been awarded twice[9] and in the USA, this is becoming one of the most important research areas in economics.[10] Research in behavioural economics is gradually increasing in Japan also.[11] Behavioural economics is certainly significant in that it has brought economics back to its original form in one respect by emphasising human factors such as human psychology and behaviour, which had been neglected in conventional mainstream economics.

However, it cannot be said that behavioural economics fully represents what economics should be about. This is because, while that approach appreciates the function of markets in allowing individuals and businesses to operate freely, the policy recommendation derived from it is likely to have some kind of distortion. 'If you have a completely free market, what you have there is not only freedom of choice. There is also the freedom to fish' (Akerlof and Shiller 2015: 5–6). This is an aspect that gives rise to the phenomenon of how well consumers are taken for a ride by sellers of goods and financial products, buying unnecessary goods or making unnecessarily large purchases, and the potential for public policy to be guided by such phenomena is latent.[12]

This is because behavioural economics is based on the idea of 'revealed preference' (the understanding that consumers' behaviour is the result of the manifestation of their own rational choices), which generates a special bias (id. at 170). In other words, if consumer choice is seduced, a gap arises between what consumers really want (what is really beneficial to them) and manipulated consumer preferences (ibid.). So, if we guide the way public policy operates on the basis of these human behaviours, it will be clear that there are risks as well as usefulness latent in it. Recently, the idea of 'evidence-based policy' has been emphasised in public policy areas and many argue that it is 'good' policy because it is based on objective evidence. But it should be noted that Akerlof-Shiller's criticism above is valid in some respects.

Indeed, it is commendable that, unlike mainstream economics, behavioural economics does not take the position of understanding human behaviour by making assumptions about human behaviour in advance. However, it is important to note that the implementation of public policy based on

the behaviour seen in human reality, while seemingly rational, is accompanied by these problems. From a strict perspective, behavioural economics should be considered to be modestly positioned as one of the new tools of economics (Chetty 2015: 29), rather than as theoretically superior to mainstream economics, although it certainly provides suggestions on how to implement policies effectively. Furthermore, it should not be overlooked that behavioural economics is only a slightly tweaked version of economics and has no answers to the ethical problems of mainstream economics (Aldred 2019: 250–251).

1.1.4 Diverse economics

Another development that does not make the assumption of *homo economicus* (economic man) includes a variety of economics other than behavioural economics (B1 in Figure 1.1). These are variously called: social economics (Benhabib et al. 2011), socio-economics (Hellmich 2015), and new economics (Basu 2011) and are quite diverse in content.

The two main characteristics of this group of economics are that it does not assume economic man, but: (1) develops economics while taking into account the results of other disciplines regarding human behaviour, and (2) instead of assuming economic man, it sees man as a social being (and therefore, understands human economic activity while also considering aspects such as social norms, social justice, and ethics), which are two major features in common.[13] This book belongs to this trend and is intended to present a new economics or a framework for a 'new social science' that is different from traditional mainstream economics (and extends the field of economics). In other words, this book falls under category B2 in Figure 1.1.

We will now turn to mainstream economics, which is the subject of the criticism in this book, and by extracting its essence, we examine where the problems lie in some detail in that economics.

1.2 Light and shadow of mainstream economics

In the previous section, a bird's-eye view of the current state of economics was given. Based on this, this section clarifies bright spots (strengths) and dark spots (weaknesses or problems to be solved) of the present-day mainstream economics.

The most important element characterising mainstream economics is the assumption that people are *homo economicus*. We will therefore look specifically at how this assumption plays a major role in mainstream economics, and clarify that it is a source of a strength of the economics (its beauty or attractiveness as a theoretical system), and at the same time, it leads to its weaknesses (its problems).

1.2.1 Basic assumption of mainstream economics: 'economic man'

In microeconomics, the basis of mainstream economics, namely households and firms, are taken as the starting economic agents and their behaviour is rigorously described. In such cases, it is basically assumed that households and firms act with the aim of maximising utility and profit, respectively. Macroeconomics, on the other hand, deals with aggregate quantities such as national income, unemployment rates and prices, and has long been treated by a different methodology from microeconomics. However, as even macroeconomic phenomena are nothing more than the result of individual human (micro) motives and their actions. Thus, in recent years, macro theory has also adopted a method of structuring theory as the result of the actions of micro subjects (to become micro-based macroeconomics). As a result, since 1970, the two streams—macro and micro—have been theoretically integrated and there is no disagreement on fundamental issues between the two (Woodford 2009).

In this light, modern mainstream economics, whether micro- or macroeconomics, can be characterised based on the idea of household utility maximisation and enterprise profit maximisation. However, in that case, note the enterprise is an organisational entity and not a human being. For this reason, even when considering companies, the focus is often on the people who make up the company (managers, shareholders, employees, etc.) and the idea of maximising the utility of the 'individuals' who appear in the company is often adopted. In other words, it is understood that in modern mainstream economics (alternatively known as neoclassical economics because it is based on individual behaviour), the starting point is the individual. So, let us now look specifically at how individual utility maximisation is treated as an analytical issue.[14]

1.2.1.1 Ideas common to micro- and macroeconomics

As we have seen above, the two traditional fields of economics, micro- and macroeconomics, are at least theoretically integrated, with the former's view of human behaviour being applied to the latter.[15] How, then, is human behaviour, which is fundamental to both economics, understood and formulated?

The arguments that will be presented shortly may seem somewhat technical, but the issue concerns the starting point of modern mainstream economics, regardless of micro- or macroeconomics. In order to present it somewhat rigorously, we will rely on one of the standard 'macro' (not 'micro') economics textbooks used in US graduate schools for many years (Blanchard and Fischer 1989).

- Maximisation of utility or satisfaction (which is determined by the amount consumed) as defined by:

$$U_s = \int_s^{\infty} u(c_t)\exp\left[-\theta(t-s)\right] dt \tag{1}$$

- The maximisation is subject to a certain constraint as shown below.

$$c_t + \frac{da_t}{dt} + na_t = w_t + r_t a_t \tag{2}$$

Figure 1.2 Individual behaviour as assumed by modern mainstream economics.

Source: Okabe (2022a) table 1-2. Originally extracted from Blanchard and Fischer (1989: 48).

Traditionally, macroeconomics has started with the statement 'what is GDP (gross domestic product)'. However, this postgraduate-level textbook adopts a new theoretical structure, as it is based on the results of cutting-edge research in academia at the time of publication. In other words, it is based on the idea of starting from the behaviour of 'micro' economic agents, i.e. individuals, and building macrotheory on this basis.

There, it is understood that an individual's economic behaviour can be described by the two equations in Figure 1.2. That is, an individual is understood to act to maximise his or her utility (i.e. satisfaction as determined by his or her consumption) as described by equation (1.1), subject to the constraints described by equation (1.2). This is the basic idea of neoclassical economics.

These two equations can be written clearly and intuitively as in Figure 1.3. In other words, the upper equation represents the individual satisfaction, which is the maximisation target, and is captured in the form of 'satisfaction this year' plus 'satisfaction next year' plus 'satisfaction in the third year,' and so on (where the level of satisfaction after next year is subject to discount). The lower equation, on the other hand, represents a budget constraint (i.e. the sum of consumption and net asset growth cannot exceed the sum of wage income and property income). Put simply, the lower equation shows a constraint that 'in the long run, individuals cannot consume more than the income they receive'. This is a natural constraint for individuals.

- Maximisation target:

  Life-time satisfaction = Satisfaction this year

  + Satisfaction next year
  + Satisfaction third year
  + . . .

- Budget constraint:

  The sum of consumption and increase in net assets cannot exceed the sum of wage income and property income.

Figure 1.3 Individual optimisation behaviour (meaning of Figure 1.2).

Source: Okabe (2022a) table 1-3. Originally extracted from Blanchard and Fischer (1989: 48).

Returning again to Figure 1.2, the meaning of equation (1.1) can be somewhat elaborated as follows: U represents the utility (i.e. degree of satisfaction) of an individual in year s. And, equation (1.1) shows that his or her utility is determined by the amount of goods and services he or she is able to consume (quantity consumed) and that he or she acts to maximise his or her utility (in English, the satisfaction corresponds to utility, so here such an objective function is indicated by U).

And, it is the view of modern mainstream economics that a person's utility can be expressed, more specifically, by the right-hand side of this equation.[16] That is, the utility u at a given time t depends on the individual's consumption c_t and can therefore be expressed as $u(c_t)$. However, in order to evaluate utility at a future point in time at the present time, it needs to be discounted (i.e. to be evaluated in terms of discounted present value), and the second term (the power value of e, denoted by exp)[17] is multiplied to indicate this. The utility at one period t is first expressed as a multiplication of these two values. The utility of each succeeding period, expressed is then summed up from the present to the future, i.e. 'the accumulated discounted present value of utility from one point in time to eternity (in fact, to the end of life),' which is the total utility U_s of the individual at a given point in time, and is understood to be the value of the individual's total utility at a given point in time. This is the understanding that the individual acts in such a way as to maximise it.

However, utility (satisfaction) based on such consumption cannot be increased without limit. This is because individuals face certain constraints. Equation (1.2) expresses that constraint.[18] Namely, it is the constraint that 'the sum of consumption c_t and increase in net worth (a_t) cannot exceed the sum of wage income w_t and property income (r_t a_t)' (which is called the budget constraint). In other words, the constraint is that 'the sum of consumption and increase in net worth cannot exceed the sum of wage income and property income,' or, put simply, that individuals 'cannot consume more than the income they receive in the long run (income from work and from assets held)'.[19] This in itself is a natural assumption, and this constraint means that

satisfaction cannot increase limitlessly. Thus, modern economics understands that individuals base their rational behaviour on maximising their own utility under the condition of an income constraint.

In a more general framework, this concept of utility maximisation can also be understood as the rational decision-making of a person to compare costs and benefits. In this case, the factors that encourage individuals to act, i.e. incentives (expectations regarding rewards or punishments) and their reactions to them, are studied. In fact, the relatively new fields of economics that have developed in recent years (game theory, contract theory, information theory, agency theory, etc.) can be positioned as researches that focus precisely on 'incentives'.[20]

1.2.2 The lights and shadows of mainstream economics

The above is a rather rigorous sketching of the human view (behavioural assumptions) underlying contemporary mainstream economics, as well as a look at some new developments in economics in recent years. On the basis of the above, it can be said that mainstream economics has both significant and highly praiseworthy aspects (the light or beauty of the discipline, so to speak) and aspects that have not been fully considered or issues that remain unresolved (the shadow, so to speak). In the following, therefore, the basic character of modern economics will be highlighted from the perspective of 'light and shadow'.

1.2.2.1 Economics as the 'queen of the social sciences'

The author has summarised that, broadly speaking, modern economics has three characteristics. These are: (1) elaboration and systematisation, (2) expansion of the scope of analysis, and (3) collaboration with adjacent disciplines.[21] This continuing development has led economics to have rigorousness,[22] systematicity, and developmental potential, not found in other social sciences.[23] For this reason, economics is sometimes referred to as the 'queen of social sciences'.

The first of these features (refinement and systematisation) can be seen typically in the assumption of simple (mathematically expressible) human behaviour, as described above, and the rigorous mathematical development often follows.

Incidentally, the papers published in the recent issue of the *Japanese Economic Review* (Vol. 69, No. 2, published in June 2018), the English-language journal of the Japanese Economic Association,[24] and the human image (utility functions subject to maximisation) assumed therein, are shown in Table 1.1 (explanation of variable names omitted). As the themes of the articles indicate, the economic phenomena analysed there are relatively general and diverse, but it can be seen that in mainstream economics, even when analysing such matters, the emphasis is on relating various phenomena back to the motives for action (utility functions) of individual economic agents. In such cases, the specific shape of the utility function (U) and the variables that appear in it naturally vary depending on the topic of the paper, but in recent economic papers, even *macro*economic phenomena are emphasised (and in some cases made

Table 1.1 Microeconomic foundations as emphasised in theoretical analysis (illustrative examples)

	Themes of the paper	*Individual utility functions used there*
Example 1.	Regional differences in fertility rates and economic transactions	$U_i = A_i + \frac{1}{\mu}\left[C_i^a m_i^{1-a}\right]^\mu$
Example 2.	Life risks from pollution and economic growth	$U = \int_0^\infty \exp(-\rho t)\left\{\ln c_t + \sigma \ln\left(\overline{p} - p_t\right)\right\} dt$
Example 3.	Fiscal expansion and market entry of enterprises	$U = \int_0^\infty u\left(C_t, H_t\right) e^{-\rho t} dt$
Example 4.	Workers' social status and economic growth	$\int_0^\infty e^{-\rho t}\left[\log c(t) + s \log k(t)\right] dt$

Note: The papers in examples 1–4 are, respectively, Morita and Yamamoto (2018), Oura, Moridera and Futagami (2018), Chang et al. (2018), and Chen et al. (2018). The meanings (definitions) of variables in each paper are omitted here in this table to avoid redundancy.

mandatory) to have this kind of '*micro*economic basis' (microfoundation). Thus, macro and micro are now integrated and systematised, at least in theory.

Furthermore, in such cases, natural scientific methods of analysis can be applied, which leads to an emphasis on three key concepts in mainstream economics: maximisation, equilibrium, and efficiency (Okabe 2017a: 34–35).

In addition, it is often said that one measure of whether a discipline is systematic is the existence of a general textbook on the subject. Let us look at economics textbooks (university textbooks at elementary or intermediate level) from this perspective. For example, the introductory (Mankiw 2021) and intermediate (Mankiw 2018) economics textbooks by Mankiw (Harvard University, USA), as stated by the author himself, were written with the main aim of conveying standard content while avoiding bizarre content (Mankiw 2020: 215–217). For this reason, these textbooks are used in universities all over the world and a total of 4 million copies (including foreign translations) have been sold to date (ibid.). From this example, it can be said that there is clearly a standardised system in modern economics.

Secondly, the feature of economics (expansion of the scope of analysis) is also striking. In particular, there is a trend in research towards a unified understanding of human behaviour and society by applying the above-mentioned rational behaviour model of 'economic man' to diverse human activities, which has formed one major trend within economics.[25]

Such research trends have successively incorporated many areas into economics, such as family, discrimination, religion, and other areas of sociology, law, political science, as objects of analysis for economics. This tendency of

economics to apply its logic (self-interest and rational behaviour) to non-economic phenomena has been termed 'economic imperialism' (Lazear 2000).

A leading researcher advocating such an approach was Gary Becker (1930–2014)[26] of the University of Chicago, USA. Becker's early work included 'A theory of marriage' (Becker 1974), followed by 'A theory of rational addiction' (Becker and Murphy 1988), which focused on alcohol and drugs. And, in later years, some such exceptional studies as 'Suicide: an economic approach' (Becker and Posner 2004) can be found.[27] Meanwhile, Barro and McCleary (2019) of Harvard University, USA, recently published a book *Economics of Religion*. The authors claim that the book 'does not concern itself, per se, with theology, doctrine, and the content of religious beliefs. Rather, we are interested in the economic costs and benefits to holding certain religious beliefs and the influence of those beliefs on behaviour' (p. 4) as their position.

In these studies, both the scales for evaluating human behaviour (objective function) and the assumptions of behaviour (rationality) are simple, and the researchers certainly avoid having specific value judgements. However, even if efficiency itself is value-neutral, it is essential to keep in mind that the position of efficiency will naturally change when various other evaluation measures are considered at the same time (there may be cases where it becomes more important to give priority to equity, humanity,[28] etc.) before discussing the subject matter. It is important to point out here that it is essential to discuss the subject matter with this in mind (Okabe 2017a: 40).

With regard to the third characteristic of economics (collaboration with neighbouring disciplines), as mentioned above, the perspective has been broadened by the active incorporation of the results of psychology and behavioural science into economics, and interdisciplinary research areas (such as behavioural economics) have developed.

1.2.2.2 Strengths and weaknesses both depend on how it views human beings

As described above, modern economics has developed in many aspects. However, on the other side of this glorious aspect, a darker side inevitably arises. Therefore, for social science to become truly strong, it is also essential to examine economics once more from the latter perspective. This, the author believes, will make economics and the social sciences more fruitful.

The 'light' part of mainstream economics, as mentioned above, is derived from the fact that, as repeatedly mentioned, economics assumes a distinctive image of human beings (*homo economicus)*. In other words, to be more specific about the 'economic man,' it assumes that human beings are beings with three characteristics: materialism, egotism, and individualism (left column of Table 1.2).[29]

Materialism refers to an understanding of the object of interest, whereby people are only interested in goods and services that they can actually enjoy. Egotism is an understanding of behavioural patterns in which the pursuit of human beings is to increase his or her own satisfaction based on an increase in goods and services. Individualism is an atomistic view of human beings

Table 1.2 Mainstream economics' view of human nature and the need to expand it

Assumptions in mainstream economics	*Intrinsic view of human nature*	*Matters requiring reconsideration (examples)*
1. Materialism People are only interested in what they can enjoy in reality (goods and services).	Humans ultimately pursue more general well-being (happiness; eudaimonia) rather than goods and services.	The need to rethink what happiness is. Also need to reconsider the significance of occupation (work is recognised in economics as negative utility).
2. Egotism Human beings pursue an increase in their own satisfaction (utility) based on an increase in goods and services.	Humans have selfish motives to sustain life, but they also have altruistic motives (altruism).	The economics view (or interpretation) that altruistic behaviour is actually due to selfish motives needs to be re-examined.
3. Individualism The behaviour of individuals as described above is neither influenced by nor has an effect on others (atomistic view of man).	Humans are not atomistic beings, but social beings with mutual interests and mutual influences (social network; community; virtue ethics).	The need to understand society from the perspective of the intrinsic nature of human society, including connections (social networks), community and virtue ethics.

Note: Prepared by the author.

that such individual behaviour is not influenced by, or has no effect on, others.

It is precisely on the basis of these three assumptions that mainstream economics is able to analyse and theorise rigorously and precisely (elaboration and systematisation as mentioned above). It also tends to apply its analytical methods to human behaviour other than the economy (expansion of the object of analysis). Furthermore, there is a recognition of the need to seek a broader view of human behaviour and to incorporate it into economics (collaboration with adjacent disciplines).

The fact that mainstream economics emphasises such assumptions is understandable in some respects, since axiomatic development is highly valued in academia. However, in developing original economics or original social science, it may be necessary to first clarify the true nature of human beings (the human perspective) and develop it on this premise. This was the basic problematic of my previous book (Okabe 2017a), and I developed this direction further in my most recent book (Okabe 2022a).

1.3 From mainstream economics to economics for humanity

In this section, the characteristics of and challenges to mainstream economics described in the previous section are briefly summarised again. It then discusses how this can be modified or expanded to provide a more accurate understanding of human society and an economics that can help to realise people's well-being and build a better society.

1.3.1 Mainstream economics and its distortions

As mentioned above, economics is the study of economic phenomena, i.e. the satisfaction of goods and services, from both the level of the individual and society as a whole. For this reason, the central task is to first focus on the demand for and supply of goods and services, and then to elucidate how these are adjusted in the market to reach the fulfilment of society as a whole. In such cases, for analytical convenience, it is explicitly or implicitly assumed that humans are 'atomistic beings' in the sense that, as mentioned in the previous section, they are subjects who act selfishly and rationally (*homo economicus*) and are not influenced by others, nor influence others. And, this view of human beings penetrates current mainstream economics.[30]

In other words, mainstream economics has a simplistic understanding of human society as consisting of two types of private actors (consumers and firms), but the key point is that in both cases the emphasis is on the 'individual'.

In other words, individuals first appear as consumers who aim to maximise their utility based on the consumption of goods and services. On the other hand, companies that supply goods and services are usually assumed to be economic agents that act with the aim of maximising profits, but they are understood to have been made up of two kinds of individuals, workers who work there and earn income, and managers who are rewarded from company profits, and the theory is built on the understanding (assumption) that both of them ultimately act on the principle of self-interest maximisation.[31]

Analysis based on such a human image is easy to process with mathematical rigour, as we have already seen in Section 1.2. This is why the system of mainstream economics has a strength not found in other social sciences, and its theoretical systems (e.g. general equilibrium theory) have a beauty (Okabe 2017a: 12–16).

The basic problem with mainstream economics, however, is that it views human beings only from the narrow perspective of 'selfish, rational utilitarians'. Amartya Sen[32] has bitterly criticised, from an early stage, that this portrayal of individuals as assuming 'rational fools' (Sen 1977; for a commentary in the same vein, see Sen 1987: 10–12).[33] It has also been harshly criticised by researchers in other fields (cultural anthropology) as a 'very simplistic and poor theory of man' (Takahashi and Tsuji 2014: 189). Indeed, it must be

said that this is an oversimplification that takes a too one-dimensional view of human beings.

The costs of economic analysis that makes such assumptions about human nature are not only academically significant, but also practically serious in terms of their impact on public policy. This is because the social and policy theories derived from such analyses place particular emphasis on promoting competition and deregulation (so-called neoliberal policies) in order to increase efficiency through the interaction of self-interested actors. Certainly, 'efficiency' is an important policy goal, and many aspects of it can be quantified and easily evaluated in public policy debate.

However, analysis and public policy debate based on such a human image must inevitably be distorted.[34] In conceiving and initiating economic policy, it is necessary to be aware not only of efficiency and quantitative expansion, but also of goals that are essential for the construction of a better society (equity, ethics, cultural values, etc.).[35]

1.3.2 Aspects of humanity that should be emphasised

In order to achieve this, it is first necessary to understand economic and social phenomena by removing the assumptions of the 'economic man' (materialism, egotism, and individualism) and bringing in an inherent view of human nature and human behaviour, and by drawing public policy theory on such analysis (see the middle column in Table 1.3).

In other words, it is first necessary to take the viewpoint that the ultimate pursuit of human beings is not simply goods and services, but, in general and ultimately, happiness. There are, of course, various perspectives and expressions of happiness. For example, in English, these include happiness, well-being, wellness, good life, eudaimonia, thriving, and flourishing. These concepts were discussed in detail in my previous book[36] and will not be discussed again here, but it is first necessary to re-examine the relationship between them and human behaviour.

Let us consider some examples. The usual perception in economics is that work (labour) is the opposite of utility (it is treated as 'disutility'). However, there is also the important aspect that work or occupation is related to 'happiness,' as it includes the aspect of people achieving their mission through it, besides earning. If we think in this way, it is possible to understand work in the opposite way (i.e. instead of understanding it as merely a negative utility, we can argue that its nature is significantly related to happiness through the fulfilment of the mission). In other words, if we move away from the assumption of the 'economic man,' there emerges a possibility for such unconventional but realistic understandings about human beings.

Humans naturally have selfish motives because of the need to sustain life. There is no doubt about this. However, economics takes this (and only this) as a basic premise of its view of human beings. For this reason, economics often takes the view (interpretation) that, even when humans perform seemingly

altruistic 'actions,' their 'motives' are selfish.[37] Such a position may be necessary to keep the logic of mainstream economics consistent.

However, research in a number of disciplines has shown that humans also have genuine altruistic motives (altruism).[38] For this reason, the idea of assuming only selfishness as a motive for human action needs to be reconsidered.

Furthermore, understanding humans as individuals likened to independent atoms (atomistic beings) and society as a set of such individuals is also too one-sided. Instead of adhering to such a perspective, it is more in line with the reality to understand humans as social beings with mutual interests and mutual influences.[39] It has also been concluded in many academic disciplines other than economics that such a great interest in others is one essential element that characterises human beings.

Therefore, in understanding society, it is important and indispensable to take the perspective of human society as a social network, or specifically as composed of various communities in order to understand humans and their society, rather than simply viewing humans as atomistic beings.[40] In view of this aspect, the conventions, rules, and tacit bindings (virtue ethics) among humans naturally become also important research subjects.

To address these difficulties, it is essential to take into account the various human natures found in reality, such as the fact that humans can have selfish motives as well as altruistic behaviour (the idea or action to care about the well-being of others)[41] and that humans live in relationships (bonds) with one another.

In fact, such behaviour is not only a traditional moral or ethical standard common to many religions and cultures around the world, but according to many academic studies and cultural traditions, it is a robust proposition that humans have genuine altruistic motives (See Table 3.1). It was also the view of Adam Smith, the founder of economics, that humans are also always concerned about others, which, in a broad sense, is part of altruism, as will be discussed in the next section.

Furthermore, looking at contemporary studies, we find such observations as follows. 'Our minds are socially entangled, so that many social rules are morally binding' (Gintis 2016: xi–xiii), or 'new empirical knowledge of human behaviour might hold for the design of policies and institutions that would work well for people given to both self-interest and generosity, both moral action and amorality' (Bowles 2016: xvi). A number of studies suggest that assuming that humans are interrelated beings (social beings) is a superior model of reality.

Furthermore, in an extraordinary longitudinal study conducted by researchers at Harvard University (Wadlinger and Schultz 2023), it has been shown that humans are truly social creatures. This Harvard study began in 1938 and has tracked the same 724 individuals for 84 years, asking thousands of questions and taking hundreds of measurements to find out what really keeps people healthy and happy. And, they have firmly concluded 'good relationships keep us healthier and happier' (ibid 10).[42]

In other words, the assumptions of mainstream economics, i.e. ideas and theories based on what is known as methodological individualism, are too one-sided in their view of human beings. As a result, the picture of society that emerges from this is inevitably distorted. In the case of public policy, too much emphasis is placed on achieving efficiency through the promotion of competition, as will be discussed in the next section, and other factors that are important to humans have to be neglected. Human behavioural motives are not only selfish ones, as the results of many academic disciplines have shown (Okabe 2017a: 259–270; see Chapter 3 of this publication). Also, human beings are not to be recognised as simple independent entities, as if they were atoms, the basic constituent units of matter, but as entities for which contact between individuals and their ongoing relationships with each other are of vital significance. Mainstream economics, lacking this perspective, should be said to have a major and crucial flaw.

1.3.3 Economics for humanity

When organised as described above, the current mainstream economics has aspects that deviate considerably from the original nature of social science that is concerned with human beings. For this reason, there is room to bring it closer to 'humanistic economics' and the potential to develop new theories from it. This is the basic perspective of this book, which will be discussed in some detail in turn below.[43] However, this book does not claim to have newly and systematically constructed a 'humanistic economics'.

Here, the main aims of the book are: (1) to lay out the issues that are indispensable for research in this direction, (2) to provide as many theoretical explanations and evidence as possible to support this direction, and (3) to provide components and semi-finished products for developing economics in a new direction on the basis of these components and semi-finished products, in the author's own way.

In this spirit, the economics developed in this publication will be referred to as 'economics for humanity'. The main points in such a case can be contrasted to mainstream economics as shown in Table 1.3.

First, mainstream economics assumes that humans are utilitarians and act rationally, and that they are individualists who do not care about the people around them. That is, the purpose of human behaviour is understood to maximise one's own utility within a certain period of time by increasing consumption of goods and services.

At first glance, it appears highly plausible that humans have a behavioural principle of maximising utility (total utility within a certain period of time), as defined in equation (1.1) of Figure 1.2. However, the psychologist Kahneman (the recipient of Nobel Prize in Economics in 2002) has shown that humans are in fact conscious of satisfaction through a different mechanism. His explanation consists of two empirical rules: the peak-end rule and duration neglect (Kahneman 2011: chapter 35). The former is an empirical rule in psychology

Table 1.3 Mainstream economics and economics for humanity: a contrast

	Understanding of human beings	*Purpose of human action*	*How to understand society*
Mainstream economics	Egotism Rational choice and behaviour Individualism	Maximising one's own utility through increased consumption of goods and services.	The market is made up of individuals (consumers/ workers) and business firms. The government compensates and complements the market functions. [2-sector model].
Economics for humanity	Altruism and ethics as well as selfishness. Also takes into account human potential. Shows not only rational behaviour, but also bounded rationality or irrational behaviour in some cases. Humans are not simply atomistic beings, but social beings having bond with others.	The pursuit of happiness (pleasant life, good life, meaningful life) rather than simply increased consumption.	The private sector actively positions the existence of communities (e.g. the non-profit sector) in addition to individuals and businesses. Society is understood as being made up of the private sectors, with the government joining them. [3-sector model]. The idea that the pursuit of individual happiness can lead to social reform (an idea that complements the market mechanism) is also a point of view to be explored (discussed in detail in Chapter 8).

Source: Okabe (2017b) Chart 11.

that states that when people judge an experience (whether painful or pleasant), they tend not to judge the whole experience according to the total amount over the whole period or the average of each point in time, but rather according to their impressions at two points in time: how they felt at the 'peak point,' and how they felt at the 'end point' (Kahneman 2011: chapter 35; Wikipedia: Peak-end rule). This has been confirmed by various studies and experiments over the years.

Kahneman's psychological mechanisms, described above, have also been applied to patient care in medical practice. For example, it has been argued that for a person whose life is limited by an incurable illness, the most important thing throughout life, for both the dying and the survivors, is to let the person's story end in his or her own way, rather than simply to prolong survival (Gawande 2014: chapter 8), an argument that has been made and has been met with great sympathy.

Furthermore, it is common knowledge in modern psychology that the shape of the utility function varies significantly with age (it does not have a constant shape) (Carstensen et al. 2011), which also shows the standard utility formulation to be problematic.

Still further, in mainstream economics, society is understood to have markets composed of that kind of individuals (consumers and workers) and enterprises, while a government exists to compensate and supplement the functioning (failure) of the market. For example, the basic diagram in a leading economics textbook (Krugman and Wells 2018: figure 7-1, 189) illustrates the typical understanding of mainstream economics. That is, the diagram depicts a view of society as composed by two sectors: the private market sectors (households and firms) and the government (two-sector model of the economy).[44]

In contrast, the 'humanity-oriented economics' advocated in this book takes the view that humans are not only selfish but also more or less altruistic. In other words, the image of human beings assumed in this book is fundamentally different. It understands that humans behave not only rationally but also exhibit bounded rationality[45] or even shows irrational behaviour in some cases. Furthermore, it is understood that humans are not atomistic beings but social beings who are aware of the existence of others (existence of bonds or human networks). In this environment, humans are understood to pursue more broadly the well-being (comfortable life, pleasant life, good life, and meaningful life) rather than simply aiming for greater consumption (Okabe 2017a: chapter 7).

1.4 Addendum: mathematics is a (powerful) language

In Section 1.2, we pointed out that: (1) modern economics very often uses relatively simple mathematical formulations when describing the motives of individual behaviour and (2) such formulations are often problematic to accurately understand human behaviour and society. In other words, we stated that mainstream economics should be severely criticised because of its too simplistic an assumption and the resulting methodology.

However, by mentioning as above, the author is *not* saying that economics should always refrain from using mathematical methods. Mathematics is a powerful and indispensable tool or powerful 'language' for rigorous thinking. So that, *if used appropriately*, mathematics is an analytical tool that contributes to the development of economics and economic policy. In this supplementary section, the author would like to describe his own mathematical research

experience. His analyses actually resulted not only in proper understanding of the mechanism of how exchange rate affects the nation's balance of trade but also in replacing the official currency by which the Japanese international trade is compiled and expressed.

1.4.1 Exchange rate fluctuations and the balance of trade

The Japanese economy has enjoyed a remarkable increase in productivity, especially since the 1980s, and Japanese products with 'good quality and cheap prices' have gained good international reputation. As a result, Japan's balance of trade (exports minus imports) continued to run a growing surplus.

When this situation occurred, it was expected that, according to the standard framework of international economics, the Japanese yen would appreciate and, if certain conditions were met (the Marshall-Lerner condition, as discussed below), Japan's trade surplus would gradually narrow. However, these expectations did not materialise and the surplus continued to grow. How did this mysterious situation come about?

At the time, the author was one of the responsible persons in the research department of the Japanese public policy authority[46] and the position required him to rigorously unravel the roots of this enigma. The analysis required a rather complex mathematical analysis. The results (Okabe 1986) were first compiled as an internal document, but 2 years later, he had the opportunity to present the conclusions of the analysis (Okabe 1988) at an academic conference.

Two issues identified: the trade balance expressed in US dollars, and misuse of the Marshall-Lerner Condition.

The research paper (Okabe 1986) revealed two important points that had not previously been recognised. One was that Japan's balance of payments, including the balance of trade, was naturally expressed in US dollars, as the majority of Japan's imports and exports were traded in US dollars at that time. The second was the 'misuse' of the Marshall-Lerner condition which has been written in many textbooks of international trade. The analytical papers clarifying these issues were later published, first in Japanese (Okabe 2011) and subsequently in English (Okabe 2020). The main conclusions can be elegantly summarised as shown in Table 1.4.

Here, α and β denote the price elasticity of exports and imports, respectively, and m the ratio of export value to import value. Then, the conventional 'Marshall-Lerner condition' (as mentioned in previous literature and textbooks) is the two (identical) inequalities in the upper panel (which the author proved to be only a special case that holds only when $m=1$). In the general case (where $m\neq1$), there are two different conditions as shown in the lower panel, both of which reduce to the upper panel when, and only when, $m=1$. The rigorous proof of this table resulted in the change of Japan's balance of payments from being expressed in US dollars to being expressed in Japanese yen (Okabe 2011b, 2020d).[47]

Table 1.4 The Marshal-Lerner conditions: conventional and generalised forms

	Trade balance in Japanese yen	*Trade balance in US dollar*
When initial trade balance is balanced ($m = 0$)	$\alpha + \beta > 1$	$\alpha + \beta > 1$
When initial trade balance is deficit or surplus ($m \neq 0$)	$m\alpha + \beta > 1$	$\alpha + (1/m)\beta > 1$

Notes: 1. α = Price (in US dollar) elasticity of foreigner's demand for Japanese product.
β = Price (in Japanese yen) elasticity of Japan's import demand for foreign product.
2. m = export ÷ import.
$m > 1$: initial trade balance is surplus.
$m < 1$: initial trade balance is deficit.

Put differently, this table clarified that the conventional Marshall-Lerner condition is a special case applicable only to the situation where international trade is initially balanced ($m = 1$). On other hand, we have derived the general condition, as shown in the second line of this table, which may be called the '*generalised* Marshall-Lerner condition'. Moreover, the analysis also revealed that, in the short run, exchange rate fluctuations (appreciation of the yen, for instance) can have an opposite effect, the so-called 'J-curve effect' (Krugman et al. 2018: 515–516), resulting in the increase (not decrease) in trade surplus, as was empirically observed.

Above example shows that it is necessary to draw on the power of mathematics in the theoretical elucidation of economic phenomena. Thus, the author is not criticising the mathematical analysis per se. Mathematics is an indispensable analytical tool in economics, as it enables rigorous logical development and savings in thought processes.

So far in this chapter, we have discussed that mainstream economics seriously lacks to take in various human nature, so that we need to fully integrate them in order to pursue better economics. In the next three chapters, we continue to examine three more issues of this nature.

Notes

1 This chapter is based on Okabe (2012a, 2017b, 2022a: chapter 1).
2 For example, when lending and borrowing funds, lenders, and borrowers have different (asymmetric) information, so that supply and demand cannot be adjusted in the money market solely by changes in interest rates, but credit allocation (quantitative adjustment by the fund provider) is inevitable (Stiglitz and Weiss 1981, 1992). For this contribution to the theory of information asymmetry, Joseph Stiglitz was awarded the Nobel Prize in Economics in 2001, together with George Akerlof and Michael Spence.
3 Simon (1972, 1997). Herbert Simon was awarded the Nobel Prize in Economics in 1978 for his advanced research on decision-making in economic organisations.

4 Daniel Kahneman was awarded the Nobel Prize in Economics in 2002 for his contributions (Kahneman et al. 1982, 2000) in introducing a new perspective on human judgement and decision-making from a psychological perspective and pioneering behavioural economics.
5 For details on the need to assume these two types of enterprises, US-type and Japanese-German type, see Okabe (2007a: chapter 5, section 1).
6 See Okabe (2017a: 40–48) for a discussion of why the assumption of 'economic man' has been a strength in the research of economics, and why this is particularly the case for Japanese economists.
7 For example, it is known experimentally that humans tend to pick up the first thing they see (i.e. the order in which the options are presented influences the choice outcome). This leads to the policy response that, for example in school cafeterias, the health food that the school wants pupils to eat should be placed first. The Nobel Prize in Economics has already been awarded twice for these new areas of research, and they are becoming one of the most important areas of research in economics in the USA and are gradually increasing in Japan. See footnotes 10 and 12.
8 It should be noted that in the USA, a group of 35 leading researchers has established in 2018 to develop an 'economics for inclusive prosperity', which aims at a new direction without changing the assumptions of human behaviour (Naidu et al. 2020). In a broad sense, this can be seen as a trend in mainstream economics, but there are new aspects to the idea and its future activities will be closely watched.
9 Daniel Kahneman (Princeton University, USA) in 2002 and Richard Thaler (University of Chicago, USA) in 2017 won the Nobel Prize in Economics for the 'integration of economics and psychology' and 'for the contributions to behavioural economics', respectively. In addition to these two pioneers of behavioural economics, Robert Shiller (Yale University, USA) may be added to the list, but he was awarded the prize in 2013 primarily because of his 'contribution for the empirical analysis of asset prices' (Nobel Prize Committee).
10 At the American Economic Association's 2015 annual conference, leading researchers presented a talk on 'Behavioural economics and public policy: a pragmatic perspective' (Chetty 2015), the conference hall (capacity 1700) was oversubscribed and many participants were unable to enter (*American Economic Review* 105(5) May 2015, Introduction xii).
11 In Japan, the Japanese Association for Behavioural Economics (http://www.abef.jp/) was established in 2007. However, the difference from the American Economic Association is significant, when we see the 2017 Spring Meeting of the Japan Economic Association where there was only one session on behavioural economics out of the total of 28 sessions.
12 For example, in the USA, major food companies' marketing strategies calculate the conditions that maximise consumers' craving for sugar, salt, and fat, resulting in overeating of crisps, French fries, etc. (salt and fat) and guzzling of colas (sugar water). Consequently, about 69% of American adults are overweight; and more than half of them (36% of Americans) are furthermore, obese (Akerlof and Shiller 2015: xv). These are the basic problem generated as a result of incentivised competitive markets (id. at xi).
13 http://socialeconomics.org/

14 See Okabe (2017a:12–16) for more details on this and the utility function maximisation presented in the next section.
15 Thus, modern mainstream economics explains the macroeconomic system by extending the view of human beings and their behaviour assumed in microeconomics, but Yoshikawa (2020a) questions this view. Yoshikawa points out that: (1) the number of micro actors constituting the macrosystem is extremely large, (2) the behaviour of such microactors inevitably involves uncertainty (randomness), and (3) there is interaction between micro actors. For this reason, he criticises that, examining the micro behaviour of representative consumers (or representative firms) and 'analogously expanding' it does not explain macroeconomic movements (Yoshikawa 2020a, 297–298; Aoki and Yoshikawa 2007). He argues that in order to analyse macroeconomic phenomena, it is necessary to use the methods of statistical physics (a method that derives the characteristics of a system consisting of many constituent units on the basis of the statistical trends of the constituent elements) (ibid.).
16 u, c, θ, and s denote, respectively, utility at a given time, consumption at that time, time preference rate (subjective discount rate) and s at a given time. Note that there are strong arguments against understanding utility in this way (see footnotes 43, 44, 45 below).
17 exp means the base of the natural logarithm (also known as Napier's constant).
18 a is the asset balance at a given time, w is the wage at that time, r is the rate of return on assets, and n is the rate of increase in the number of families (which can be ignored here).
19 In equation (1.2), this can be clearly understood if the second and third terms on the left-hand side are transferred to the right-hand side.
20 Mankiew (2021: 5) quotes that one economist states that 'People respond to incentives. Anything else is commentary'. In that case, the entire field of economics could be summarised as simply a study of incentives. That is, when the price of apples rises, people decide to eat fewer apples, and at the same time, apple orchards decide to hire more workers and harvest more apples (ibid.).
21 For a more detailed discussion on the following, see Okabe (2017a: chapters 1 and 2).
22 This is typical of the idea of: (1) explaining all economic phenomena on the basis of individual behaviour (methodological individualism, see Sections 4.1 and 5.1), (2) the understanding of phenomena through modelling and (3) the emphasis on form in mathematical and statistical analysis.
23 Of these, three characteristics, in terms of developmental potential, for example there is a tendency to emphasise 'incentives' (motives for action) in human behaviour, and new fields such as mechanism design using these incentives are developing. There has also been significant progress in collaboration with disciplines adjacent to economics (e.g. with psychology, neurophysiology, behavioural science, sociology, computer science, etc.), and many new areas of economics (e.g. neuroeconomics, experimental economics, etc.) have emerged. However, there has been little integration between the humanities disciplines and economics (one of the aims of this publication is to integrate this aspect).
24 The Japanese Economic Association (with about 2700 members) is the largest of the economics-related academic societies in Japan.
25 See Okabe (2017a: 38–40) for further details discussed below. This idea of humans as selfish, constantly calculating decision-making robots (*homo economicus*) is

prominent in the Mont Pelerin Society in Europe (a political organisation that aims to oppose communism and planned economies and to spread liberalism in politics) and in academics gathered at the University of Chicago in the USA, and is the basis of contemporary mainstream economics (Aldred 2019: 4–9). Incidentally, 13 of the researchers who have received the Nobel Prize in Economics have been at the University of Chicago, more than at any other university in the world (Wikipedia 'Chicago school of economics').

26 Becker was awarded the Nobel Prize in Economics in 1992 for incorporating human behaviour, which had previously been dealt with in social sciences other than economics (sociology, demography, criminology, etc.), by extending economic theory.

27 In all of these papers, including in the case of suicide analysis, the formulation is that human behaviour can be understood as a maximisation problem of the utility function as described above.

28 The term 'human nature' is used below in the sense of a person's inherent human characteristics, which includes not only selfishness, but also sociality, moral (ethical) sense and altruism, or a combination of all these elements.

29 In response to criticism that economics to date has been too market-oriented and deregulation-oriented with strong neoliberal overtones, a group of 35 leading researchers who are developing 'economics for inclusive prosperity' (economics that aims in a new direction without changing the assumptions of human behaviour) has been established in the USA. It was launched in 2018 (Naidu et al. 2020). Its future activities will be the focus of attention.

30 The contemporary paradigm of economics or political economy is naturally a mixture of various disciplinary traditions, which Bowles and Carlin (2020b: online appendix) have described as: (1) Classical liberalism (Hume, Smith, Bentham, Mill et al.), (2) Keynesian social democracy (Keynes, Robinson, Kaldor et al.), (3) 'Neo liberalism' (Becker, Friedman, Buchanan et al.), (4) a new paradigm in the making (Akerlof, Stiglitz, Ostrom, etc.). When we refer to 'modern mainstream economics' in this publication, we will primarily refer to (1) and (3) of these.

31 The standard understanding is that individuals behave in a utility-maximising manner under budget constraints, while companies behave in a profit-maximising manner under the constraints indicated by the production function (technologies). It should be noted that there are considerable differences in the behavioural principles of corporate managers in different countries, but for example in the USA, the understanding described here (Jensen and Meckling 1976) is the most common.

32 Indian-born economist, philosopher, and professor at Harvard University. He was the first Asian to win the Nobel Prize in Economics in 1998.

33 Sen argues that it is essential to consider human nature not only in terms of selfishness and utilitarianism, but also that human beings are commitment (involvement) beings (thus the need to focus on communities etc.) (Sen 1977: 344).

34 These market-oriented policy ideas are referred to as market fundamentalism, neo-liberalism, and the Washington consensus (for details, see Okabe 2017a: 48 footnote).

35 See Okabe (2017a, chart 2-3) for how the agricultural, enterprise, employment, and wage policies traditionally proposed by mainstream economists have been narrow in their vision, and how the vision needs to be broadened.

36 See Okabe (2017a: chapters 6 and 7).

37 See Okabe (2017a: appendix 2, 277–279).
38 Okabe (2017a: chapter 8, and chart 8-1 as a summary).
39 This is also the view of mankind revealed in *Theory of Moral Sentiments* by Adam Smith, the founder of economics, as will be discussed in Chapter 2.
40 Incidentally, in a panel discussion at the Japan Economic Association, a mainstream researcher expressed the opinion that the subject of economics should be intentionally limited, as 'communities are foreign to economics and an antagonistic concept (omission), so we must be very careful' (Professor Yasushi Iwamoto of the University of Tokyo). (Genda et al. 2016, 238), but the author (Okabe) cannot help but question the validity of that idea.
41 See Okabe (2017a), chapter 8, section 3, for research findings from a number of academic disciplines in this regard. For example, when the Great East Japan Earthquake occurred (March 2011), many people from all parts of Japan demonstrated their behaviour by going to the affected areas to help by investing their own time, effort, and money. Considering this reality, it is clear that there is a great impossibility to assume merely selfishness as a motivation for human action.
42 They not only characterise their research as 'the world's longest scientific study of happiness' (the book's subtitle) but also mention, by citing seven similar researches, that the findings are robust across different eras and different kinds of people (ibid. 20–21).
43 Initially, the author's main interest was in the Japanese economy (Okabe 1955, 2022). But subsequently, he has continuously put importance to inter-disciplinary or multi-disciplinary approach to various social issues and public policies, and published relevant articles and books. For this kind of methodology, see Okabe (2003b, 2006b, 2006a). Some concrete issues the author worked on in that spirit are: appropriate perception of the economic system (Okabe 2011a, 2014a, 2018e, 2019a), human nature and economics (Okabe 2012a, 2012c, 2014b, 2014e, 2021, 2022a), happiness or well-being (Okabe 2013b, 2014a, 2015a, 2015b, 2020a), altruism (Okabe 2014c, 2014d, 2019b, 2019d), corporate or organisational governance (Okabe 1997, 1999b, 2009a, 2016c, 2017c), structural change from goods economy to services economy (Okabe 2019c, 2019e; and issues relating to Lusch and Vargo: 2014), and importance of integrity (Okabe 2016c, 2017c, 2019f).
44 In addition to these two sectors, the diagram also shows the 'Rest of the world' (Overseas sector).
45 See Okabe (2017a: 43–44).
46 Chief of Research Division 1, Institute for Monetary and Economic Studies, Bank of Japan.
47 See Okabe (2017a, footnote 17 of page 45) for the history of this process of changing the Japanese trade statistics.

2 Inheriting from Adam Smith

Ethics and other human factors

In the previous chapter, we pointed out the problems with contemporary mainstream economics and outlined the direction in which it should respond to them. In reality though very few researchers claim such a view and sense of direction for the state of economics.[1] One of the main reasons for this is that the view that Adam Smith, the pioneer of modern economics, is vaguely regarded as 'the guru of laissez-faire or market fundamentalism based on selfishness' is persistently widespread,[2] which makes it difficult to create a situation that forces reflection on mainstream economics.

In this chapter, Section 2.1 points out that such an understanding of human beings as Smith is said to have held contains a major fallacy, and then sets out Smith's original view of human beings and society. In Section 2.2, it will be argued that Smith also attached great importance to the inherent potential of human beings, and recent research that succeeds this view will be introduced. In the next section, Section 2.3, it will be argued on the basis of many concrete examples from the perspective of social philosophy that the market system is of fundamental importance in the operation of modern society, but that there are aspects of it that conflict with the good life. In the last section, Section 2.4, we will discuss three approaches to the definition of well-being in light of the above[3].

2.1 Adam Smith's view on human nature and society

This section shows how Adam Smith's views on man and society have been grossly distorted and misunderstood, and describes what his original views were.

2.1.1 Previous misconception called 'Adam Smith problem'

Adam Smith (1723–1790), Scottish economist, philosopher, and moral philosopher, wrote two major books. The best known of these is *An Inquiry into the Nature and Causes of the Wealth of Nations* (Smith 1776),[4] while the other

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which has received less attention is *The Theory of Moral Sentiments* (Smith 1759, 6th ed. 1790).[5]

It was once pointed out that there is a major 'discrepancy' or 'contradiction' between the two books' views of man, which was discussed as the 'Adam Smith problem' (Smith and Wilson 2019: 3; Okabe 2018a: 23–24).

In other words, *The Wealth of Nations* has traditionally been understood as arguing that the motivation for human action is the pursuit of self-interest, and that such action results in the realisation of the interests of society as a whole through the functioning of markets or the 'invisible hand'.[6] In contrast, *The Theory of Moral Sentiments* discusses moral sentiments as opposed to self-interest, and the controversy arose from the question of whether the arguments of the two works are incompatible.

However, this 'Adam Smith problem' was a spurious one, arising from ignorance and misunderstanding (Raphael and Macfie 1976: 20). I will not go into the details of how it came about and was settled, but I have summarised arguments of it as Table 2.1. In short, there were no discrepancies or

Table 2.1 The 'Adam Smith problem' and its correction

	The Wealth of Nations (1776)	*The Theory of Moral Sentiments (1759)*
(1) Characteristics of the two books		
Characteristics of each book	The subject of discussion is more narrowly limited to 'wealth' than in *The Theory of Moral Sentiments*, and the details are discussed. As the domain of economic activity is central, self-interest is central when discussing motives for action.	The book that preceded *The Wealth of Nations*. Smith discusses man, his motives for action and their consequences from a broader perspective than in *The Wealth of Nations*. It assumes as a matter of course that humans have self-interest (the opening sentence of the book), and then analyses the sources of morality, its functions and its relation to the social order.
Frequently cited relevant sections	'It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity, but to their self-love; and never talk to them of our own necessities but of their advantages.' (Smith 1776: 14, book 1, chapter 2)	"How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it. Of this kind is pity or compassion, the emotion which we feel for the misery of others (omitted hereafter). "(Smith 1790: 1–2, beginning of chapter 1).

Table 2.1 (Continued)

	The Wealth of Nations (1776)	*The Theory of Moral Sentiments (1759)*
(2) The assessment of the 'problem'		
'The Adam Smith Problem'	*The Wealth of Nations* argues that the motivation for human action is fundamentally the pursuit of self-interest, which in turn promotes the interests of society as a whole through the 'invisible hand'. On the other hand, the preceding *The Theory of Moral Sentiments* discusses human morality and its social significance in detail, so there is a major discrepancy or contradiction between the claims of both books.	It was therefore argued that: (1) it is questionable whether the same person really wrote the two books, or (2) it is necessary to consider that the author (A. Smith) radically changed his views on human behaviour.
Assessment of the 'problem'	The above 'problematic' views arose because a small part of the *The Wealth of Nations* was popularised, while *The Theory of Moral Sentiments* was neglected for a long time in the 19th and 20th centuries. Such 'problems' are 'false problems' arising from ignorance and misunderstanding. A careful reading of *The Theory of Moral Sentiments*, considering the time of publication of the two books and the continuous revision of both by the author, makes it clear that the two books are closely interlinked.	(1) *The Wealth of Nations* extensively discusses not only self-interest but also credit, law, fair play, and other matters closely related to *The Theory Moral Sentiments,* in order for markets to function (it is difficult to derive these from self-interest). (2) *The Theory of Moral Sentiments* was published in 1759, and Smith revised it a total of six times thereafter until shortly before his death. As *The Wealth of Nations* was published in the midst of a series of such revisions, it is difficult to believe that he left the content of these two books at odds with each other.

Note: Prepared by the author based on Sen (2014), Raphael and Macfie (1976: 20–25), and Dome (2008).

contradictions in Smith's view of man and society as he developed in both books, and his understanding was consistent.

2.1.2 Microanalysis of social order formation

What, then, was Smith's view of man and society? Here, the author would like to organise them in his own way, referring to the above two works of Smith

as appropriate, but relying heavily on three books published in recent years (Morson and Schapiro 2017; Bowles 2016; Dome 2008).

What Smith sought to elucidate in his two works is ultimately an exploration of the invisible forces that keep human society together and flourishing (Morson and Schapiro 2017: 256). In other words, the question is what is social order and how is it derived from human nature? Here, social order refers to the peaceful and safe life of all members of society by following some rules (Dome 2008: 25). The gist of Smith's argument is that such a state of affairs can be logically explained by starting from the premise (an axiom, so to speak) that human beings are not merely selfish beings, but that they have an interest in other people. Accordingly, *The Theory of Moral Sentiments* is not first and foremost a work of moral philosophy, let alone a hymn to altruism. Rather, it is a work of moral psychology and sociology" (Norman 2019: 49).

2.1.2.1 Generating a sense of morality

The starting point of Smith's argument is 'sympathy'. This means drawing to one's own mind the various kinds of fellow-feelings that people have towards others, i.e. joy, sadness, anger, etc. (Smith [1759] 1790: 10, part 1, chapter 1).[7] Sympathy is considered to be of paramount importance to the individual because while I have this emotional function, others have a similar emotional function towards me. And because I wish to be endorsed by others, I try to match my feelings and actions with those that others can endorse.

Smith's view is that, as a criterion for doing so, one has an 'impartial spectator' within oneself that transcends one's own interests and concerns. Then, since *I* try to conform my feelings and behaviour to what the impartial spectator endorses, *I* act as the impartial spectator endorses by self-regulation. Thus, two general rules emerge from this among humans.

The two are: (1) justice (not to commit acts that injure the life, body, property or honour of others) and (2) beneficence (to commit acts that promote the interests of others). The sense that one must have regard to general rules as a criterion for one's conduct is a sense of duty, which is nothing more than a moral sense or moral faculties (Smith [1759] 1790: 164–165, part 3, chapter 5).

Smith regards it as 'a principle of the greatest consequence in human life' (id. at 162), and considers that if one acts contrary to the general rule, i.e. the morality, he is condemned by the impartial observer in his own heart, even if he is not condemned by the world, and cannot keep a calm mind. The idea is that the calm mind is a happy mind. On the other hand, a calm mind (tranquillity) is nothing but happiness (id. at 149). For this reason, one is subject to morality. These are the moral senses that Smith expounds, and his view of morality.

Of particular importance to Smith's argument is that he included selfishness or self-interest as one of the objects that needs to be controlled by a sense of duty. For this reason, the idea that unlimited self-interest should be left alone

does not emerge from Smith's thought (Sedlacek 2011: 197; Sen 2011: 265; Dome 2008: 59).

As described above, Smith took human emotion (sympathy) as his starting point, and argued that there is an 'impartial spectator' in human beings. The result of this is the sequential derivation of morality, law, and social order.

In other words, it is an approach that attempts to understand the existence of social matters (morality, law, and social order) concerning many people on the basis of persons feelings. In modern terminology, Smith's view of society is a theory of morality, law, and social order with a microfoundation, since it is based on the conception of individual human feelings and behaviour. Thus, *The Theory of Moral Sentiments* is a book that uses the method of 'model analysis' and argumentation to explain how humans can build barriers [moral senses] against their emotions, even if humans are selfish in nature (Skinner 2008: 542).

2.1.2.2 Importance of fair play

Furthermore, Smith makes the following assertion in *The Theory of Moral Sentiments.*

> 'In the race for wealth, and honours and preferments, he [man] may run as hard as he can, and strain every nerve and every muscle, in order to outstrip all his competitors. But if he should justle, or throw down any of them, the indulgence of the spectators is entirely at an end. It is a violation of fair play, which they cannot admit of.' (Smith [1759] 1790: 83, part 2, section 2, chapter 2).

In other words, it is commendable that one strives to win the competition, whereas it is denounced and unacceptable to give oneself an advantage by dragging others down (Skinner 2008: 563–564). It is important not to overlook the fact that Smith makes these arguments.

2.2 Adam Smith's view on human potentiality and its recent developments

Adam Smith understood, as discussed in the previous section, that human beings are not only economically or selfishly motivated, but also have various social aspects, such as ethics, justice, and beneficence (charity). It is also important to note that, as Smith believed, all the human beings have potential that has not yet manifested itself in our daily lives.[8] And, these potentials are of great importance. This is because whether or not they are realised determines whether or not people achieve a 'good life' or 'happiness'.

In the following, we first look into how Adam Smith understood human potential. Then, we trace how this view of man was inherited and developed by Amartya Sen, a philosopher and economist with a broad contemporary

intellect. Since there is a concrete way for each human being to realise his or her potential, i.e. a practical philosophy, it will be explained later in Chapter 8, Section 8.2.

2.2.1 Adam Smith's perception of human potential

As the title of his book *The Theory of Moral Sentiments* suggests, Adam Smith had a deep understanding that human beings are social beings who are conscious of each other rather than existing alone in society. Alongside this, Smith was convinced that humans have great potential, and that these abilities are expected to be manifested. This point has not unfortunately been explicitly addressed in the past. One reason for this may be that Smith himself took such recognition for granted and did not explicitly subject it to analysis.

However, it is one of the cores of Smith's thought, and has significant contemporary implications. It is because how to draw out human potential is a question directly related to public policy of education and equal opportunities, and because it is significant to ultimately realise a good life or happiness.[9]

2.2.1.1 Smith was convinced of human potential

Perhaps the greatest contribution to the appreciation of Smith's understanding (or belief) of human potential and its contemporary development was made by Amartya Sen (Nobel Laureate in Economics). This section provides an overview of Smith's theory of human potential, referring to the main points made in Sen (2014).

Sen notes that 'it is noteworthy that Smith regarded human potential as equal, lightly eclipsing barriers to class, gender, race and nationality, and recognised no essential difference in natural talents and abilities' (Sen 2014: 27). He quotes the following passage from *The Wealth of Nations*, and asserts that the passage shows Smith's empirical conviction that human capacities are equally endowed is clearly stated.

> 'The difference in natural talents in different men is, in reality, much less than we are aware of; and the very different genius which appears to distinguish men of different professions, when grown up to maturity, is not upon many occasions so much the cause, as the effect of the division of labour. The difference between the most dissimilar characters, between a philosopher and a common street porter, for example seems to arise not so much from nature, as from habit, custom, and education'. (Smith 1776: 15, part 1, chapter 2)

This view, based on Smith's experience, is contrary to scientific evidence that there are also genetic differences between individuals (Sen 2014: 28). Importantly, however, that passage reflected Smith's belief that this is the correct assumption (ibid). The working class has less access to education,

especially good education, than those with status and assets. Moreover, the work engaged in by the working class is demanding and they do not have the same opportunities to hone their skills as those with status and assets. So that, class divisions, Smith argued (id. at 30), do not imply differences in natural talent or ability, but reflect inequalities of opportunity.

Smith's tendency, or rather his longing, to believe that all human potentials are equal must by all means be understood (id. at 29). This is also the belief that inequality is the product of society rather than a reflection of inherent differences (id. at 32), and therein lies the outstanding foresight that is still relevant today (ibid.).

2.2.2 Contemporary development of Amartya Sen's capability theory

Adam Smith emphasised the importance of human potential, but did not go as far as to develop the theory. Under these circumstances, Amartya Sen proposed and theoretically developed the theory of potentiality, or the 'capability approach' to a happy life (well-being or good life). It is a theoretical framework for understanding human beings and their well-being.

However, the original sources that presented it (Sen 1985, 1988) are rather difficult to understand, and the introductions and explanatory papers written by researchers afterwards are not always plain[10] and also vary considerably in their emphasis. In what follow, therefore, we will review Sen's theory of capability, relying primarily on Robeyns (2016) and Wells (2017), both of which provide relatively easy-to-understand explanations of the theory.

2.2.2.1 Two core concepts

In understanding human beings in traditional economics, as discussed in Chapter 1, 'utility' (the degree of fulfilment of desire) or the amount of 'income and assets' closely related to it has been accepted as an important and the standard criterion (as is still followed in current mainstream economics).

Sen, however, criticised such measures as being fundamentally flawed in terms of what is more important to human beings (good living or good life) since they only have an indirect relationship. So, Sen introduced two alternative criteria for evaluating them: (1) 'what kind of being can one be' and (2) 'what can one do'. This view introduces two alternative criteria for evaluation: 'what kind of being can one be' and 'what can one do'.

This view is based on the idea that the full fulfilment (realisation) of these 'functions' is considered to be well-being, and that the conditions (freedom, etc.) for realising this state are understood as an integral part of it (the latter also being subject to evaluation), thereby understanding the actual state and potential of human beings. This can be said to be the idea of understanding the actual state and potential of human beings by understanding them as an integral part of the conditions (such as freedom) for realising their state (the

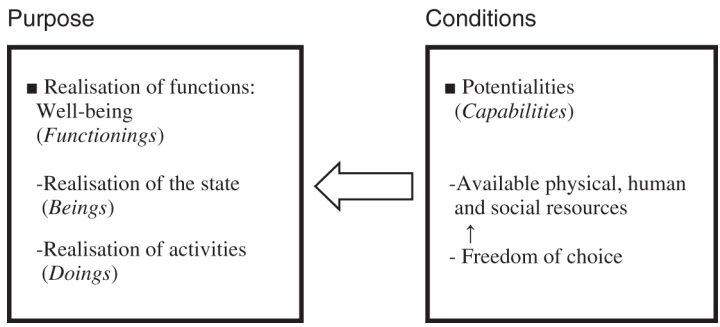

Figure 2.1 'Capabilities approach' to the good life (well-being).

Souce: Prepared by the author from Robeyns (2016) and Wells (2017).

latter being subject to evaluation). This can be illustrated in Figure 2.1. The two key concepts are 'functionings' and 'capabilities'.

Sen first understands that if a person is improving their quality of life or achieving 'happiness (well-being)', it is a 'realisation of functions' (functioning). And, he considers that this can be expressed as either the realisation of certain states (beings) or the actual performance of certain activities (doings), and argues that in determining happiness, both of these are important. In other words, the capability approach introduces the unique concept of 'functioning', and proposes two aspects, the grasping of states (beings) and activities (doings),to evaluate the functioning.

For example, the former (beings) include being in good nutrition, having free access to food, being in comfortable living conditions, or being in unhealthy situations. On the other hand, the latter (doings) include doing (being able to do) things such as buying food, travelling, raising children, voting in elections, smoking drugs, or donating to charity.

To take a more concrete example, a person's state of being can be expressed as either being in a 'moderately heated' comfortable house (state: being) or consuming 'large amounts' of energy to heat their own home (behaviour: doing), both of which are different in character and need to be considered. In this way, it can be understood that the capability approach incorporates both subjective (emotional) and objective (quantitative) perspectives to understand the good life.

The above is the state of functioning, but the question is whether it can be realised. The concept of 'capability' corresponds to this judgement. This consists of two elements. One is the existence of various states (capability sets) that are actually available, selectable, and valuable to people. The second is the actual availability of 'freedom' for people to choose from among them (effective freedom).

In other words, a key feature is that it includes the ethical concept of freedom (of choice) as a fundamentally important component of capability.

In this respect, Sen's capability theory goes beyond the standard economic framework and spans ethics.

2.2.2.2 It comes down to two ethical propositions

Thus, the above theory of capability as presented by Sen ultimately comes down to two normative propositions (Robeyns 2016). Namely, (1) 'freedom' for people to achieve happiness (well-being) is fundamentally important from a moral perspective, and (2) people therefore have the opportunity to realise their potentials (capacities), i.e. happiness. In particular, the essence of the capability approach lies in the grasp of freedom as an important element (ethics) (Suzumura and Goto 2001: 188).[11,12]

These Sen's arguments do not see human nature (human nature) simply as a subject that acts selfishly, but rather incorporate the underlying fact that it has multiple facets. In other words, the human mind needs to be understood as deeply connected to others and socially entangled (Gintis 2016: xi–xiii). Alternatively, it is assumed to understand that the human mind is connected in a socially networked way and that humans are therefore social beings.

Such a view of human beings is a philosophical position that was pioneered by Aristotle, Smith, and Marx in the history of thought, and Sen's thought as an economist and philosopher is positioned as a continuation of this position.[13] He also considers the 'good life' (well-being) not only as a 'good' worth pursuing for individuals, but also as a 'good' worth demanding social commitment, and presents a policy theory from a new perspective that considers desirable social assistance and security for such a good (Suzumura and Goto 2001: 24).

In summary, the above may be summarised as follows. The capability approach is a way of understanding human well-being, which emphasises: (1) freedom of choice, (2) individual heterogeneity, and (3) the multidimensional nature of well-being and welfare.

2.2.2.5 Assessment of capability theory (1): features

What are the characteristics of the capability theory outlined above, and how can it be evaluated? Although there is some overlap with what has already been said, we would like to summarise them below.

First, the theory of capability proposed by Sen in the late 1980s introduced fresh analytical concepts of 'functioning' and 'capability' to understand 'happiness', 'good life', or 'well-being' (Suzumura and Goto 2001: 8).

It is not 'property' (resource), such as goods or income which has been the focus in the past, nor 'utility' which is derived from the use of property, but 'function' (functionings) which is a 'theoretical middle term' inserted between property and utility (id at 185). It incorporates, as already mentioned, both subjective and objective perspectives (understanding the multidimensionality of the factors that bring about well-being), and as a result, it provides a new

perspective that does not exist in analyses based on traditional notions of utility or property, so that it deepens our understanding of quality of life, poverty, and inequality, while at the same time removing social factors that prevent people from achieving their functions. It also supports policy ideas to remove social factors that hinder people from achieving their functions. Specifically, the capability approach has provided the theoretical support and enabled the development of the United Nations 'Human Development Index' (HDI).[14]

Second, the capability theory assumes human beings as potential beings and their equality, rather than to see human as fixed *homo economicus* (economic human beings acting selfishly and rationally). In this respect, in the history of ideas, it inherits the view of man from Aristotle, Smith, Marx, and others (Sen 1988: 2). This point warns that there is room for reconsideration of the narrow and fixed view of the human being assumed by contemporary mainstream economics.

Sen suggests that these views of humanity are inherited from Adam Smith.[15] For example, as noted above, 'it is noteworthy that Adam Smith regarded human potential as equal, lightly eclipsing barriers of class, gender, race and nationality, and recognised no essential difference in natural talent or effort' (Sen 2014: 27), noting that 'there is validity in Smith's view that class divisions are a reflection of inequality of opportunity' (ibid).

2.2.2.6 Assessment of capability theory (2): remaining issues

Third, it is not uncommon to note that several important issues remain. One of these is under-theorisation (Wells 2017). While it is necessary to clarify which 'functions' become important for a good life and the procedures for their evaluation, Sen rejects selection on philosophical grounds and only insists that evaluation should be based on social choice (i.e. significance from the public's point of view, and decision-making through democratic procedures) (ibid). Similarly, he says nothing about which potentials are important and how they should be combined (which he says should be determined politically by society itself). Without an objectively justifiable list of valuable potentials, it is unclear what a 'desirable society to achieve' looks like, and therefore the goal of a just society to be realised remains unclear. It is also unclear which potentials should be prioritised for achievement.

This approach is also criticised as being too individualistic (Wells 2017). This is a criticism from a communitarian perspective, which emphasises the community or the role of the community. This is because Sen's account focuses on people as individuals, with little attention to the human community and little perspective on the value of community and the relationship between community and people (ibid). Furthermore, although aspects of ethics are incorporated, a wider view of the human person lacks consideration of its social dimension (relationships between people, e.g. friendship, respect, care, and moral standards). It also fails to address how one individual's freedom affects the freedom of other individuals, and it is also pointed out that it does

not adequately address the important and complex issue of personal growth of the individual. These are all issues for future research.[16]

2.3 Conflicts between market transaction and good life

Adam Smith discussed human self-interest (market function) and human moral sentiments (moral sentiments), each in depth. However, he rarely discussed the relationship between the two, especially what happens when the two are in conflict with each other.

This section therefore examines the normative aspects of market transactions with a focus on their relationship to the 'good life', the ultimate human purpose, in order to gain a deeper understanding of their nature. This is a new research area that has been developing in the last decade or so as an area where economics and social philosophy intersect. For this reason, we will first consider the issue of economics and value judgements, and then discuss it exclusively from the perspective of social philosophy, with some specific examples.[17]

2.3.1 Economics and value judgements

People do not just live by material wealth, but coexist with others, construct life with their fellow human beings, and question the meaning of life (Saeki 2017: 67). Therefore, economics dealing with humans ultimately needs to ask what a good living, a good society, and a good life, is (id. at 71). An economics that never fails to ask questions about metaphysics (metaphysics) beyond physics, rather than a physics-like economics that assumes a petty human model (*homo economicus*) is now required (ibid.).

However, modern scholarship has separated science and philosophy, with science focusing only on objective and verifiable facts, while deliberately excluding questions of value (rightness, goodness, beauty, the sublime, etc.) about them. This can be seen as excessive scientism, or the sad academic fragmentation, in which a discipline tries to stay narrowly within its own sphere. If the research is to deal with human beings, it is essential for any discipline, including economics, to be aware of both scientific 'analysis' and the 'value' of what is being dealt with. However, it is not easy in reality for economists to enter into value judgments. The following section therefore tries such an attempt to integrate relevant analyses conducted in other disciplines.

In this section, we will heavily rely on the work of social philosopher Michael Sandel (2012) and will examine the specific issues and conflicts between ethics (good life) and the market, based on some concrete examples. Incidentally, it is interesting to note that the social 'good' or socially valuable thing is nothing but a 'public good', which is exactly the term used in economics to refer to 'public goods' that cannot be addressed by the market. This is because it is an area where the market mechanism 'fails', so that how to deal with it must be an essential subject of research.

2.3.2 Destruction of ethics by **marketism***: five examples*

Economists attach great importance to the realisation of efficiency through the use of market functions. For this reason, it is argued that market principles should be introduced into many social phenomena. However, if the policy of expanding the scope of problem-solving through the market (*marketism*) is pursued, it often clashes with human nature (ethics or the ideal form of human being) because of the inherently powerful nature of the market. In the following, we will focus on five of the cases listed by Sandel[18] that are particularly interesting and easy to understand (Table 2.2).

Table 2.2 The erosion of the 'good life' with the infiltration of markets

Market elements introduced	*Concrete examples*	*Its effects*	*Problems*
A. Introduction of motivation (financial incentives).	In Dallas, USA, second-graders in low-performing schools are paid 2 US dollar incentive for every book they read.	The possibility of increased reading, in the short run.	The reason for the increase in reading is wrong, and it corrupts reading by undermining the essential incentive to read (to bring us sincere satisfaction). It may reduce reading in the long run.
B. Introduction of fines for actions to try to prevent outbreaks.	Parents have to pick up their children at the end of the daycare at nurseries, but fines have been introduced for late pick-up to eliminate late pick-up (Israeli nurseries).	The introduction of fines was expected to reduce the number of cases of late parental pick-ups. However, the opposite actually happened (increased).	Before the introduction of fines, parents felt guilty if pick-up was delayed, but after the introduction of fines, parents felt that delayed pick-up was a service provided by the nursery and the fine was compensation for this. Moral corruption occurs as fines (containing moral condemnation) turn into charges (containing no moral judgement whatsoever).

Table 2.2 (Continued)

Market elements introduced	*Concrete examples*	*Its effects*	*Problems*
C. Christmas gifts should be cash, not goods.	If one receives a gift, the item may not be to their liking. So, it is reasonable for the giver to give cash instead of goods.	When cash, the recipient is able to maximise one's utility because one can buy what one want most. The amount of money lost due to the preference gap in relation to Christmas gifts can be estimated to be equivalent to 1.4 trillion annually in the USA.	It is based on the idea that the purpose of a gift is to maximise the utility of the recipient (and the premise is value-neutral), but certain moral judgements are sneaked in there. It is overlooked that gift-giving is not all about the other person's utility (a utilitarian measure of usefulness), but is also an act that expresses friendship, caring and other human relationships. Christmas gift 'cashing-ism' corrupts the act of giving.
D. Kidney trade should be institutionalised to match supply and demand	To reduce the waiting time for kidney transplants, and deaths among people with kidney disease, the supply of kidneys needs to be increased. An organ market that pays cash to kidney donors should be created to achieve this. Kidney trade is allowed in Iran ($4000 per kidney), ensuring supply meets demand.	Humans can lead a normal life with only one kidney, so the supply of kidneys increases, and supply and demand is balanced and many patients can be saved. Estimated at USD 15,000 per kidney in the USA.	The problem (inequity) is that the sellers of kidneys will be relatively poor, while the buyers will be wealthy, so the wealthy will live longer at the expense of the poor. Dehumanising because humans are not a collection of various parts (marketable organs) but an end goal in themselves. Moral destruction or corruption.

(*Continued*)

Table 2.2 (Continued)

Market elements introduced	*Concrete examples*	*Its effects*	*Problems*
E. International combatant procurement using labour markets.	To resolve international conflicts, private military companies should be asked to recruit foreign mercenaries and utilise them in combat (i.e. outsourcing of war). Remuneration is determined according to ability, experience, and nationality.	Utilising foreign mercenaries in their own wars would save the lives of their compatriots.	The meaning of being a citizen (a member of society with duties and rights) is undermined. Corruption in this sense. Potential impact on social cohesion. One corruption.

Notes: All cases are based on the descriptions in Sandel (2012), but the author of this publication (Okabe) somewhat added the content by referring to each original publication for case B (Gneezy and Rustichini 2000a), C (Waldfogel 1993), and D (Morson and Schapiro 2017; Becker and Elias 2014).

2.3.2.1 Introducing incentives

The first example is where a motivation (financial incentive) is introduced to achieve an objective (id**.,** Chart A). In Dallas, USA, an incentive payment of 2 US dollars for every book read has been established to encourage reading among second-graders in low-performing schools. In the short term, this system may increase children's reading.

But in this case, the reason for trying to increase reading is wrong (Sandel 2012: 60–61). This system teaches people to 'think of reading as tedious work' rather than something that gives them a taste of sincere satisfaction (id. at 9) and makes them develop the habit of seeing reading as a means of earning money (id. at 61). Thus, the financial incentive undermines the intrinsic incentive (love of reading) and thus destroys the intrinsic meaning of reading, or, as discussed below, 'corrupts' reading. For this reason, children who grow up under these systems may read rather less in the long term (ibid).

There is even now a novel definition that 'economics is fundamentally the study of incentives' (Mankiw 2021: 5, Bowles 2016: 124), so the above example is the very idea of mainstream economics, which seeks to achieve

its desired objectives by providing economic incentives. However, the term incentive does not appear in the writings of Adam Smith and other classical economists (Sandel 2012: 85). Therefore, mainstream economics today is in some respects quite deviant from its traditional subject matter.

2.3.2.2 Introduction of fines

A second example is the introduction of fines for behaviour that attempts to prevent outbreaks. In this regard, there is an interesting research report (fieldwork over 20 weeks in 10 locations: Gneezy and Rustichini 2000a, 2000b) on daycare centres in Israel (ibid Chart B).[19] In the case of nurseries, parents had to pick up their children at the end of the day, but in several nurseries, parents were often late in picking up their children. In such cases, a problem arose where one of the nursery staff had to stay with the child until the late parent arrived. To eliminate these problems, the day-care centres decided to impose fines for late pick-ups. It was expected that the introduction of these measures would reduce the number of late pick-ups by parents, but in fact the opposite was true: the number of cases of late pick-ups by parents increased.

Why? Because in the past, parents who were late felt guilty because they were inconveniencing the nursery staff, but because of the decision to make them pay, the norms changed (Gneezy and Rustichini 2000a). In other words, after fines were introduced, parents felt that delayed pick-up was one service provided by the nursery, because they changed their mindset to that of paying for it. Parents can be understood to have come to regard fines as if they were fees (ibid). If this result is understood in economic theory, it can be expressed that when penalties are introduced under an incomplete contract (or strategic game), the perception of the environment by one of the parties (in this case, the parents) has changed and they have arrived at a different equilibrium than they did initially (ibid).

The above example shows that market expansion has made it difficult to distinguish between the logic of the market and the logic of morality (Sandel 2012: 89–90). It can be understood that the norms have changed as a result of the introduction of market logic (the idea that late pick-ups should be reduced because there is an economic cost to being late) to social practices where non-market norms (the sense that late pick-ups are accompanied by guilt) are applied. Fines represent a moral condemnation, whereas fees do not contain any moral judgement. For this reason, what had previously been regarded as a moral obligation came to be regarded as a market relationship, with fines (containing moral condemnation) changing into fees (containing no moral judgement whatsoever), and a corruption of morality (ibid). In other words, introducing market elements breaks non-market norms. Alternatively, it can be said that market transactions wash away moral aspects (such as responsibility, fairness, and justice) (Aldred 2019: 253).

2.3.2.3 Introduction of remuneration

The above example of a nursery school in Israel is a case where the financial incentive is negative (a fine), but when it is positive (a reward), it has the same disruptive effect on intrinsic motivation (Gneezy and Rustichini 2000b: 793). An example of this is Case A above, but an equally interesting example is mentioned in Bowles (2016), which is presented here.

It is described as an interesting experience told to the author of a book (Bowles 2016: 39–40) by Thomas Schelling,[20] a friend of the author. It was 50 years ago, in the 1950s, Schelling worked as a staff member in the US presidential administration (White House). His colleagues there worked long hours. They all felt that it was a job of achievement, and that they also felt important as individuals involved in it. Under these circumstances, Friday afternoon meetings usually lasted until 20.00 or 21.00, and when the chair suggested that the meeting be resumed on Saturday morning, no one objected, and the meeting often continued into Saturday. However, shortly afterwards, a presidential decree was issued stating that 'anyone who works on Saturday shall receive overtime pay'. Schelling's experience was that after that, Saturday meetings were virtually no longer held. At first glance, it would appear that there would be more Saturday meetings because if meetings were held on Saturdays, they would receive overtime pay, but in fact the opposite was true (ibid.).

Why? When there was no overtime allowance, the meetings were alive with a spirit of volunteerism and all participants knew they had an important role to play. This meant that meetings were often carried over to Saturdays. However, this was not always the case, as the financial allowance for Saturday meetings transformed them into mere 'work' and changed the meaning of meetings for participants. In other words, it can be understood that the financial incentives involved have 'corrupted' the character of the meetings as perceived by the participants, and as a result, contrary to expectations, Saturday meetings have almost disappeared (ibid). When policies that elicit self-interest are introduced for behaviour that was originally supported by public spirit, they destroy public spirit.

We have seen above the case of payment for reading, the case of child pick-up and the case of payment for Saturday meetings. If these things are observed, then economists can no longer remain in the realm of conventional economics in explaining the world at that point, but need to step into moral philosophy or anthropology (Sandel 2012: 90).

Table 2.1 further refers to economists' belief that it is rational to give cash rather than goods as Christmas gifts, the recommendation that the sale of kidneys should be allowed (the idea being that trading human kidneys could save many patients by increasing kidney donations) and the international procurement of combatants (outsourcing of warfare through international procurement of combatants using labour markets) are mentioned by economists, all of which are identified as having ethical problems (see Table 2.2 for details).

2.3.3 Three problems associated with market-based policies

The above is a rather detailed account of the situation in which the increasing trend towards marketisation in various settings is in conflict with the good life and ethical issues of human beings. So, how should we think about the problem of the conflict between marketisation and the good life or ethics, and what ideas and responses are desirable in terms of economic policy? These are all difficult questions (especially for economists who have avoided value judgments), but here, relying mainly on Sandel (2012), I would like to summarise them into the following three categories.

2.3.3.1 Injustice and corruption

The first problem with marketism is that it leads to injustice and corruption. Today, the logic of buying and selling no longer applies only to physical goods, but has finally come to dominate the whole of life, and markets and market values are expanding into areas of life where they do not fit in. This is indeed the era of market triumphalism (Sandel 2012: 6–8). As a result, market and market-oriented ideas have entered aspects of life previously governed by non-market norms, and almost everything has a price tag and is subject to buying and selling (ibid.).

This situation needs to be seen as problematic for two reasons (Sandel 2012: 8–11, 33–35, 109–111). One relates to fairness or inequality and the other to corruption. And similarly, the question of what money should and should not buy can always be discussed in terms of these two aspects (id. at 110).

This is because, firstly, the more things money can buy, the more important it becomes to be wealthy (or not wealthy). In other words, as money becomes more important, the gap between rich and poor has a greater impact on life in general. Marketisation thus brings problems in terms of equity and perpetuates social and economic inequalities. For example, in the case of the creation of a market for the kidney trade described above (Case D in Table 2.1), the sellers of kidneys are likely to be relatively poor, while the buyers are likely to be wealthy, resulting in injustice and inequality, whereby the wealthy live longer at the expense of the poor.

The second reason, 'corruption', is a little more difficult to explain (Sandel 2012: 9). It means that, apart from the issues of fairness and inequality mentioned above, markets have a corrosive tendency (tendency to corrupt). If you put a price on the good things in life, there is a fear that they will become corrupt. This is because markets not only allocate things, but also express and promote particular attitudes towards the things and things traded in them (ibid.).

When we think of corruption, we often think of ill-gotten gains, such as illegal bribes to officials or quid pro quo, but corruption here goes beyond such phenomena and refers to a much wider range of things. That is, to

corrupt a good or a social practice is to degrade it, to treat it according to a lower mode of valuation than is appropriate to it (id. at 34).

Extreme examples are easier to understand. For example (id. at 46), having babies in order to sell them for profit is a corruption of a parenthood, because it treats children as things to be used rather than beings to be loved. In this case, it is corruption because parents are degrading and demeaning the baby by following lower norms than those appropriate to the parent's task. The aforementioned kidney-trafficking market can support the argument of corruption because it sees humans as a set of replaceable parts and promotes a materialistic view of humans.

Arguments in terms of corruption may also relate to institutional integrity (id. at 110–111). When market relations enter (i.e. when treated as a commodity with a price: for example, the buying and selling of university admission rights intrude), they distort, undermine, extinguish, or downgrade the norms and values of their purpose. Many important things in life have market value (value as a commodity) as well as non-market value. For example, it is necessary to know the value of the good (the goods) health, education, family life, nature, art, and civic duty. It is important to understand that these are moral and political issues and not just economic issues (id. at 10).

If a kidney is bought with money, the kidney will still function physiologically. However, whether a kidney should be the object of sale or not needs to be considered from a moral point of view (id. at 95). As another example, consider the case where a friend gives a heart-warming greeting at your wedding. In that case, anyone would feel bad (feel that it is a corrupted version of a genuine greeting) if they found out later that the greeting had been commissioned to be prepared by a professional company (and bought with money) (id. at 97–98). In other words, the congratulatory manuscript is, in a sense, a 'good' that can be bought. However, if it is bought and sold (i.e. turned into 'goods'), the character of the congratulatory address changes and its value is lost (id. at 98).[21]

Modern political and economic policy discourse lacks the concept of the good living, the good life, and a serious discussion of the role and scope of markets. The moral limits of markets have not been considered, despite the need to do so. This has led to a situation in which modern society preserves market triumphalism and the logic of the market (id. at 13–15).

2.3.3.2 Fallacy that markets are value-neutral

The second problem is that what is implicitly assumed in market-based principles, namely that markets are value-neutral, is incorrect.

As already mentioned, economists often assume that 'markets do not act wilfully and do not influence the subject of the transaction'. In other words, the standard logic of economics states that 'commodifying a good' does not change the nature of that good. The argument is that market transactions increase economic efficiency without changing the good itself, and that

monetary incentives should therefore be used to guide desired behaviour (Sandel 2012: 113–114).

However, this view is incorrect (id. at 114). This is because the market is not just a mechanism, but encompasses certain norms. That is, it is assumed there that the good to be exchanged is valued in a given way, and this tendency is promoted (id. at 64). For this reason, market incentives destroy or shut out non-market incentives (e.g. morality) (ibid.).

As is clear from recalling the case of the Israeli kindergarten discussed above, sometimes non-market values that should be cherished are crowd out by market values. In other words, markets leave their mark on social norms (id. at 64). Another problem is that, as can be seen from the example of the wedding greeting above, marketisation does not completely destroy it, but it does damage its value. The reason for this is similar to the reason why money cannot buy friends. That is, because the social practices that underpin friendships are constituted by certain norms, and commodification would reduce these norms (empathy, generosity, compassion) by replacing them with market values (id. at 107).

2.3.3.3 Pitfalls of efficiency-oriented economic policy

The third problem is that market-based economic policies, whose basic objective is to improve efficiency, have important pitfalls that are often overlooked.

There are two such problems, one of which is the inequalities that arise. Since it is often recognised by economists, and we already discussed above, it is not repeated here. However, there is another important problem. That is that the economists' idea of using the market to increase efficiency has an aspect of destroying the common good (corruption in the broad sense), a problem that is largely unrecognised.

It is experimentally known that humans have a public spirit, a feeling of moral concern, such as a commitment to the common good (Sandel 2012: 115). In other words, it is fair to say that humans have altruism in the broadest sense. This human nature is precisely what Adam Smith analysed and pointed out 260 years ago in his book *The Theory of Moral Sentiments*, as we already saw in Section 2.1 of this chapter. If monetary measures are introduced in a situation where sentiments and non-market values are important in this way, people's attitudes will change, with the result, as mentioned above, that moral and civic responsibility will be shut out (id. at 116).

The economist view of virtue, which emphasises efficiency, extends markets and propels their reach into places they do not belong, thus creating a market-driven society (Sandel 2012: 130). The downside of such economic policies is that they debilitate values such as virtues, altruism, generosity, solidarity, and civic spirit (ibid). We need to know that the policies advocated by mainstream economists are unconsciously and always accompanied by these biases.[22] It is then important to develop ideas and, in this case, public policy theories that correct such biases.[23] Adam Smith, on the one hand, appreciated the fact that

self-interest is consistent with market functioning, but on the other hand, he stressed the importance of fair play in the market, as well as deep insights into human beings, such as morality and happiness. Economics needs to revisit and develop Smith's latter argument in particular in the future.

2.3.4 Interaction between incentives and social preferences

The above examples show that the introduction of market factors (incentives) such as fines and rewards can destroy the ethics and goodness that enable human societies to function smoothly, causing injustice, or undermining social rules.

For example, in the case of the aforementioned Israeli kindergartens (fines for tardiness), the introduction of financial incentives had the opposite expected result (increased late pick-ups). In other words, a certain interaction occurred between economic incentives and moral behaviour, which resulted in an atrophying of the sense of ethical obligation that the parents of the preschool children had. Using the concept of economics, the introduction of incentives can be described as a crowding out of ethical and other-caring motives.

Considering such phenomena more generally, it can be assumed that the interaction between economic incentives and moral behaviour may not only crowd out (push away) ethical motives, but may conversely crowd in (invite in) ethical motives. In fact, Bowles (2016: chapter 3) focuses on these interactions between incentives and ethics and presents a model with generalities to which both crowd-out and crowd-in concepts can be applied. This provides an interesting perspective as one way to improve the effectiveness of economic policy, but we stop here to point out that.[24]

2.4 Approaches to a good life

Roughly said, economics is the study of the sufficiency of goods and services, but it is also inevitably concerned with the state of human well-being and, ultimately, with the state of happiness. A discussion of this head-on would lose its limits and exceed the scope of this book, so only two basic points will be discussed here:[25] that is, there are three ways of looking at well-being, and that it cannot be taken without the aspect of human sociality.

2.4.1 Three approaches to 'well-being'

First, let us consider the concept of 'well-being', i.e. to be in a good state of life. There are two traditional ways of looking at this, based on an economic perspective, but if we add Sen's capacities approach, explained in the previous chapter, we can understand that there are three ways of thinking (Table 2.3).

Table 2.3 Three approaches to good living (well-being)

	Utility-based approach	*Resource-based approach*	*Capability approach*
Basic concept	Subjective approach. Utilitarianism, which focuses on subjective well-being (utility) in terms of the satisfaction of desires.	Objective approach. Material well-being theory (resourcism), which emphasises the state of acquisition of the means (income and property) for a good life.	An approach that incorporates both subjective and objective elements. Focus on the realisation of 'functions' that bring about well-being, and the potential factors that make this possible.
Representative statistical measures	GDP per capita.	Assets per capita.	UN Human Development Indicator[a].
Pros and cons	Simple and convenient, because well-being is captured solely by a flow economic indicator (income). Only one-dimensional in the understanding of happiness. Also, the perspective is quite individualistic.	Multifaceted to some extent in that it includes various stock indicators (assets) to capture well-being. Limitation since it understands happiness solely in economic terms.	Not only economic measures, but also wider aspects (life expectancy, access to knowledge, etc.) are taken into. Insufficient theorisation, e.g. on how best to combine which potentials is not clear.

Note:
[a] An indicator that synthesises the three components of health, education, and income with the same weights.

Sources: Prepared by the author based on Robeyns (2016), Wells (2017), Wikipedia "Capability approach", Okabe (2017a: Chapter 6).

The first is to focus on subjective well-being or utility, i.e. the extent to which an individual's desires are satisfied. The second focuses on the objective measure of resources that people possess. Property and income certainly have a significant influence on what we can and cannot do. However, it can also be said that property and income are merely a mean to realise or expand one's inherent power (potential). Avoiding that issue, a third approach, the capability approach, has been proposed by Amartya Sen, as described in Section 2.2.2 of this chapter, which can be positioned as a novel framework related to well-being to avoid these problems.

2.4.1.1 Utility-based approach

Generally speaking, people can be understood as living for happiness, well-being or the good life. In such cases, these terms and concepts need to be clearly defined, but the simplest and the traditional approach in economics is to focus on subjective well-being (utility), i.e. the extent to which an individual's desires are fulfilled.

In other words, the idea that humans act to maximise their own satisfaction (i.e. psychological well-being), which, in terms of the history of academic theory, corresponds to the classical utilitarianism current of J. Bentham. And, this can be characterised as a subjective approach.

A typical statistical measure based on this idea is gross domestic product (GDP) per capita. This is based on the idea that a higher income increases the amount of goods and services that can be acquired through it, thus increasing utility (making people happier). However, while this is a simple economic measure, it is clearly too simplistic to equate it with the well-being of society as a whole. This is because it does not take into account the degree of equality or inequality in the distribution of income or assets. It also has a major limitation in that it does not take into account rights and freedoms, which have an intrinsic value for human happiness apart from utility.

2.4.1.2 Property-based approach

Another common approach in economics is to focus on resources instead of, or in addition to, income. This is based on the understanding that the greater the wealth possessed, the greater the opportunities for goods, services, and activities that can be acquired from it, and thus the better the life. This can be understood as a theory of material well-being (resourcism), which emphasises the acquisition of the means (income and property) for a good life.

This takes a broader perspective than utilitarianism in that it focuses on the means to a good life. It is also an objective approach (as it is based on objective indicators such as assets per capita), whereas utilitarianism is a subjective approach. However, like utilitarianism, it has significant limitations, since it measures well-being based only on economic aspects (the amount of assets).

In addition, the amount of assets is less meaningful if people do not seem to have the capacity to make appropriate use of their assets (not taking into account the diversity of human beings in this respect). For example, a person with a severe physical disability will require a much larger amount of income for daily living than a normal person, so that even if their property holdings are equal, there will be a large difference in the enjoyment of quality of life.

2.4.1.3 An approach that focuses on capability

Wealth and income certainly have a great influence on what we can and cannot do. For this reason, people tend to focus on the immediate material or financial wealth and forget about the ultimate goal. However, property and income

are merely a means to realise or expand one's inherent power (potential). Sen's capability approach, described in Section 2.2.2 of this chapter, can be evaluated as a framework that focuses on these problems with conventional approaches and presents a new framework to address the issue.[26]

The capability approach can be characterised by: (1) the basic recognition that income and property are not the only factors in determining well-being, (2) the fact that it does not focus only on the means to well-being, but also defines what a good life is and looks at the potential for well-being, referring also to social and moral principles (such as freedom) to realise it and, (3) its focus on the potential for happiness, while also referring to the social and moral principles (such as freedom) that are necessary to realise it. This is an idea that simultaneously incorporates both the subjective and objective elements of the two approaches mentioned above. In other words, the capability approach specifies the 'functions' that bring about well-being and also considers the potential factors that enable its realisation (e.g. life span, access to knowledge, etc.).

This approach, which originated with Sen, came to fruition in the early 2000s with the creation of the Human Development Index (HDI)[27] by the United Nations. The HDI is a comprehensive index that synthesises statistics on three basic human domains (long and healthy life, access to knowledge and decent standard of living) and publishes a time series of data on an annual basis.

2.4.2 Essence of 'happiness'

What is happiness or well-being? This has naturally been the subject of much debate since ancient times from a variety of perspectives. However, if we look at it from the perspective of economics, it can be understood as a further development of the three 'well-being' concepts mentioned above.

What needs to be emphasised here is that, as many psychologists (e.g. Seligman 2002; Ryff and Keyes 1995) point out, happiness must not be conceived of as simply an individual matter, but must also take into account relationships with other human beings as an important factor. In other words, as individuals cannot exist in isolation, the 'social aspects' of human beings, such as connections between individuals, become important factors for well-being (Okabe 2017a: 222, 234–236). Methodological individualism in mainstream economics is too one-dimensional in this respect.

Understood in this way, economics should not simply discuss individual well-being as a perspective, but should also focus on the individual and his or her social connections. Let us conclude this chapter by stating that it is the basic stance of this book, and move on to the next chapter.

Notes

1 There are also practical reasons for this, such as the fact that researchers have to become risk averse in securing their position (Okabe 2017a: 44–48). Based on this recognition, Hiroshi Yoshikawa (University of Tokyo) says: 'I think that

research activities in economics are becoming more and more like a "Keynesian beauty contest". Leading academics set the trends. Then, in the expectation that such "research" activities will catch on to the fad, "research" of the same kind will continue all over the world' (Yoshikawa 2020b: 93–94).

2 Adam Smith is often credited with asserting three free-market slogans: (1) the self-sufficiency of the market economy, (2) the identity of rational behaviour and the profit motive, and (3) the identity of self-interest and productive behaviour for society (Sen 2011: 258–259). However, this view is a major distortion of Smith's view of man and society (ibid). Smith not only analysed morality, as his book title suggests, in *The Theory of Moral Sentiments*, but also portrayed the multifaceted nature of human beings in *The Wealth of Nations* (ibid). Incidentally, Smith never used the expression 'capitalism' (id. at 259) in his writings.

3 This chapter is based on Okabe (2022a: chapters 2 and 3; 2018a, 2018b).

4 A great deal of research has been published on *The Wealth of Nations*, and there is also a commentary (Maruyama 2011) that summarises the book's contents using the standard analytical tools of modern economics (charts and mathematics).

5 The title of the author (Adam Smith) is listed as 'Professor of Moral Philosophy in the University of Glasgow' on the middle door of this book.

6 The following passage from *The Wealth of Nations* is frequently quoted as an illustration of this: '[Every individual directs his labour and money with the intention of] his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. [Omitted] By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.' (Smith 1776: 423, part 4, chapter 2).

7 Smith's term 'sympathy' corresponds to the 20th century term 'empathy', which is the ability to recognise the feelings that others are experiencing (Wikipedia 'Adam Smith').

8 This section builds on Okabe (2018a, 2018b).

9 There are naturally many policy issues that look at the blossoming of human potential from the perspective of education and equal opportunities, which we do not enter into in this publication. On the other hand, the viewpoint of developing potential through self-improvement is outlined in Section 2.2.2 of this chapter and dealt with in detail in Section 8.2 and 8.3.

10 For example, Suzumura and Goto (2001: chapter 6) is a commentary by Japanese authorities in this field, but the explanations given there were quite difficult for the present author (Okabe).

11 Sen's identification of freedom (the existence of the possibility of choice) as an important component of potential has significant implications. For example, even if the result is the same tragic outcome of starvation, a person who dies with dignity through 'fasting' by autonomously and responsibly refusing to consume food in protest against political oppression, and a person who starves to death without choice because the food to be consumed is not available due to the debility of extreme poverty, have a point of not eating (functioning). Although common in the two cases, they need to be assessed differently in terms of 'freedom for a good life' (well-being freedom) (Sen 1988: 7–8; Suzumura and Goto 2001: 188). This is because in the former case the potential in terms of freedom of choice is large, while in the latter case it is small.

12 This is probably why the approach by Sen is named the capability approach instead of the functional approach.
13 Aristotle's view of happiness (eudaimonia) is closely related to ethics (virtue), which governs the relationships between humans (Okabe 2017a: chapter 7). Smith also emphasised and deeply examined the feelings people have towards others (moral feelings) (Smith 1759; Okabe 2018a, 2018b).
14 The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living.
15 As noted above, Sen cites that 'the difference between workers seems to be due more to differences of habit and education than to natural birth' (Adam Smith, *The Wealth of Nations*, part 1, chapter 2, section 4) (Sen 2014: 28).
16 One example of tackling this point head-on is the Practical Philosophy, which is discussed in Section 8.2 and 8.3.
17 The following section is heavily indebted to Sandel (2012).
18 In Table 2.2, we quote five examples of Sandel (2012). In addition, he discusses such other cases as the right to migrate to the USA (USD 500,000), surrogacy in India (USD 6250: a third of the market price in the USA), the right to emit one tonne of carbon into the atmosphere (EUR 13 <about USD 18>), the right to cut into priority lanes in Minneapolis (USD 8, during rush hour), and the trading of university admission rights, among other examples.
19 This study is cited by Sandel (2012) and also by Bowles (2016), as will be discussed below.
20 American economist. He argued that economics should not be limited to the analysis of markets, but should expand its perspective to include human interaction beyond markets, and was awarded the Nobel Prize in Economics in 2005 for his interactional decision theory (game-theoretic analysis).
21 Sandel (2012) cites examples from the USA, but there are similar examples in Japan. For example, a company called Wedding Speech Writing Same-Day Delivery.com (http://www.kekkonshikispeech-speeddaihitsu.com/). The company sells a service whereby if there is a request for a speech to be written, the client is interviewed by phone and a draft matching their needs is completed and provided. In addition to congratulatory speeches as a friend, the company also offers an early bird course (JPY 24,800) and a same-day delivery course (JPY 29,800). The company also offers a brushed Japanese paper manuscript service (extra charge) on the basis that 'a high quality brushed Japanese paper manuscript would be a welcome present for the bride and groom after the speeches have been concluded'.
22 The meritocracy associated with these ideas has also divided US society into 'winners and losers' over the last 40 years, as well as causing a loss of dignity in work (Sandel 2020: 59, 211).
23 In economic policies relating to various industries (especially agricultural policy which is directly related to nature and land), the perspective needs to go beyond mere competition and efficiency (Okabe 2022a: chapter 10).
24 For details, see Okabe (2022a: chapter 10, sections 1-3).
25 'Happiness', for example, has many expressions, including well-being, welfare, good life, meaningful life, and eudaimonia, in addition to happiness, which is the

most commonly used term for it. See Okabe (2017a: chapter 7, section 2, 221–225) for the details discussed below.

26 In addition to Sen, some researchers also emphasise the importance of human potential and its liberation. For example, Aldred (2019: 251–252) states that it is a realistic and reasonable understanding to see humans not merely as meritorious calculating machines, but as beings with more advanced abilities, and that a change in economics is required from this perspective.

27 For the detail, see <https://hdr.undp.org/data-center/human-development-index#/indicies/HDI>

3 Considering humanity (1)
Altruism

Mainstream economics understands society as a group of human beings based on the view that human beings act only in their own self-interest and do not care about or are influenced by others (methodological individualism). However, research in many disciplines other than economics has shown that humans have not only self-interest, but also a sense of connectedness and altruism, and that humans live in social net-talk rather than living alone. This chapter will first address the former, while the latter will be discussed in the next chapter (Chapter 4).

Section 3.1 summarises the significance and types of altruism. Section 3.2 looks at how altruism is understood from the perspective of several academic disciplines. Section 3.3 describes how altruistic activities have attracted attention in recent years as contributing to human well-being and health. And, Section 3.4 introduces an economic model that has been proposed to understand human altruistic behaviour (e.g. donation).[1]

3.1 Significance and various aspects of altruism

It is natural that humans have selfish motives for action. This is obvious because, first of all, he or she needs to maintain the individual as a life form (and therefore acts to secure his or her own food). Importantly, however, humans have altruistic as well as selfish motives.

This is because human beings are essentially connected (socially networked) beings, and it is essential for them to consider or be aware of the other person in some sense in their connections. This is where altruism in the broad sense of the term is born.

Altruism is a synonym for egoism and refers to a way of thinking and acting that considers or prioritises the interests of others over one's own interests. It is a concept traditionally regarded as a virtue in many cultures around the world and emphasised in many religions. In mainstream economics, on the other hand, it has traditionally been assumed that humans act in self-interest, and it has been on this assumption to understand the shape of the economy and

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consequences of public policy. For this reason, altruism or altruistic behaviour has rarely been discussed in economics for many years.

3.1.1 Pure altruism, impure altruism

Recently, however, economists have begun to see some interesting ideas and studies on altruism. There, economists have classified altruism into two types. The first category is the case where giving to the others is itself (and only itself) the motivation. This can be called 'pure altruism'. However, they have considered other cases where altruistic behaviour is observed but which are considered altruistic not only for the benefit of others, but at the same time motivated by gaining some satisfaction in one's own mind, and thus one acts altruistically. As a result, altruism is now analysed more widely, and a perspective has emerged that introduces altruism including these elements into economics as 'impure altruism', as opposed to the traditional 'pure altruism'.

A pioneering example of this is the theoretical economic model by Andreoni (1989, 1990), and more recently, an empirical study based on this framework (Ottoni-Wilhelm et al. 2017)[2] have also emerged.

In other words, considerations of altruism are now beginning to be incorporated into more generalised economic models. Such altruistic behaviour in a broader sense than in the past has been termed 'warm-glow giving', and research is gradually accumulating, as is well summarised in the internet encyclopaedia Wikipedia 'Warm-glow giving' (English version, no Japanese version exists). The following section will therefore take a broad view of altruism, relying mainly on this and, where necessary, referring to the original articles mentioned there.

3.2 Reviewing altruism from various academic disciplines

In mainstream economics (especially in microeconomics), it is assumed that humans are motivated by self-interest and altruism does not exist or is ignored (Okabe: 2017a: 262–263). However, in many other disciplines (psychology, anthropology, biology, neuroscience, etc.), it is commonly asserted that humans have altruism on various grounds (ibid.).

3.2.1 Support from psychology

With regard to the discussion of human altruism, there is a particularly significant contribution from psychology. From a psychological perspective, it has been demonstrated in many countries around the world, regardless of culture or income level, that giving makes us happier, both in a selfish and hedonic sense (White 2016). This is because giving to others is not only considered a good thing in a moral sense since ancient times, but in psychology it is also associated with an 'intrinsic warm glow'. This result is suggested by the fact that there are many expressions such as 'joy of giving' (internal satisfaction),

Table 3.1 Examples of statements that place a higher value on giving than receiving

Person who made the statement	*Statement*
Lao-tzu (Chinese thinker, circa 5th century BC)	Give it to others, and you'll get more and more.[a])
Jesus Christ (Founder of Christianity)	It is more blessed to give than to receive.[b])
St Francis of Assisi (Medieval Italian saint)	It is in giving that we receive.[a])
Winston Churchill (Former British Prime minister)	We make a living by what we get, but we make a life by what we give.[a])
Walt Disney (Founder of Disneyland)	Giving is the greatest joy. Those who carry joy to others satisfaction.[a])
Ninomiya-Sontoku (Japanese agriculturalist and thinker of the Edo period)	There is no profit in taking, but there is profit in giving.[c])
Keiko Takahashi (Contemporary Japanese practical philosopher)	Happiness increases in stages in life, from the happiness of receiving, to the happiness of being able to do, to the happiness of giving.[d])

Notes:
[a] 'Law of Giving-Give and You Will Receive' (www.successinspired.com)
[b] Chapter 20, verse 35, 'Acts of the Apostles', *New Testament*.
[c] Ninomiya (1933, 51).
[d] Takahashi (2008, 117).

Source: Okabe (2017a: 269).

regardless of the time period (Table 3.1).[3] It has also been suggested that humans are altruistic because giving can be accompanied by an incidental joy (extrinsic warm glow: gaining recognition, approval, and reputation).

Furthermore, psychology emphasises that the 'joy of giving' is not a simple uniformity, but is also related to subtle psychological processes (Wikipedia 'warm-glow giving'). Firstly, the social distance between giver and receiver is an important factor. In other words, the closer the recipient is to the giver, the higher the degree of 'giving pleasure'. Secondly, the sensitivity of the beneficiary is important. The more likely the beneficiary is to perceive the recipient as having done something exceptional for them, the greater the giver's joy. Thirdly, recent research has also emphasised the importance of guilt avoidance. In other words, the higher the degree to which guilt is avoided by giving, the higher the incentive to give. Taken together, warm-glow giving is an other-regarding behaviour that expresses heartfelt empathy towards the other person.

3.2.2 One exhaustive study: Dunn et al. (2014)

As mentioned above, from a psychological perspective, giving and happiness are closely linked. There are numerous such studies, but below we provide an

example of a typical and exhaustive empirical study. It is a large-scale study (Dunn et al. 2014) conducted by psychologists from universities in Canada and Harvard University in the USA.

The majority of conventional research has shown that the more money people 'own', the higher their level of happiness is naturally compared to those who do not (economics is based on this very assumption). However, Dunn et al. (2014) show from both correlational analysis and experimental results that how money is 'spent' is also important for happiness. They conducted an experimental analysis of the correlation between charitable giving and happiness in 136 countries around the world. The results lead to the conclusion that even in countries with relatively low incomes, the warm glow of giving is likely to be one of the basic elements of human nature.

Specifically, (i) in 120 of the countries covered, charitable giving was positively associated with happiness (after adjusting for factors such as income level and demographic factors); (ii) the strength of the correlation varied from country to country, but individuals who made pro-social spending were happier, irrespective of the wealth gap in the country; (iii) causal relationships were tested in several countries and found that socially conscious spending (in their experiment, donations to buy sweets for children in hospital) was more satisfying than spending for oneself. So, they concluded that the results suggest that the ability to 'derive pleasure from giving' is universal in human psychology. Of these, (i) and (ii) are clearly shown in Figure 3.1, which displays the results for each country around the world.

Figure 3.1 Individual's social considerate spending leads to happiness.

Note: When the coefficient value of socially sensitive expenditure is positive (the country concerned is shown in green or yellow-green colour in the figure; dark or light gray in this quoted figure) were significantly more common than in the negative case (indicated by red or pinkish colours; expressed by striped pattern in this quoted figure). Note that white indicates countries with no data.

Source: Dunn et al. (2014), figure 1 (original figure in colour).

In addition to the above for adults, another experiment was conducted with young children (under 2 years of age), and the results confirmed that giving is rewarding. Based on these results, it was concluded that giving to others (gift-giving) is a deeply ingrained tendency (deep-seated proclivity) in the human mind.

For Dunn et al. (2014), the next research question was whether socially considerate expenditure would always lead to happiness. This was not an easy question to answer, because some of the existing studies had already concluded that this was not always the case. They answered this question by applying self-determination theory, which states that people become happy when three basic needs are met. The three conditions are: (1) relatedness to the recipient of the funds, (2) competence in the effective use of the funds, and (3) donations by free will (autonomy).

Here, connection (1) refers to the strength of the social ties between the donor and recipient, and happiness is strongest when these conditions are met (strengthened). This is because the need for connection or belonging corresponds to the third need (the need for affiliation and love) in the 'five stages of human need' as described by the American psychologist Maslow (Okabe 2017a: 233), and therefore an increased sense of well-being is expected if it is fulfilled. The effective use of funds in (2) refers to the fact that the donated funds are used to achieve a clear purpose (positive impact of donations), in which case it is easy to understand that the donor's sense of well-being will improve. It is also understandable that (3) is a factor that increases the donor's sense of well-being if the donation is voluntary, i.e. the act of donation is the result of free choice rather than coercion.

This result has important practical implications. This is because, when raising money for a project, it is important to take into account the fulfilment of these three conditions in order to raise large sums of money more effectively.

3.2.3 Support from neurobiology

It has also attracted attention that there is a neurobiological basis for the act of human giving. Recently, research has been conducted using magnetic resonance imaging (MRI) to investigate which part of the brain responds when deciding to donate. The results of such studies suggest that when people help others, oxytocin and endorphins (substances that increase happiness) are released, which in turn brings a sense of happiness to people (Wikipedia 'warm-glow giving').

The above is a brief overview of the understanding of altruism in psychology and neurobiology. It is against this background that the idea of 'warm-glow giving' has also emerged in economics, of which it is still a small part.

It should be added that both theories of the existence or non-existence of human altruism have been found in the history of social theories and philosophy (ibid.). Hobbes, Kant, Nietzsche, Bentham, Mill, and others denied

the possibility of human beings having 'genuine altruism'. On the other hand, those who argued for the possibility of having 'genuine altruism' were Butler, Hume, Adam Smith, and others. For a brief survey of the discussion of how the existence of human altruism is positioned in major contemporary research fields (philosophy, economics, psychology, anthropology, evolutionary biology, neuroscience, etc.), see Okabe (2017a: 259–270).

3.3 Altruistic activities contribute to well-being and health

As discussed above, altruism is a part of human nature, regardless of culture or era (White 2016 and Table 3.1). And, it has been confirmed by many studies, including psychology and neuroscience, that when people behave altruistically, they experience a sense of happiness (fulfilment and satisfaction). Therefore, one effective prescription for human beings to achieve a sense of happiness may be to actively engage in altruistic behaviour.

Psychologists have argued that altruistic behaviour to achieve these goals (i.e. to achieve feelings of happiness) is valid. This may have elements of 'impure altruism', as altruistic behaviour is carried out with the aim of increasing one's own sense of satisfaction, but it is an interesting development, so let's look at some of the arguments below. It is also important to note that there is room for these elements in altruistic behaviour, as this will lead to a more general understanding of altruism (incidentally, the model analysis presented in the following Section 3.4 is of this nature).

3.3.1 Psychologists and others recommend the concept of 'helper's high'

The concept of 'helper's high' refers to the positive emotions that arise from selfless service to others (Dossey 2018: 393). The recognition that altruistic behaviour produces these emotions (which can be described as uplifting, satisfying, and happy) emerged in the 1980s, and the phenomenon has since been studied by a number of academic disciplines (ibid.). Today, not only does it continue to attract attention, but many psychologists (Carter 2014) rather reverse it and preach the 'recommendation of altruism' with the aim of enhancing their own sense of well-being.

'Helper's high' has attracted such attention, firstly, because it has not only been confirmed by numerous psychological experiments and studies, but also by natural scientific research on humans as living organisms, as mentioned above. This is due to the fact that it has also been proven by research, as mentioned above, in the case of humans as living organisms. For example, many biochemical studies have shown that people who engage in charitable behaviour typically produce endorphins (a weak morphine-like substance) inside their brains, which increases their sense of well-being (Dossey 2018; Baraz and Alexander 2010). It is also believed that humans helping other humans in this way has played a major role in the survival of the human species.

Secondly, altruistic behaviour does not just bring about a good psychological state (happiness), as it is also considered to contribute to better health and longer life for humans (health benefits) (Carter 2014; Dossey 2018). According to a study by the National Institute of Health in the USA, the joy (happiness) of those who help boosts the immune function of the human body and lowers stress hormones. For this reason, people who volunteer or make charitable donations are more likely to repeat such behaviour, and it has also been noted that this contributes to better health and longer life expectancy.

3.3.2 'Helper's high' through training

'Helper's high' has many of the favourable outcomes described above for humans, so there are also various claims for active training (albeit conditional) intended to produce that feeling.

For example, psychologist Carter (2014) points out that, first of all, it is necessary to recognise that there are several risks associated with altruistic behaviour. For example, the increased stress associated with one's overloaded schedule, the possibility of burnout, and the possibility of things not going the way one wants them to (frustration). However, Carter (2014) argues that altruistic activities, while taking care not to fall into these categories, can increase happiness, reduce stress and have positive effects on physical health and longevity. In other words, actively engaging in such altruistic activities is beneficial for oneself.

Baraz and Alexander (2010) also argue that there are ways to reach helper's high without actually taking action. For example, they suggest that one can train oneself to 'sympathise and empathise with the suffering and distress of others' (compassion meditation) or to meditate (mindfulness-based meditation practice). Furthermore, all such elements of empathy and altruism are included in the Buddhist teaching of Bodhisattva,[4] which suggests that when one becomes a person with the far-reaching aim of saving all living beings from suffering and hardship, one attains a state of happiness. They also explain that there is a programme (Bodhisattva-in-Training) for this purpose. However, acting for the benefit of others with the main aim of pursuing one's own happiness may better be called as 'selfish altruism', which is said to be a playful expression by the Dalai Lama (Baraz and Alexander: 2010).

Thus, altruism can naturally be mixed with a selfish element. In the next section, we will therefore review one interesting economic model that also takes such a perspective into account.

3.4 An economic model incorporating altruistic behaviour

As we have seen above, humans experience joy and satisfaction (emotional rewards) from performing acts to help others. Focusing on this point, an economist Andreoni (1989,[5] 1990) presented an interesting economic model to explain how this works. In the following, we review the paper 'Impure

Altruism and Donations to Public Goods: A Theory of Warm-Glow Giving' (Andreoni 1990).

There are two points to bear in mind here. First, when considering the satisfaction (warm-glow) that comes from doing things for others, it is assumed here that this is a selfish pleasure for the person concerned, regardless of the actual impact of his or her generous act. In other words, the perspective of 'impure altruism' is introduced here: when people give something to others, there is a mixture of both altruistic and selfish (egocentric) motives.

Second, it is assumed that satisfaction (warm-glow) is only a non-monetary quid pro quo. This is because the warm-glow phenomenon when there is a possibility of monetary reward is 'reciprocal altruism' (altruism with the possibility of direct monetary reward), which is different from the understanding here.

The paper by Andreoni (1990), which is discussed below, deals specifically with charitable giving and analyses it from an economic theoretical perspective. The 'warm-glow giving' donation behaviour described in this theoretical model provides a useful economic framework for considering the supply of public goods, collective action issues, charitable donations, and gift giving.

3.4.1 Economic analysis of altruistic behaviour: Andreoni (1990)

Altruistic means the motivation to do what is beneficial to others, and is the opposite concept to selfish (self-interested; egoistic) (Kraut 2018). Although these two 'motives' are diametrically opposed, a single human 'action' can be based on both behavioural motives (Kraut 2018). Andreoni (1990) modelled such cases.

Whether people donate for a public good (e.g. a charitable fund) that is provided privately rather than by the government. This is influenced by numerous factors, not just altruism. Motivations include gaining social admiration, respect, or as a token of friendship, and there may be other social and psychological objectives as well. They may also be motivated by social pressure, guilt associated with not donating, or warm-glow feelings.

The following section presents an overview of an economic model (Andreoni 1990) constructed from the perspective of how to increase public good[6] or shared assets, which are assets for all members of society, and how to finance them.

Assume now the following situation. (1) There is only one type of private good (e.g. passenger cars) and one type of public good (e.g. parks) in the economy. (2) Individual i owns asset w_i, which can be freely allocated either for consumption of a private good (x_i) or donation for a public good (g_i) (and there is no government subsidy for the public good). And, (3) assume that society is composed of n individuals and that the total amount of public goods is financed by G below (donations from all members of society):

$$G = \sum_{i=1}^{n} g_i$$

In this case, the utility function for each person can be written as shown U_i below.

$$U_i = U_i(x_i, G, g_i),\ i = 1, 2, \ldots, n \tag{3.1}$$

In other words, an individual's utility is defined by three things: (1) the amount of private goods consumed (x_i), (2) the amount of public goods (G), and (3) the amount of money spent on public goods by themselves (g_i). It should be noted here that g_i enters the utility function twice. The first time as part of the public good (G) and the second time as a private good (third term of the utility function). The reason for this setup is to capture the fact that the gift by the individual himself has the character of a private good, which is independent of its character as a public good. Formulated in this way, equation (1) can be understood as an expression that includes three cases.

In other words, when equation (1) above becomes like equation (3.1a) below, it can be understood as a case that represents a 'purely altruistic' case, as individuals do not gain utility from their personal donations. On the other hand, equation (3.1b) represents a case where public goods are not taken into account and individuals only donate when they have warm-glow feelings, thus representing a purely egoistic case. And, when both G and g_i are included (in equation (3.1) above), the person represents an 'impurely altruistic' (having a mixture of altruistic and selfish motives) case.

$$U_i = U_i(x_i, G) \tag{3.1a}$$

$$U_i = U_i(x_i, g_i) \tag{3.1b}$$

Next, let us express the contributions of all others, except for individual i, as:

$$G_{-i} = \sum_{j \neq i} g_i$$

Then, the individual donation function is obtained by solving the following conditional maximisation problem.

$$\text{Maximise: } x_i, g_i, G \qquad U_i(x_i, G, g_i) \tag{3.2}$$

Constraints:

$$x_i + g_i = w_i \tag{3.3a}$$

$$G_{-i} + g_i = G \tag{3.3b}$$

Equation (3.2) implies that each individual maximises his or her utility U_i under two constraints, (3.3a) and (3.3b). While equation (3.3a) implies that individual i will use his or her assets (w_i) to purchase private goods (x_i) and

to donate for public goods (g_i). And, equation (3.3b) implies that the total amount of public goods consists of the contributions of everyone except individual i ($= G_{-i}$), and of the contribution of individual i ($= g_i$).

Where $g_i = G - G_{-i}$ by definition, and substituting constraints (3.3a) and (3.3b) into the utility function equation (3.2), the maximisation problem is finally expressed as follows.

$$\underset{G}{\text{Maximise: }} U_i(w_i + G_{-i} - G, G, G - G_{-i}). \tag{3.4}$$

At first glance, this utility function appears to be the same as the normal utility function[7] that appears when consumers maximise their own utility, but in the above, the content is completely different. The reason is this. In the normal utility function, individuals increase their utility (satisfaction) by increasing their consumption, but the utility function in (3.4) above is based on the idea that individuals increase their satisfaction by including both public goods built by individual donations and individual consumption.

Solving this maximisation problem (although the calculations are quite complex) leads to conclusions, for example that if the government adopts an asset redistribution policy and redistributes assets from people with relatively small altruistic tendencies to a group of people with relatively strong altruistic tendencies, the supply of public goods can be increased (Antreoni 1990: 473). This analysis shows an interesting aspect of the supply of public goods: namely the question of whether to increase the supply of public goods can be discussed also by using the analytical framework of individuals increasing their own utility under his or her budgetary constraints.

While the above is a theoretical model, empirical studies based on it have recently emerged. Namely, Ottoni-Wilhelm et al. (2017) took a charitable organisation as one example. They defined G in the above model as the total amount donated by all individuals to a charitable organisation, and G-i as the amount donated by individuals other than themselves, and conducted an empirical analysis of the activities and fundraising of one local chapter of the American Red Cross in support of fire victims. They concluded that: (1) pure altruistic support by individuals (the joy of giving) cannot be ignored, but (2) rather the ability of charities to expand their activities is the payback for donors (such payback being an important motivation for donation).

It is common among economists to believe that people give to others because they expect some return in return,[8] and such an idea appears to be at the root of this empirical study. However, the validity of such an understanding ultimately needs to be verified by empirical research.[9] For this reason, it is hoped that such research will expand in the future, and that research on another important aspect of human nature (human connections or networks) will also become more active. Therefore, next chapter will focus on human interconnectedness.

Notes

1 This chapter is based on Okabe (2022a: chapter 5; 2018a, 2018b).
2 This empirical study is briefly explained in Section 4 of this chapter.
3 The Roman emperor and philosopher Aurelius, in his work *Self-Reflections*, which was also an exhortation to himself, wrote: 'What else did you expect from helping someone out? Isn't it enough that you've done what your nature demands? You want a salary for it too? And when we do help others--or help them to do something--we're doing what we were designed for. We perform our function.' (Aurelius 2002: book 9, number 42, page 128).
4 In Buddhism, a bodhisattva is a person who is on the path towards bodhi (awakening, enlightenment) or Buddhahood.
5 Professor, University of California, San Diego, USA.
6 See Okabe (2017a: 318) for definitions and details.
7 By normal utility functions, we mean the various types of utility functions as shown in Figure 1.2 and Table 1.1 in Chapter 1. The reasons of why relying on such utility functions is problematic, see Section 1.3.3.
8 These ideas are clearly illustrated, for example, in game-theoretic analyses of altruistic behaviour (Okabe 2017a: 277–279, appendix 2).
9 When empathising with the other person: (1) does the person behave in a (genuinely) altruistic manner or, even in such a case, (2) does the person's behaviour still result from the expectation of some reward for oneself, or (3) does the person behave in the expectation of escaping punishment? One interesting experimental report (Batson et al. 1988) aimed to clarify this. It consisted of five experiments with between 60 and 120 university students, the results of which showed that (1) was indicated while (2) and (3) were rejected in all cases.

4 Considering humanity (2)
Social networks

In the previous chapter, we argued, based on recent research, that humans have a tendency to care about others (the most positive form of it being altruism) as well as self-interest, and that this is related to their own health and well-being. In this chapter, we consider how these human connections can be understood from the perspective of modern network science.

In Section 4.1, we discuss how the basic laws of network science can be applied to human connections. In Section 4.2, we look at some specific examples of the effects of social networks. And, in Section 4.3, we argue that social networks have the important function of creating common resources (social relational capital), thus implying society is not a simple arithmetic sum of humans.[1]

4.1 Network science and human links

Mainstream economics usually assumes that 'each human being has his or her own preferences and makes decisions and acts selfishly and rationally without being influenced by others' (atomistic view of human beings). However, as seen in the previous chapter, it is clear from research in many academic fields and from actual human behaviour that humans always take into account people other than themselves (their surroundings or other persons). In addition, their own behaviour is conversely often influenced by others.

Therefore, man's true nature lies in the fact that he or she lives in an interconnected way.[2] Therefore, it must be said that current mainstream economics, which lacks the perspective that humans are beings living in social networks, is inherently very flawed. What is essential in making economics a more humanistic discipline is to consider and incorporate human 'connectedness' (interconnection, or social networks) which has multiple dimensions. Internationally, there are a number of studies in academics that attempt to open up new areas of economics from these perspectives.[3] Unfortunately, however, there are very few such studies among Japanese economists at present.[4]

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4.1.1 Reductionism in modern science

In modern sciences, 'reductionism' has become a universal approach in understanding truth. It is the method of explaining various phenomena and properties, whether physical phenomena or life forms, by tracing them back to a finer dimension. And, it has been considered to be a scientific and rational approach, and research in this direction has been promoted. In other words, reductionism is a research direction in which the smaller elements that make up the whole are examined one after another in order to understand the whole. In physics, this has developed from matter to atoms, from atoms to nuclei, and is explained in terms of the behaviour of subatomic particles in the infinitesimal small world. In life, research has developed from organs to cells and then to genetic understanding.

This trend has been promoted not only in the natural sciences, but also in the social sciences. In economics in particular, the idea that macroeconomic phenomena (prices, unemployment rates, etc.) have been thought as can be explained by reducing them to the motives and actions of microeconomic agents (i.e. individuals). That is, the trend towards 'methodological individualism', as detailed in Section 5.1, has been gaining momentum over the past 50 years. This trend which is strong in mainstream economics today not only in theoretical research but also in policy research. And, the importance of such ideas is emphasised and praised as an 'analyses with a microfoundation' and in some cases are almost mandatory.[5] For this reason, in many fields of social sciences, with the exception of economics, the term methodological individualism has 'critical connotations' (mean this as criticism), but in the case of economics it is conversely taken as 'worthy of praise' (taken it as praise) (Basu 2011: 44).

4.1.2 The need to take account of human interconnectedness

Under the reductionist or atomistic view of humans in economics, humans are understood as beings that repeat instantaneous optimising behaviour under ever-changing circumstances. However, the reality is that over a period of time, every human being is in contact with a certain range of other people in various situations of social life. Such situations are diverse, and the number of people with whom they come into contact, the density of contact and even the manner of contact are also diverse. For example, there are various forms of contact in terms of distance, density, and contact style, starting with immediate family members, colleagues at work or school, acquaintances, and friends in the community, and even friends who come into contact exclusively via the internet. Human beings act in the context of these connections, so it is fundamentally necessary to emphasise this.

In other words, human interconnectedness is one fundamental aspect of human nature. However, this has not been emphasised in mainstream economics, and it will certainly be necessary to restructure the system of economics

to explicitly incorporate this element in the future. Based on this recognition, this chapter takes this perspective on humans as 'social networks'. It then draws heavily on the book *Connected: The Surprising Power of Our Social Networks and How They Shape Our Lives*, by Christakis and Fowler (Christakis and Fowler 2009)[6] [7]which consolidates the cutting-edge results in that field of research. We also cite relevant papers where necessary to present the results of contemporary research on this aspect of human beings.

From this perspective, being connected means being aware of the existence of others, and therefore human altruism, to whatever degree it may be, inevitably comes into view. Moreover, as human beings are seen as embedded within others in social networks, they are inevitably influenced by others who are connected near or far (i.e. they inevitably lose some of their independent decision-making capacity), but the flip side of this is that by being connected, people are able to transcend their own limitations.

4.1.3 Social networks: examples and laws

In this section, we would like to briefly summarise the basic elements and laws of social networks.

A network consists of two components. One is a node, which is a point of intersection, a point of junction or a point where a line ends. The other is a link, tie, or connection, i.e. a section of line connecting points (Barabasi 2016: 26–27; Christakis and Fowler 2009: 8–12).

This is evident if we imagine an intuitive diagram, showing a person by a small circle and connection of individuals by a straight line, as will be discussed shortly. Research on it emerged at the end of the 20th century as network science, which has an interdisciplinary character, and then developed rapidly with the digital revolution (fundamental changes in the possibilities for collecting, sharing, compiling, and analysing data about connections) (Barabasi 2016: 25–27). Networks are found throughout nature and human society, and the findings of network science have had a significant impact across all disciplines.[8]

4.1.3.1 An example of a social network

To understand the sense of human connectedness (social network)[9] and its basic elements, let us refer to a simple diagram in Christakis and Fowler (2009: 14), which shows a network of 105 students (line-connections indicating close friends) in a university residence hall in the USA. In that diagram (which is not reproduced here for copyright reasons), each small circle represents a student and each line connecting them represents a mutual friendship.

On this basis, let us try to understand the structure of the network. First, (1) students A and B both have four friends, but A's four friends are more likely to know each other (a connection exists between them), while none of B's friends know each other. This is expressed as A having a greater transitivity

than B. Also, (2) C and D both have six friends, but there is a significant difference in the position of their social networks. That is, C has a high degree of centrality, whereas D is relatively peripheral (C's friends have many friends themselves, whereas D's friends have few friends themselves or no friends at all). (3) The degree of being in the centre of the network is assessed not only by the number of direct friends, but also by the number of friends of friends, friends of friends of friends, etc. And, in the case of this example, (4) one can point out that on average a student has direct connections with six close friends, and so on (C&F: 13–14).[10]

4.1.3.2 Characteristics of social networks and the five laws

Social networks have two characteristics (C&F: 16). One is the existence of linkages that indicate who is connected to whom. These linkages or connections can be diverse and complex in character, such as whether they are temporary or life-long, passing through or dense, personal or anonymous. The other is that some things propagate (contagion) through connections.

These two things (linkages and propagation) are essential to understanding why social networks exist and how they function. This is because the existence of connections and what is propagated through them creates a whole that is greater than the sum of its parts (C&F: 16). This is described in economics as having 'externalities' (discussed in more detail in Section 4.3). And such effects are due to the fact that the following five laws have been established for networks (C&F: 17–26).

Law 1. Network formation is only possible through our human behaviour. For example, the phenomenon of 'birds of a feather flock together', or homophily (the tendency of people to choose to associate with others who have similar attributes to themselves), is nothing more than the wilful formation of groups or networks of people who share common interests, histories, dreams, etc., and is clearly the result of human action. It is clearly a result of human behaviour. The structure of the network is also determined by humans—that is what to focus on, how large the network should be, and how dense the connections should be.

Law 2. Networks influence us. In other words, by belonging to a network we are influenced by it. This is the opposite relationship to Law 1 above, and Laws 1 and 2, when combined, show the dynamism of causality working in both directions. The magnitude of Law 2 is determined by the nature of transition (transitivity) of the network.

Law 3. We receive various influences from our friends. The influence we receive from the network (Law 2 above) is specifically from our friends. In this case, it is critically important what kind of things (information, beliefs, etc.) flow through the connections. Also, the propensity of humans to influence and imitate each other is one fundamental determinant of the flow (such mutuality is discussed in detail in Section 4.2).

Law 4. We are influenced by 'friends of friends of friends'. In other words, we are influenced not only by our friends, but also by 'friends of friends' and by 'friends of friends of friends'. This has been empirically confirmed (as detailed in Section 4.2). In other words, the tendency for influence to spread from one person to another, and from that person to the next, beyond the direct social connections of the individual ('hyperdyadic spread'; transient spread or diffusion beyond bilateral relationships). In other words, we humans influence beyond our social horizons through the gradual expansion of our connections. And conversely, we are also unconsciously influenced by people who are unknown to us in this respect.

In demonstrating this phenomenon, a famous sidewalk experiment (Milgram et al. 1969) was conducted by psychologists. It shows that the more people behave in a certain way, the more susceptible the rest of us are to the former. The experiment involved observing the reactions of passers-by walking on a New York City footpath (17 m wide) on a cold winter day in 1968. For this purpose, a simulated group of experimental assistants ('stimulus crowd'; six different group sizes ranging from 1 to 15 people) was formed in advance. Each simulated group then abruptly stopped walking and then looked at a window on the sixth floor of a neighbouring building (a non-descript window with just another experimental assistant) for 1 min. The point of the experiment was to see how ordinary passers-by reacted accordingly.

The results were recorded on video. The number of ordinary passers-by (1424 people observed) who stopped or looked up when they saw the simulated group in motion was then tallied. The results showed that when there was only one member of the mock group, only 4% of the general passers-by stopped to walk in the same way as the mock group, but when there were 15 members of the mock group, 40% of the general passers-by stopped (Figure 4.1). This indicates that pedestrians tend to imitate the behaviour of others and, importantly, that they are strongly influenced in their decision-making by the size of the simulated group in which they initially act (as the size of the simulated group increases, the proportion of pedestrians who imitate the behaviour of the simulated group increases).

Law 5. The network has a life of its own. It is known that in bird flocks there is no central organisation that controls the movements of the whole flock, but that a kind of collective intelligence determines the behaviour of the whole flock (Couzin et al. 2005). Similarly, human social networks operate according to their own rules (C&F: 26). In other words, social networks have emergent properties (holistic properties that are more than simply the sum of the individual parts), in which each part interacts and links together to create new movements as a whole. Thus, as will be discussed in Section 4.3, human interconnections have the important characteristic of creating social capital or a kind of public good. This is a point that is not in the

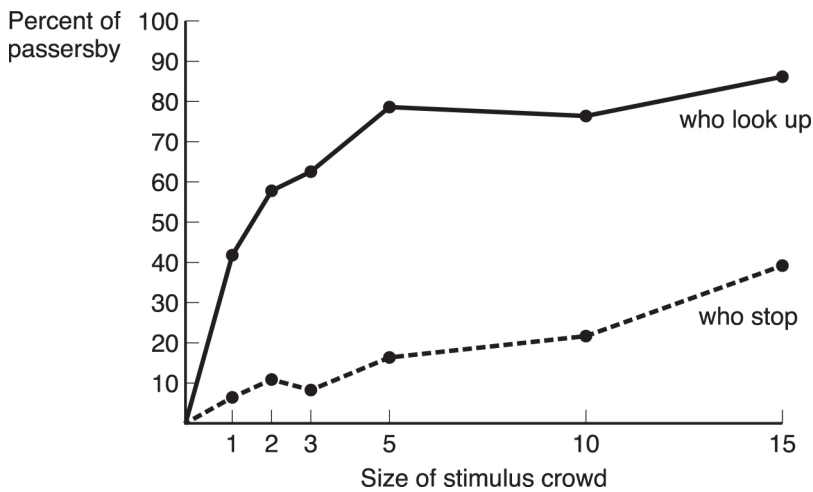

Figure 4.1 Pedestrian reactions to mock group behaviour.

Source: Milgram, Bickman, and Berkowitz (1969), figure 1.

purview of mainstream economics, and economics as it should be needs to incorporate it.

4.2 Social network and its properties

The above section has reviewed specific examples of the meaning of human connections and the phenomena that arise from them. In this section, we will introduce more specific aspects of human networks and their characteristic points, and clarify that the formation of connections is rooted in human nature.

4.2.1 Six degrees of separation, but influence is up to three degrees

If one's friends are 'one degree of separation', one's friends' friends can be said 'two degrees of separation', and in the same way up to six degrees of separation can be considered. It is then assumed (hypothesised) that all people in the world are covered by a maximum of 'six degrees of separation' (C&F: 26–27; Jackson 2019: 55–57; Brabasi 2016: 89–93).

This coverage of the vast majority to end up by far fewer degrees than generally imagined is also referred to as the 'small-world' phenomenon, and is a property that is generally true for many random networks (C&F: 27; Jackson 2019: 55–57; Barabasi 2016: 89–93). A series of studies by mathematicians in the 1950s showed that this is a generally valid property for many random

networks (Jackson 2019: 55–57). Following this idea, for example, it would take only six steps (on average) to reach a particular targeted person on the planet.[11] Expressed in network science terms, the small-world phenomenon means that the distance between two randomly selected nodes in a network is short (Barabasi 2016: 89). A mathematical explanation of this phenomenon is given in Barabasi (id at 89–93).

As to whether such a phenomenon is established in reality, there was an experiment conducted in the 1960s in the USA by psychologist Milgram of Yale University, where it was concluded that the number of stages of separation (social distance) was 5.2 in the USA (id at 94). Another study of the social network created by Facebook[12] (721 million users worldwide in 2011), which can be seen as an online equivalent of real-life friendships, found that the average distance between users was 4.74 (ibid.). Furthermore, more recently, research has been conducted not just on the number of stages of connections, but also on their content. For example, Bailey et al. (2018) conducted a large-scale study for the USA and used data on Facebook (2.1 billion users worldwide, 240 million in the USA and Canada) to create a new 'Social Connected Index', which was used to several interesting facts, such as the link between connectedness and geographical adjacency, income, and education levels.

4.2.1.1 Influence is limited up to three degrees

Even though we are all interconnected by six degrees of separation, this does not mean that we have influence over all people at different social distances (up to six degrees of separation). Therefore, C&F conducted a more in-depth study and concluded that our influence through social networks is smaller than that and concluded the 'three degrees of influence rule' (C&F: 27–30).

In other words, (1) everything we say and do spreads like a ripple through the networks to which we are connected, (2) the influence gradually decreases and ceases to appear when we cross the three degrees of separation (social frontier), and (3) we are similarly influenced by our friends within three degrees of separation. This three-degree law applies to a wide range of our attitudes, feelings, and behaviours, including, for example political views, weight gain, and happiness. Studies have shown that innovative ideas also diffuse up to three degrees of separation, while word-of-mouth information (e.g. a good piano teacher, a good place to leave your pet) also diffuse up to three degrees of separation (C&F: 28).

Our influence is limited to three degrees of separation for three reasons (C&F: 28–29). The first is that the accuracy of information decays as it is transmitted. For example, at four degrees of separation, the accuracy and reliability of information declines significantly from the initial transmission stage. This is due to the intrinsic-decay of the intrinsic value of the information.

Secondly, the impact declines as the form of the network changes (e.g. disappearance of friendships, neighbours moving away, divorce, death, etc.) That is, beyond the three-degrees of separation, the impact becomes less clear due

to these circumstances. This reason may be said due to network-instability. Third, if we look human history from the perspective of evolutionary biology, it has been shown that the ability of human connectivity is limited to three degrees of separation (C&F: Chapter 7).

In summary, the fact that human society is covered by 'up to six degrees of separation' indicates that humans are interconnected. On the other hand, the fact that an individual's influence extends 'up to three degrees of separation' indicates the limit of propagation. In other words, these two characteristics about social networks indicate their structure and function, which can be understood as corresponding to the anatomy and physiology of the organic organisational body constituted by humans (C&F: 30).

We live in a world of connections. So, such social networks have the effect of expanding the seeds sown (C&F: 31). As a result, they sometimes have positive values (e.g. spreading joy, facilitating market functioning), while at other times they have negative values (e.g. financial crises, spread of STDs, obesity, spill-over of suicides). Social networks then create something that does not belong to a particular individual but is shared by everyone in the network (i.e. social relational capital). For this reason, the network is creative (ibid.). Incidentally, the role of religion for society can also be understood in terms of network theory.[13]

Thus, the interconnections and interactions between people show a whole new side of human beings that is not seen when people live alone. For this reason, social network studies enable us to see the world from a completely different perspective. Modern mainstream economics, which is based on a narrow view of human beings, should aim to incorporate this view of human beings in the future (this point is discussed in Section 4.3).

4.2.2 Examples of the functioning of social networks: propagation of happiness, obesity contagion

What aspects of human beings are transmitted in social networks? How is the development of the internet (and the growth of new forms of community that do not presuppose geographical or face-to-face factors) affecting human connections? The following are some examples that provide insight into these issues.

Human expressions and the emotions associated with them are contagious. Moreover, they do not just spread to one's friends, but also to friends of friends. Long-standing research has confirmed that there is a biological and psychological basis for this (C&F: 39–40). On the other hand, how is personal well-being, which is so important to human beings, propagated? This has been extensively studied in medicine, economics, psychology, neuroscience, and evolutionary biology (C&F: 50). Curiously, however, the mechanism by which the well-being of one person affects other persons has not been considered (ibid.).

4.2.2.1 Propagation of happiness

C&F therefore studied the mechanisms by which happiness is transmitted. The results are illustrated in the form of 1020 people[14] connected in social networks in the USA, classified according to their levels of happiness (C&F: Colour photograph following page 174, quotation the photograph is omitted in this publication). The two findings were that: (1) less happy people tend to group with less happy people in the network, while happy people tend to group with happy people, and (2) less happy people are located relatively far from the centre of the network, on the periphery. The question that arises here is why happy people tend to choose happy people as friends. One possibility is that they appear to choose each other as friends because they are simultaneously placed in a particular environment that makes them happy. However, after removing such factors, C&F found that 'causality, whereby one person's happiness brings about another person's happiness, is also a factor in grouping' (C&F: 51).

Furthermore, the results of the mathematical analysis of the network showed that: (1) the likelihood of a person being happy increases by 15% if the people with whom the person has a direct connection (people at one degree of separation) are happy; (2) moreover, the spread of happiness does not stop there and the happiness effect on people at two degrees of separation (friends of friends) is 10%. (3) For people at three degrees of separation (friends of friends of friends), it is about 6%; and (4) for people at four degrees of separation, it disappears. This is the primary basis for the aforementioned law of three degrees of influence.

The study also elucidates that emotions such as loneliness, anger, and sadness (as well as norms and behaviours) similarly spread through social networks to people located at three degrees of separation (C&F: 51, 56–60).

They also found that when people's face-to-face interactions are taken into account (judged by geographical proximity as a proxy variable), this enhances well-being. In other words, happiness does not merely reflect individual experiences and choices, but also depends on the characteristics of the groups that people form (C&F: 54). On the other hand, they also found that geographical conditions (proximity) are becoming less important (C&F: Chapter 3), as the development of the internet has increased the possibility of influencing each other on the internet.

4.2.2.2 Obesity contagion

While the above research findings are intuitively understandable, some phenomena are not necessarily so. For example, obesity has skyrocketed in the USA in recent years. Under these circumstances, many researchers have suggested that obesity may be 'contagious' (although the mechanism is unclear). A shocking study that demonstrates this was published by the two authors in their paper 'The Spread of Obesity in a Large Social Network over

32 Years', (Christakis and Fowler 2007). Two years later, C&F (2009: 105–121) presented a summary of the study's findings with the tagline 'Your Friends' Friends Can Make You Fat'.

Obesity is not 'contagious' through pathogens or viruses, as is usually the case with diseases. However, it is 'contagious' (transmitted) through social connections (networks), and the authors have shown what the mechanisms are. As this study is an important and frequently cited result in network science,[15] an overview is given below, based on Christakis and Fowler (2007; 2009: 105–121).

First, the body mass index (BMI)[16] is the standard measure for determining whether someone is obese or not. Using this scale, the number of people considered obese in the USA jumped from 21% of the population in 1990 to 33% (one in three) in 2000. And, indeed 66% of Americans are overweight or obese. Whether or not the metaphorical term 'epidemic' is appropriate, is obesity spreading from person to person, and if so, how is this happening?

The authors (C&F) set out to find the mechanism. To do so, a wide variety of data is needed. Essential data were the position of people in large networks, the structure of their associations, and the weight and height of all these people to calculate the body mass index. Of particular importance is that data from a long-term time series, rather than a single point in time, must be available for these. The authors were fortunate to have access to data from the Framingham Heart Study.[17]

There, the authors assessed trends from 1971 to 2003 for a social network of 12,067 closely interconnected individuals. Longitudinal statistical models were used to determine whether a person's weight gain was associated with the weight gain of their friends, spouse, siblings, and neighbours. An example of the aggregated results is shown in Figure 4.2.

From the results of this study, they draw the following conclusions. First, obese people (BMI >30) form a population at all measurement time points, and the group is made up by a link of approximately 100–200 individuals, forming a community within a larger population. Second, such groups of obese people extend to 'three degrees of separation' (see above), and not to four degrees of separation. And third, these groups are not simply a forming of connections between people of similar body shape (homophily; see above), but it turns out that obesity is transmitted through social networks, rather than homophily. For example, if a person has an obese friend, the likelihood of that person becoming obese within a given period of time is 57% higher than if the person does not have an obese friend, and it has been shown that obesity is transmitted through social networks.[18]

As mentioned above, the C&F study confirmed that 'obesity is contagious'. And, a subsequent study conducted by three independent research groups on different subjects also concluded that obesity is contagious (C&F: 111). So, how on earth is obesity contagious?

It can be understood that two mechanisms are at work (C&F: 112–113). One is the imitation of behaviour. This is because members of obese

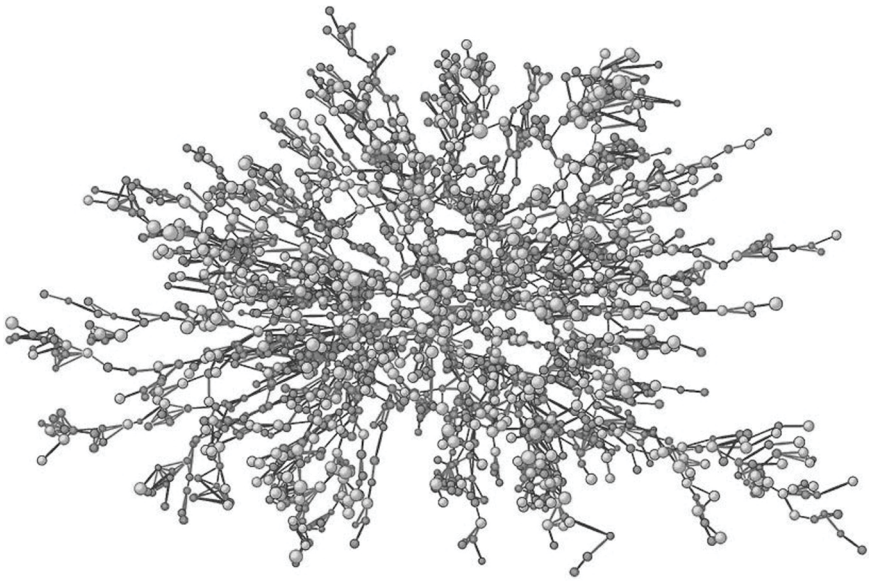

Figure 4.2 A network of 2200 people from the Framingham Heart Study in the year 2000: the obesity 'epidemic'.

Notes:
1. The size of nodes (small circles) is proportional to obesity. The obese and non-obese populations can be seen that they are located in specific places. Note that in the original diagram, nodes and connecting lines are shown in colour for each of the various factors.
2. Based on time series data of the Framingham Heart Study.

Source: Christakis and Fowler (2007: 373) and Christakis and Fowler (2009: 174ff).

communities are more likely to imitate each other's behaviour and thus spread obesity. The other is the propagation of norms. Norms are shared values about what is appropriate or customary rules about the way of behaviour. Specifically, in obese communities, obesity is thought to spread because the greater acceptability of being overweight (less negative image of being obese) more directly influences the person's behaviour (Christakis and Fowler 2007: 377). More generally, obesity may spread in social networks because cultures and practices become shared (C&F: 116).

4.2.3 The formation of connections has its origins also in human nature

Human behaviour has reciprocal spillover effects, as described above, which are caused by humans forming connections. So why do humans seek to be socially connected? The idea that it 'has its origins in human nature' is now gaining ground (C&F: 217–221). Two types of argument can be organised there. In addition, when discussing connection, it is characteristic that the

argument of altruism is intertwined with it (this point will be discussed to the main point in Section 5.1 in the next chapter).

First, it is possible to explain that humans tend to form connections (forming groups of people close to each other) are partly due to the influence of human genes (C&F: 214–217). In other words, it can be understood that these behavioural patterns were selected during the evolution of human genes and have been inherited in the genes (id. at 214).

If we assume Darwin's theory of natural selection (survival of the fittest), the genes of individuals who behave selfishly (showing behaviour in which they survive) are passed on from generation to generation, while those who behave altruistically (showing behaviour that benefits others at the expense of themselves) have a reduced chance of survival. So, the number of individuals who inherit the latter gene will decrease and should eventually perish. In human society, however, cooperation and altruism are actually observed. In other words, if people who only think and act for themselves predominate, the chances of survival of those who try to help others should decrease, but this is not the case. This can be understood as due to the fact that people often overlook their own selfish tendencies when interacting (interacting) with connected people (id. at 218). Thus, connections arise in people.

In fact, the results of numerous experiments on altruism and cooperation confirm this tendency. In other words, in about half of these cases, people choose to help others at the moment, even if they have no chance of interacting with them in the future. Put differently, if egocentricity always worked in one's favour, then everyone would exhibit egocentric behaviour, but this is not the case (id. at 218). In the real world, where, unlike in the laboratory, intricate human relationships are long-lasting, mutual cooperation (a situation evolutionists call direct reciprocity) can also occur (id. at 218–219).

A second perspective on explaining human connectedness comes from a relatively recent and diverse range of disciplines. One example, which I will not go into detail, is political scientist Robert Axelrod's famous and original study *The Evolution of Cooperation* (1984). There, it was shown that adopting a kind of cooperation strategy, known as a retaliation strategy (tit for tat), is even more effective than always being cooperative or always being selfish. In other words, 'if someone cooperates with you this time, cooperate with them next time, and if someone does not cooperate with you this time, take retaliatory action against them next time (the strategy of reprisal)'. Under this strategy, cooperation (altruism) always occurs (C&F: 219).

Another example is the mathematical model analysis of evolution by Fowler (2005) on how human cooperation develops. It shows that not only do cooperators and fee riders exist, but punishers with altruistic punitive behaviour also rise, leading to a world of increased cooperation and connectedness (and the emergence of altruism in the process) (C&F: 220–221). Incidentally, the online encyclopaedia Wikipedia performs a valuable function as a kind of public good because of the existence of the above three types of actors and the functions they perform.[19]

Furthermore, it has been shown that the tendency of humans to form social solidarity is due to the fact that it is biologically imprinted in the human genes (C&F: 232). This is related to the first reason (evolutionary processes of genes), the results of which can be empirically confirmed in contemporary societies. Namely, in a study conducted by the authors (C&F) on 1110 pairs of twins (drawn from 90,115 students in 142 schools in the USA) to determine the role of genes in social networks (Fowler et al. 2009), it has been shown that genes play a role in defining the structure.[20]

4.3 Social network creates common pool resources

Human society, as we have seen above, is not simply an atomistic set of individuals (an arithmetical sum of individuals). There, individuals constitute a social network with diverse relationships. This allows individuals' knowledge and information to be transferred to each other, amplified and complemented as necessary, so that human society as a whole can fulfil its potential. And, such social networks have the following characteristics (C&F: 290–292).

Firstly, it supplements and stores information communicated between people (norms of trust, reciprocity, oral histories, etc.) and enables, so to speak, arithmetical processes to integrate millions of decisions (determining market prices, selecting the best person through elections, etc.). Incidentally, Hayek (1945), who praised the high function of the market system as nothing less than one large information-processing mechanism, which fulfils its coordinating function when information on demand and supply meet, is a view that emphasises exactly this aspect.

Second, social networks maintain a memory with regard to their structure and functioning (culture: value criteria), even when the metabolism of their members occurs. This communicates what trust is, irrespective of the individual members, and encourages individuals to change their behavioural norms if necessary.

Third, social networks can reproduce themselves as if they were living organisms, transcending place and time. Even if people are replaced, they can reproduce if they know how to connect. And fourth, social networks are often self-repairing (i.e. if part of the network is missing, others will act to complement it).

The function of social networks with the above characteristics can be understood, in other words, as the creation of valuable shared resources. Public goods are goods that are consumed by one person without hindering the consumption of others and without reducing the amount used by others. It is nothing more than a common asset of its members, which has a contrasting character to private goods.[21] In other words, a social network is not merely the arithmetic sum of the individuals who compose it, but has a new value beyond that, an external effect in economic terms. It is also called social capital.[22] It is the basis for the smooth functioning of society. The above three aspects

brought about by human connections (social networks) can be understood as a gratifying gift of this nature.

Furthermore, it needs to be added that while the formation and functioning of social networks is an aspect that generates altruism in humans, it also supports connectedness (C&F: 296). If people do not act altruistically, that is if they do not respond in kind to kindness, or conversely if they are always violent, then social connections will dissolve and the networks that surround us will disintegrate. Therefore, a certain degree of altruism and reciprocity, as well as positive emotions such as love and happiness, are crucial for the emergence and survival of social networks. Furthermore, once a network is established, altruistic behaviour (ranging from small acts of kindness to the donation of transplanted organs) will diffuse within it (ibid.).[23,24]

It should also be recalled that, from the perspective that human beings live in networks, one ethical value—'integrity' (coherence, honesty, sincerity, fairness)—has universality and importance when understanding society (Montefiore 1999). One example of this can be summed up in the expression 'Honesty is the best policy'. This is one of the aphorisms of Benjamin Franklin (US statesman, physicist, and author of the Founding Era) and has become the most well-known proverb concerning honesty. Yukichi Fukuzawa, a leading figure in Japan from the end of the Edo period to the Meiji era and founder of Keio University, listed seven items in his booklet *Daily Teachings* (Fukuzawa 2006) that his sons should learn at home. The first of the seven was 'not to tell lies'. Also, in modern times, the United Nations has three fundamental values as an organisation, one of which is integrity. These are professionalism, integrity, and respect for diversity, and it is stated that when recruiting for the UN's executive staff from all over the world, the candidate are required to fulfil these three values (Okabe 2007b: 82). Integrity is thus a value of universality for human beings and their societies.

In this chapter, we have seen that the perspective of human interconnections or social networks is indispensable for an accurate understanding of human society. The characteristics and importance of this perspective are discussed again in Chapter 5 (Section 5.2) from a broader perspective.

Notes

1 This chapter is based on Okabe (2022a: chapters 6 and 7; 2019b).

2 The Roman philosopher Aurelius, in his *Self-Reflections*, understood the following : 'Everything is interwoven, and the web is holy; none of its parts are unconnected. They are composed harmoniously, and together they compose the world'.(Aurelius 2002 : book 7, number 9, 86).

3 For example, an overview paper discussing how social network structures act on people's behaviour, economic outcomes, and well-being (Jackson et al. 2017), and a study theoretically elucidating the interrelationship between communities and markets from a network perspective (Gagnon and Goyal 2017), among others.

4 If we look at the Japan Economic Association, the largest academic society for Japanese economic researchers, the number of papers (in Japanese and English) presented at the 2019 Spring and Autumn Meetings reached a total of 343 papers. However, among the titles of these papers (including the session titles of the panel discussions), those on networks (paper titles having either network or *kizuna*) numbered five, and those on altruism (paper titles with either altruism or altruistic) only two cases. Furthermore, with regard to networks, most of the articles discussed the networks of companies or supply chain systems, and almost none of them took the perspective of trying to understand society by focusing on human networks or altruism.

5 Okabe (2017a: 36–37). For the details of formulation and its problems, see appendice 1 and 2 of Okabe (2019d).

6 Christakis is Professor of Medicine and Professor of Sociology, Harvard University, USA (at the time of publication of the book. He is currently Professor at Yale University, USA). Fowler is Professor of Medicine and Social Sciences at the University of California, San Diego, USA. Christakis was listed as one of the '100 most influential people in the world' by *Time* magazine (2009) and on Foreign Policy's list of 'best global thinkers' (2009 and 2010).

7 Incidentally, a review of the book on Amazon on the internet shows that 394 people have posted ratings for the book, many of them to the effect that the book 'radically changes the conventional view of humanity', with the percentages (%) from 5 to 1 star on a 5-star scale, with the resulting point of 61, 21, 11, 3, and 3, respectively (the average of all ratings is 4.3 stars, as of 14 November 2022).

8 Examples of complex networks include: (1) cellular networks (sustaining life); (2) neural networks (the workings of the brain); (3) communication networks (the interaction of communication devices); (4) power networks (the links between generators, consumers, and power lines); (5) trading networks (the mechanisms for exchanging goods and services) and (6) social networks (the mechanisms through which professional, friendship, and family ties diffuse knowledge, behaviour, and resources). The results of network science (which has at its core the mathematical theory of graphs) have had a significant impact on these various fields. For an overview, see Barabasi (2016: chapters 1 and 2).

9 In this publication, these two expressions (human connections, social networks) are used interchangeably.

10 In this chapter, the book by Christakis and Fowler (2009) will be referred to below as C&F for simplification.

11 On the validity of the six degrees, etc., see Christakis and Fowler (2009: 26–27), Wikipedia 'Six degrees of separation' (https://en.wikipedia.org/wiki/Six_degrees_of_separation), and Barabasi (2016: figure 3.12).

12 A US online social media and social networking service, the flagship service for which Facebook, Inc (based in California, USA) is named. The company changed its name to Meta Platforms, Inc. in 2021.

13 When religion is seen as 'a connection with a Higher Power beyond human knowledge', it can be understood as having a stabilising role in social connections. For more information, see Okabe (2022: appendix 5-2 in Chapter 5).

14 The study sample was 12,067 people selected in the US state of Massachusetts.

15 For example, this research is also presented as an example of 'Complex Contagion' in the major book *Network Science* (Barabasi 2016: box 10.2, 408), a comprehensive compilation of network theory.

16 BMI is weight (in kilograms) divided by height (in metres) squared. A normal BMI is 20–24, 25–29 is overweight, and 30 and above is considered (morbidly) obese.
17 Data from an exhaustive survey of residents of Framingham, MA, USA, conducted biennially since 1948 by Harvard University medical researchers on body size and various factors in order to determine the causes of cardiovascular disease.
18 Furthermore, Christakis and Fowler (2007) found that: (1) when adult siblings are observed on a one-to-one basis, obesity in one increases the likelihood of obesity in the other by 40%; (2) obesity in one spouse increases the likelihood of obesity in the other by 37%; (3) these trends are not observed between geographical neighbours (social distance has a greater effect than geographical distance); (4) these effects are relatively more widespread between people of the same sex than between people of the opposite sex; and (5) there is no relationship between the spread of smoking cessation and the spread of obesity within the network.
19 For the reasons for this, see Okabe (2022a, appendix 6-2 of Chapter 6).
20 For example, the results include: (1) people with five friends have a different genetic make-up compared to those with only one friend; (2) genetic make-up also influences position in a social network (central or peripheral position); (3) it influences patterns of friend connections (transitivity); and therefore (4) demonstrate that there are aspects of human group formation in which genes are involved (heritability) (C&F: 232–235; Fowler et al. 2009: 1720).
21 For more information, see footnote 37 of Chapter 6.
22 See Okabe (2017a: chapter 10, section 5) for more information on its components, functions, and attribution.
23 For example, charitable foundations (charity) are an example of acts of kindness performed through networks. Incidentally, approximately 89% of all households in the USA give to charity each year, with an average annual donation of USD 1620 in 2001 (C&F: 296–297). Globally, the non-profit sector is also a much larger economic force than common sense would suggest (Okabe 2017a: 313–317).
24 In Japanese society with an accelerating ageing population and declining birth rate, the demand for various services for the elderly (e.g. nursing care, medical care for the elderly) is growing rapidly, and it makes more sense to respond to these demands based on a sense of community than on competitive principles (Akiyama and Miyagaki 2022).

Part II

Overview of *economics for humanity*

5 Towards *economics for humanity*

In the above four chapters, it is specifically argued that while modern mainstream (neoclassical) economics has strengths, it also has weaknesses or major problems when viewed as a discipline concerned with human beings.

On the one hand, modern economics has come to be known as the 'queen of the social sciences' for its rigorous application of the 'scientific' method, by defining man simply as *homo economicus* (economic man) (Chapter 1). On the other hand, Adam Smith's broad view of human beings has been misunderstood (Chapter 2), oversimplified to the extent that human beings are selfish beings (Chapter 3), and that society is seen as an arithmetic set of such individuals, missing the important perspective of the interconnectedness of human beings (Chapter 4).

This chapter puts the above issues into a larger framework and considers what new direction economics should take as a discipline concerned with human beings. To this end, Section 5.1 shows that there are three ways of thinking as a framework for understanding human behaviour patterns and society, and argues that the network concept is important for understanding human society. Next, Section 5.2 draws out suggestions for incorporating the social nature of human beings by taking up and examining four suggestive books that extensively discuss what human beings and socioeconomic institutions should be. And, in Section 5.3, it is argued that, based on the above, 'economics' needs to be transformed into 'economics for humanity', a humanistic discipline that incorporates a wider range of human nature.[1]

5.1 Limits to methodological individualism

The previous chapter has sketched out the diverse aspects of human beings if human society is viewed from the perspective of connections (social networks) based on the results of modern network science. This provides a very different picture of man and society from mainstream economics, which is founded on an atomistic view of man (methodological individualism).

To illustrate this more clearly, the following section takes three representative perspectives for understanding the relationship between the individual

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and society (methodological individualism, methodological collectivism, and social network science), and contrasts each of these ideas and their view of society (Table 5.1).

5.1.1 Two traditional perspectives

Of the three perspectives, the traditional perspectives are the first two listed above. The first is 'methodological individualism', a position that understands

Table 5.1 Understanding human behaviour patterns and society: three contrasting perspectives

	Methodological individualism	*Methodological holism*	*Science of social networks*
Human behaviour	The individual is an independent being and every human being acts selfishly and rationally. Social ties themselves have no value. Human beings are characterised as *homo economicus* (economic man), and are understood to maximise utility through increasing consumption of goods and services.	Human beings do not act independently as individuals, but as members of a group to which they belong (class, race, etc.), and all members of that group act identically. Collective action in society inherently exists. It is not necessary to preach from individual behaviour.	People always have social networks (connectedness). It is an essential human behaviour, and is underpinned by genetic evolution. Networked human being (*homo dictyous*) or social human being (*homo socialis*).
Relationship between individual and collective action.	The behaviour of human groups and social phenomena can be understood by attributing them to the choices and actions of individuals, which is both possible and important. Examples are markets, elections, riots, etc. Macrosocial phenomena have a microfoundation.	An individual's behaviour is determined by the group to which the individual belongs, not by his or her own decisions. The behavioural patterns of social groups differ from group to group.	When people form a social network, valuable shared resources (such social relational capital as trust, discipline, reciprocity, and altruism) are created. In social networks, the individuals influence each other.

Table 5.1 (Continued)

	Methodological individualism	*Methodological holism*	*Science of social networks*
Relevant academic discipline and lead advocate	Modern mainstream (neoclassical) economics, some political science (public choice theory). Adam Smith, *The Wealth of Nations* (1776). Although, his other book *The Theory of Moral Sentiments* (1759) assumes a broader view of human nature. Max Weber, *Economy and Society* (1922), where the author expands discussions using the term of methodological individualism.	Economics (in part) and sociology. However, very few researchers genuinely support this perspective at present. Karl Marx, *Das Kapital* (1867), claimed that the behaviour of capitalists and workers are each collectively unique. Emile Durkheim, *Theory of Suicide* (1897), explained suicide not as an individual human psychology, but on the basis of characteristics of the social group.	Modern network science. It encompasses a wide range of research findings in psychology, mathematics, medicine, neuroscience, biology, evolutionary biology, cultural anthropology, and genetics. Nicholas Christakis and James Fowler (both US medical doctor and sociologist), *Connected* (2009). Albert-Laszlo Barabasi, *Network Science* (2016).
Advantage	Theoretical coherence, since all social phenomena (e.g. macroeconomic trends) are explained as an accumulation of individual behaviour. Mathematically rigorous analysis is possible.	It may be possible to provide own explanation in explaining the origin and the function of some social phenomena (norms, culture, social networks).	A more expansive understanding of human motivations for action than before (introducing altruism, reciprocity and goodwill rather than assuming only selfishness). Logical integration of methodological individualism and methodological collectivism. Theory building on the results of contemporary adjacent sciences.

(*Continued*)

Table 5.1 (Continued)

	Methodological individualism	*Methodological holism*	*Science of social networks*
Disadvantages, future challenges.	The theory is too simplistic in its view of human beings (basically discarding all but selfish and rational behaviour). Other motivations for human behaviour (altruism, human interconnectedness, etc.) need to be taken into account. Also, it is necessary to take into account the ultimate pursuit of happiness, not just material wealth.	Even if human behaviour can be explained at the group and social level, it is difficult to explain it in relation to individual behaviour. Generally methodological or philosophical discussions prevail. It is necessary to reexamine the perception by incorporating the results of rapidly developing key academic disciplines.	If this perspective is applied to economics, the character and perspective of economics could be greatly expanded. However, this is a future challenge for economists.

Source: Based on Christakis and Fowler (2009: 302–305), Heath (2015), Zahle (2016), Basu (2008), Kincaid (2008), Okabe (2017a: 36–37) and author's other recent studies.

that even collective human behaviour is entirely the result of individual choices and actions.

For example, when we look at social phenomena such as markets, elections, and riots, we take the viewpoint that they are nothing more than the result (by-product) of the choices made by individuals to buy and sell, to vote, and to express their anger, respectively. The human beings assumed there are rational, selfish, egocentric, and greedy, and social connection is not a meaningful concept, nor is concern for the well-being of others (altruism) (Christakis and Fowler 2009: 222). This is nothing more than a conception of contemporary mainstream economics. In other words, as mentioned above, this kind of human and social analysis (naive reductionism) is overwhelmingly supported there, as an 'analysis with a microfoundation' and even made a requirement when understanding overall economic phenomenon (see Section 1.2 of Chapter 1; Okabe 2017a: 36–37).

The second perspective is 'methodological collectivism' (methodological holism). This is a position that understands that human behaviour as a group

focuses on groups (class, race, etc.) without taking individuals into account, and that people within groups behave identically because each group has its own uniqueness. For example, Karl Marx, who wrote *Das Kapital* (1867), argued that capitalists and workers each behave in their own group, which is a typical idea. However, only a very few researchers or areas of social science genuinely support this viewpoint today.

5.1.2 View of human society based on network science is needed

In contrast to these two contrasting perspectives, 'social network science', introduced in Chapter 4, provides a third perspective that offers a completely new view of human society (see Table 5.1).

This is because, in that perspective, (1) society is understood to be constituted by both individuals and collectives, and (2) it is clearly shown how individuals become collectives. In other words, social network science is a logical integration of the methodological individualism and methodological collectivism described above. And there, the fact that we are part of a social network (embeddedness[2]) is of first importance, and thus the need to understand the aspirations of people other than ourselves (i.e. altruism) enters logically (Christakis and Fowler 2009: 222).

Furthermore, such a new perspective is characterised by the fact that it is an up-to-date understanding that has emerged while drawing on recent research findings in diverse disciplines (psychology, mathematics, medicine, neuroscience, biology, evolutionary biology, cultural anthropology, genetics, etc.). Thus, the human being assumed here is not *homo economicus* (economic man), but *homo dictyous* (network man) or *homo socialis* (social man) (id. at 221–223).[3]

Details of the above three modes of human behaviour and the corresponding social perspectives (e.g. individual and group relationships, main advocates, strengths, and weaknesses) for each are listed in Table 5.1.

5.1.3 Future directions in economics

The human image, *homo economicus*, assumed by current mainstream (neoclassical) economics is certainly useful in economic analysis and allows for rigorous mathematical analysis, as has been repeatedly mentioned. The public policy prescription derived from it usually lead in a simple and clear direction (utilisation of market functions and deregulation).

However, this view of human beings is too one-dimensional. Humans are socially connected beings and form various forms of communities. For instance, families, work colleagues, circles of friends, neighbourhood groups of individuals, voluntary organisations, virtual communities on the internet, etc. As a result, people often act with others in mind, while they may also be influenced by others. Modern mainstream economics needs to recognise the possibility of such new perspectives or social views and construct an economic

view of society that incorporates them. The author would like to argue that the 'three-sector model' for understanding society developed in Chapters 6 and 7 of this book is thus a more realistic and accurate way of understanding society that incorporates this idea.

Here, although somewhat sidetracked, the author would like to express his views and hopes on economics research in Japan, since the research trend has been somewhat different from those in the USA and Europe. First, the current situation of economics research in Japan has a significantly greater weight of traditional neoclassical assumptions and ideas than those in Europe, or even in the USA.[4] Secondly, therefore, in Japan, there is a need as well as much more room for making economics more humanised.[5]

For many years in Japan, since the period of rapid post-war economic growth (roughly 1955–1972), the good tradition has been that 'Japanese companies value people'. For this reason, in the social sciences (e.g. business administration), traditional corporate management in Japan and the Japanese-style business administration that emerged from it often reflected such aspects, which attracted attention from Western economists and management scholars.[6] Given this tradition in Japan, it is sincerely hoped that Japanese social sciences, especially economics, will broaden their scope as an academic discipline again in the future, by adding a human element.[7]

5.2 Introducing aspects of *homo socialis*

In this section, four relatively recently published books will be discussed and implications will be drawn from them in order to broaden the perspective on how human nature and socioeconomic systems are perceived.

We have selected such books that: (1) are generally available in Japanese or English, (2) offer the perspective from which society is perceived today or in the future, (3) have already received a certain degree of recognition from readers, and (4) as a whole reflect the results of diverse academic fields.[8] Table 5.2 summarises the main issues in each of these four books

5.2.1 Implications for human nature and socioeconomic systems

Although the four books differ greatly in terms of academic disciplines on which they stand, a broad view reveals three clear basic similarities.

5.2.1.1 The unrealism and inappropriateness of the 'economic man' assumption

First, the standard assumption of a *homo economicus* ('economic man': a greedy, selfish, rational human being) in economics is harshly criticised in all four books for how unrealistic this assumption is and how distorted public policy becomes as a result.

If we put the 'economic man' assumption, it is certainly useful as an economic theory from the perspective of methodological individualism, since

Table 5.2 How to understand socioeconomic institutions: four perspectives

		Perspectives on human society	*The reason*	*Assessment and issues*
A	Jinno (2010). [Japanese economist and public finance specialist].	It is necessary to understand that society is made up of three subsystems (economic, political, and social systems). The 'social system' (charitably motivated organisations) is poor in Japan and should be expanded.	Neoliberal policies have been promoted in Japan in recent years, and the negative aspects of these policies have become more pronounced. The solution is to improve the 'social system' (Sweden's success is a good example).	The limitations and challenges of the market-driven policy in Japan in recent years are appropriately pointed out. It is proper that the author proposed three-sector model to understand society. On the other hand, scientific evidence is lacking for the extent to which 'sharing' is human nature.
B	Hiroi (2015) [Japanese economist and public policy specialist].	There are three principles of people-to-people relationships (private, public, and communal). Society must therefore be understood as consisting of three sectors (market, government, and community) that reflect the principle.	Capitalism has so far combined a market economy with an expansion and growth orientation. This has resulted in major problems of: (1) exploitation of natural resources and (2) inequality of opportunities, income and assets. To correct this, an emphasis on communities and community economies is necessary and essential (as has worked in Germany and Denmark).	The multifaceted logic of combining the history of capitalism and the character of modern science is convincing. Also proposed is a new scientific or 'geo-ethical' perspective. On the other hand, despite being a small book, the viewpoints are remarkably diffuse, making it difficult to follow the logic of the book as a whole.

(*Continued*)

Table 5.2 (Continued)

		Perspectives on human society	*The reason*	*Assessment and issues*
C	Granovetter (2017). [US sociologist and economic sociologist].	Economic behaviour is only one aspect of human behaviour and it is basically impossible to understand human society merely on economic basis. Human beings exist in social networks, so it is necessary to understand society in a theoretical model that is consistent with this view.	Economists see humans as self-interested agents guided by quantifiable incentives, but their understanding (methodological individualism) is too narrow. Human society should be understood to include economic factors as well as the mutually influencing social factors (trust, norms, values, institutions, etc.).	It is reasonable to reject the view that man is an atomistic being who lives selfishly, while insisting man should be understood as a being who lives in a social network. On the other hand, although it is claimed that the simultaneous pursuit of all goals is possible, no concrete model for this is presented in the book (the book remains entirely abstract textual descriptions).
D	Collier (2018). [British economist specialising development economics].	Contemporary Western society is deeply divided on three fronts (urban and rural, elite and non-elite, and between nations) and needs to be repaired. This requires policies that restore ethical behaviour to all three: the state, the corporation and the family.	Capitalist societies must be ethical. It is therefore possible to deal with the phenomenon of social fragmentation if it is based on mutual human commitment. In the 1930s, capitalism could be restored through policies such as Keynesianism, so it can be restored again this time with a realistic and comprehensive response.	The argument that the majority of human beings are not simple 'economic man' but a little more mature (also emphasising consideration for others, fairness, honesty, freedom, etc.) makes sense. On the other hand, it is somewhat questionable whether an exhaustive policy package (ethical state, business and family) is really a pragmatic one.

Note: Prepared by the author based on the above four books.

it allows for a simple and logical development—individual behaviour can be mathematically attributed to a 'conditional maximisation problem'.[9]

However, it is argued in all four books that this limits the motivation for human action too much and misrepresents the nature of human beings. The common understanding of them is that humans have economic and non-economic (social) goals, and that humans are beings who adopt behaviours that simultaneously achieve these goals. In other words, it is necessary to understand the society on the basis that humans live in a social network (a perspective that incorporates the existence of others, from which norms, trust, etc. emerge), as emphasised by Book C in the diagram. It is also necessary to understand that humans do not act solely from selfish motives, but that there is an aspect of behaviour (i.e. ethical behaviour) that reflects the commitment of humans to each other, viewing them as a little more mature beings (Book D).

5.2.1.2 Narrow-mindedness with a bias towards neoliberal economic policies

Second, mainstream economics conceives of economic mechanisms and economic policy with the market function at its core, and thus promotes deregulation and free competition, but these policies are denounced in the above four books as neoliberal policies. Such policies have resulted in the spread of income inequality and poverty and the widening gap in treatment between formal and informal employment in the labour market (Book A). They have also made people aware of the finite nature of the Earth's resources and have resulted in the widening of large disparities by country, which does not bring about human happiness and spiritual fulfilment (Book B).

The social divisions thus generated can be addressed on the basis of a communitarian ethic by switching to policies that value mutual human commitment, rather than by market fundamentalism (Book D). And, such policies that do not rely on neoliberalism are politically positioned as social democratic policies (ibid.). In Sweden, as well as in Germany and Denmark, such policies have been introduced, and as a result have been evaluated as successful in bringing about a humane life (Book A, Book B). This can be seen as a major lesson for Japan's economic policy.

5.2.1.3 The need to understand society by a three-sector model

Third, if humans are understood as beings living within a social network, then economic society needs to be understood not according to a two-sector (market/government) model, but according inherently to a three-sector (market, government, and community) model.

In mainstream economics (neoclassical economics), as mentioned above, it is customary to understand society through a two-sector model based on the 'economic man' assumption. However, there are diverse aspects of human motives for action. In other words, there are communal or charitable motives (Book A) and the existence of the three principles of 'private, public, and

common' (Book B) in relationships between people, which makes it essential to take the viewpoint that human beings live within a social network (Book C). In addition to consideration for others, ethics such as fairness, honesty, freedom, and integrity are also said to influence human behaviour (Book D).

All of these perspectives strongly suggest the need to consider the existence of a third sector (or the existence of such elements within existing sectors). In the case of Jinno (2010: Book A), for example such a third sector is named the 'social system' (common economy), in contrast to the economic system (market economy) and the political system (government or public finance), as mentioned above.

However, in terms of both clarity of the meaning and the conventional terminology, the expression 'market, government' and community', as used by Hiroi (2015) would be most appropriate (as suggested by Karl Polanyi. See Figure 6.2). Incidentally, the present author has traditionally advocated the concept and used the naming of 'three-sector model' (Okabe 2009b: figure 3; 2017a: figure 4-3), so that it will be used in this book also (Chapter 6). As we show later in the book, understanding society through three-sector model gives not only accurate description of human society but also can lead to a more appropriate public policy than by two-sector model. Theoretically speaking, a higher level of social welfare can be brought about as an equilibrium (Okabe 2017b: appendix 1). This is one of the core points of the book and is discussed in somewhat more detail in Chapter 7, Section 7.3.

It turns out that the arguments of the above four books have at least three clear basic commonalities, as described above. These are: (1) the unrealism of the assumption of the 'economic man', (2) the narrowness of vision of neoliberal economic policy, and (3) the need to understand society by a three-sector model. They jointly suggest the direction toward the necessity of 'economics for humanity', as introduced in the next section and to be detailed later in Chapters 6 and 7.

5.3 From economics to *economics for humanity*

In the above, we have pointed out some of the problems facing modern mainstream economics and sought directions for improving them. What became clear is that: (1) mainstream economics has unfortunately not succeeded the human and social views of Adam Smith, the founder of economics; (2) it is based on the narrow human image of the 'economic man' (methodological individualism) when it comes to understanding the nature of society; and (3) there are some recent researchers who argue for a research orientation based on the 'social man' rather than the 'economic man'.

Under these circumstances, this section will sketch a sense of the direction that economics should pursue in the future, i.e. an economics that takes in the broad human nature into account.

5.3.1 Man as a social being

To summarise Adam Smith's writings first, his system of thought teaches the importance of viewing man as a 'social being' (Dome 2008: 270). Social being is the view that man is a subject who is interested in the feelings and actions of others and tries to empathise with them (ibid.). Societies constitute, create and operate morals and laws by such people. This is quite different from the image of human beings assumed by mainstream economics (an atomistic view of human beings and a view of society based on it, in which they act selfishly and without concern for others).

From which standpoint should we understand people and society? The simple and incisive approach of mainstream economics naturally has numerous advantages. However, there are still significant limitations in the way it assumes human beings, and therefore the public policy theories derived from that analysis (an emphasis on efficiency generated by competition) may neglect human values and conflict with ethical issues (the last point is discussed in the next section). Naturally, a multifaceted discussion is needed to address these issues, but here, we would like to suggest one basic direction for the future of economics.

5.3.2 Switching from an economic man to a 'social man'

First, it is necessary to change the basic assumptions of the human image. The conventional viewpoint of understanding human beings assumes an economic man (*homo economicus*) who acts selfishly and rationally, and positions man as an isolated existence detached from society. In contrast to this, it is necessary to introduce the image of the human being as a 'social person' (*homo socialis*), a person who acts also in relation to others (Bowles 2016: 41).

This is because it is more accurate to understand human nature (motives for action) as a human being who acts also in consideration of relationships with others (as argued by Smith above), rather than as an economic man as assumed by conventional economics. And indeed, according to various examples and experimental results, few people in any human group consistently pursue self-interest alone, and moral and consideration-for-others motives are widely observed (Bowles 2016: 41). On this basis, various public policies can be designed to be more human and more effective (ibid.).

5.3.3 From economics to economics for humanity

Second, the scales by which the society is assessed also need to be changed. In traditional economics, economic rationality, especially efficiency, is an important concept, and in many case, it is the basis for judging the state of society and public policy. However, efficiency does not solve all ethical problems, nor is the economic dimension paramount for many issues (Morson and Schapiro 2017: 3). Economics inevitably involves ethical issues that cannot be attributed

to economics itself. It is, as Smith pointed out, a concern for others as well as a concern for oneself, and therein lies the core of human nature (ibid.: 10–19). For example, a healthy respect for ethics is one of the conditions originally required of economics (ibid.: 10–13), but mainstream economics deliberately avoids entering into it, which requires a reconsideration.

Behavioural economics, which has gained momentum in recent years, is certainly an advance in that it has questioned the core assumptions of mainstream economics (rationality of human behaviour) and pioneered a new approach of first observing human behaviour, as mentioned above.[10] However, while there is an emphasis on how people actually behave (real behaviour: 'does'), it does not go into the content of how people should behave (ideal behaviour: 'should'). That is, it is not accompanied by a normative debate (the importance of the latter has been obscured so far in economics). Behavioural economics is therefore in some ways on the same footing as mainstream economics and cannot be assessed as pointing in the direction of incorporating human nature (Morson and Schapiro 2017: 262–289).

To address this, behavioural economics also needs to be supplemented, where necessary, by insights from the humanities (ibid.: 286–287). In current behavioural economics, cultural influences are rarely taken into account[11] and research is often conducted from the perspective of human behaviour in general, i.e. from the viewpoint of human beings as an organism rather than as people (ibid.: 272). For economists, ethical judgements are usually understood to be external to their own area of expertise (ibid.: 289), which gives the impression that they are exempt from research.

However, if economists were to seriously try to incorporate the wisdom of psychology, philosophy, sociology, anthropology, the various sciences and, above all, the humanities into economics, economic analysis would be much richer than it is now (ibid.: 290), and economics could become a 'humanistic economics', 'humanomics' (ibid.: 288; Smith and Wilson 2019: 2), or *economics for humanity*, i.e. humanistic social science. In public policy analyses also, it can also lead to recommendations that take into account cultural and ethical values that are integral to human beings,[12] rather than just providing prescriptions inclined towards efficiency supremacy.

Also, it should be pointed out that the research philosophy of the mainstream economics, especially those of Anglo-American economics, has an apparent contradiction to the reality of their societies. Namely, the relative size of workers in non-profit sectors in these well-developed economies is significantly larger than in the case of less developed economies (see Figure 6.3 in Chapter 6). So that, it would have been natural that the economic research in these well-developed economies should have paid more attention to non-profit sector. Put differently, Anglo-American economic research has some internal contradiction in this sense, because it should have paid more attention, not less attention as is actually the case, to non-profit sector than in the economic research in other countries.

'Economics is essentially a moral science' was Keynes' view (Atkinson 2009: 791), which needs to be recalled again today. However, recent economics has been corrupted in avoiding value judgments (ethical standing) in order to facilitate discussion (ibid.: 794–799). For example, (1) it treats representative individuals by assuming from the outset that there are no differences in individual preferences or conditions, (2) it assumes from the outset that the criteria for judging welfare are the same for everyone, (3) it does not judge the level of welfare, but rather whether a certain response will improve or worsen the initial level of welfare (if it decreases the welfare of one member of society, it is judged to be a deterioration).[13] There is a great concern that policy judgements will be trivialised under such a conception. Shouldn't economics be more willing to adopt highly generalised value judgements and develop constructive debate?

5.3.4 Two problems facing modern economics and the modification: 'economics for humanity'

If we take in some of the above broad perspectives, we may be able to cope with two problems facing modern economics that Amartya Sen has pointed out so sharply.

The first problem Sen points out is that modern economics has too narrow a view of the genuine motives of human behaviour (narrowness in understanding human motives for action). For many years, economists have understood society by constructing a model that sees human motives for action as pure, simple, and robust (i.e. acting selfishly and rationally) and excludes unwieldy aspects such as good intentions and moral emotions (Sen 1987: 1). However, the criticism is that the motives for human behaviour in reality are diverse and that it is highly unusual for economics to have developed in such a narrowly defined way (ibid.). This criticism can be addressed if the above-mentioned image of human beings is assumed in economics or the social sciences.

The second problem is that modern economics has been transformed into a discipline of an 'unethical' character (deliberate unethicality), which has extremely narrowed its original disciplinary vision and excluded ethical elements (Sen 1987: 2). Historically, economics was originally supposed to evolve as a tributary (offshoot) of ethics (ibid.: x), as indicated by the fact that Adam Smith, the founder of economics, was a professor of 'moral philosophy' at the University of Glasgow (Scotland).[14] However, modern economics has consciously tried to be a discipline of an 'unethical' character, which has resulted in a major discrepancy with its historical evolution (ibid.).

In light of these criticisms, a call for a 'return to Adam Smith' may be exactly what is needed for contemporary economics. In the following Chapters 6, 7 and 8, the author will present his own research endeavour toward 'economics for humanity', in this spirit.

Notes

1 This chapter is based on Okabe (2022a: chapter 8; 2016a, 2017b).
2 A term in economic sociology, created by economic historian Karl Polanyi. It refers to the degree to which economic activity is constrained by such non-economic institutions as kinship, religious, and political institutions (Wikipedia 'Embeddedness').
3 *Homo socialis* view is suggested also in Bowles (2016), as already discussed in Section 2.1. More broadly, it has also been suggested that the formation of groups and shaping of society by humans has its origins in the human evolutionary process, and thus all humans have an evolutionary blueprint in their genes for building a good society within themselves (Christakis 2019: xxi).
4 For specific manifestations of this, see Chapter 1, Section 2-2. See also Okabe (2017a: 44–48) for the reasons for these trends.
5 Incidentally, although there are a considerable number of Japanese Nobel Prize winners in five fields other than economics (28 in total, including a Japanese-born American), economics is the only field where there are currently no winners.
6 For example, *Japan As Number One: Lessons for America* (1979) by Harvard professor Ezra F. Vogel is a classic example.
7 For reference, a look at the programme for the American Economic Association's 2020 annual conference shows that, in addition to a number of sessions on traditional themes, there are also sessions from multiple perspectives not easily seen at the Japanese Economic Association' meetings. For example, 'Beyond GDP', 'Deaths of Despair and the Future of Capitalism', 'Culture and Norms', and 'Economics for Inclusive Prosperity' (each of these sessions will feature around five Nobel Prize winners or similar leading researchers, in addition to a number of European participants).
8 For more details on the specific selection criteria, as well as some details on each of the four books, see Okabe (2022a: chapter 4).
9 See Chapter 1, Section 2.
10 See Chapter 1, Section 1.
11 However, there are also studies in behavioural economics that attempt to include culture and altruism in their scope (Kubota et al. 2012; Lee et al. 2013), and future developments are expected.
12 In the pursuit of happiness, maintaining a virtue ethic becomes important (Sachs 2013).
13 Expressed in welfare economics terms, judgments should be made according to whether or not they result in a Pareto improvement (Pareto improvement). However, it should be noted that the Pareto approach places too much emphasis on individual welfare, and social decisions may outweigh individual welfare (e.g. value goods may generate positive externalities) (Atkinson 2009: 797).
14 The middle door of *The Wealth of Nations* lists, the author's (Adam Smith's) title is printed as 'Professor of Moral Philosophy in the University of Glasgow'.

6 Three-sector model of the economy

In the previous chapter, we pointed out that current mainstream economics lacks in considering important human nature (in particular, a sense of social connectedness and altruism), and argued from various perspectives that new economics incorporating these elements is required for economics to become a fruitful science. This chapter then discusses that direction in some detail. Broadly speaking, the basic social view of mainstream economics can be understood as utilising a framework of 'market and government' (two-sector model), so that we will discuss the necessity of expanding it to a social view of 'market, government, and community' (three-sector model).

In Section 6.1, the basic elements of the two-sector model as well as of the three-sector model are outlined; in Section 6.2, we show that the idea of the three-sector model provides a basic perspective for understanding human society, since it has an economic anthropological basis; and in Section 6.3, we explain the characteristics of the third sector (community or non-profit sector). In Section 6.4, we focus specifically on non-profit organisations and clarify their requirements and reasons for existence.[1]

6.1 Expanding to a three-sector model

When society is understood as an economic system, the dichotomy of 'market or government' has traditionally been adopted. In other words, in markets, people, and companies operate based on selfish motives and profit maximisation, respectively, while governments act to compensate for the 'market failures'[2] that occur in such cases.

This perspective, which sees society as being constituted by markets and government, can be called the 'two-sector model', although it is rarely dared to be called by such a name. This is a clear but obviously oversimplified picture. It is because, as we have already seen in Chapter 3, there are times when the pursuit of altruistic as well as selfish motives or other values (such as happiness, which is, generally speaking, a real value for human beings) is a major concern for human beings, and there are many different entities and institutions in society that are based on these motives. Examples include families, various

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private groups, non-profit private entities, non-governmental organisations, and intermediary entities that are neither government nor business (e.g. organisations classified in the area of the third sector). These can be broadly understood to be the various 'communities' of which humans are a part.

In mainstream economics, these have been excluded from view for analytical convenience. However, if society is understood by ignoring them, this naturally entails significant costs in terms of understanding the actual society and of academic study.

6.1.1 Extension from two-sector model to three-sector model

If the above-mentioned realities are taken into account, a new framework is needed when understanding socioeconomic systems. Society should not be understood merely in terms of a market (private sector) and government (non-private sector) configuration, but should actively include not only market-related actors (individuals and companies) in the private sector, but also communities or the various NPOs. In other words, it is essential to understand the nature of society to actively position the community sector as a third sector, which is neither the market sector nor the government sector. Thus, society should be understood to be composed of these two private sectors (market and community) plus government, namely by 'three-sector model' which we propose in this book.[3] [4] The three-sector model here refers to a view of society that sees society as consisting of three sectors (market and government plus community), as opposed to the two-sector model, which understands society as consisting of two sectors (market and government).

Put simply, the author believes that the three-sector model is a perspective from which society can be better understood, and that it is one of the most intuitive and relatively easy directions in which to integrate existing social sciences. This is illustrated in Figure 6.1.

First, Figure 6.1A is the traditional understanding of society in economics and can be described as the 'two-sector model'. Under this view of society, households and companies are understood to act selfishly and decentralised in the market, which is a mechanism for pursuing 'efficiency'. On the other hand, the government is recognised as having a centralised authority to deal with various problems associated with such private sector activities (such as the provision of public goods that cannot be solved by the market function) and as acting as a compensator for such problems with coercive power. Governments have therefore been understood as actors with a role in pursuit of 'equity'.[5]

In contrast, this book argues that Figure 6.1B is a more valid way of understanding society. In other words, it emphasises that intermediate groups and organisations (collectively called 'communities') that do not fall under either of the traditional dichotomies (market and government) exist in reality in a diversity and scale that cannot be ignored, and that the actors that make up these sectors and their motives for action are also very different from those of markets and governments. In other words, in contrast to the market, where individual selfishness is manifested, the community, when viewed in

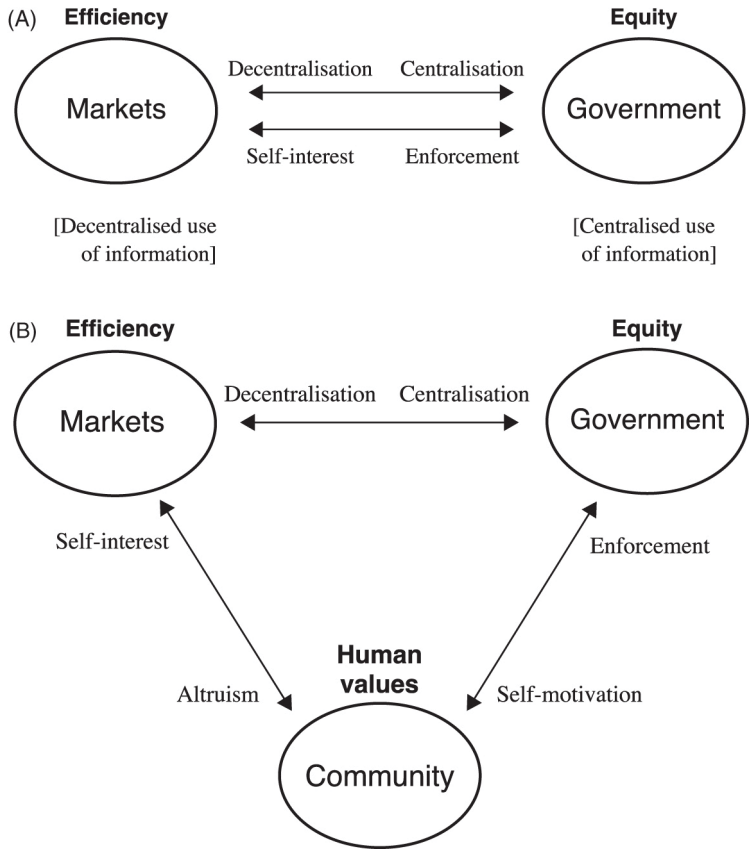

Figure 6.1 Understanding human society: (A) conventional and (B) desirable perspectives.

Souce: Figure 4-3 in Okabe (2017a: 99); original figure is figure 3 in Okabe (2009b:38).

perspective, is characterised by 'altruism' as its principle of action, and by 'voluntarism' as its behavioural feature, rather than by the use of coercive force, as in government. In these 'communities', the basic principle is that people act autonomously or altruistically, and the motivation for action differs significantly from the other two sectors in that human value, such as self-realisation or happiness, are important. Therefore, this sector can be positioned as a 'new private sector with a public character', that is different from both the traditional private sector or public (government) sector.[6]

6.1.2 Overview of the three-sector model

The three-sector model presented as above certainly gives more concrete image of the nature of human society. To make it sure, let us think in turn about what kind of characteristics and traits each sector (see Table 6-1).

Table 6.1 Three sectors that make up society: the nature, characteristics, and challenges

	Markets	*Government*	*Community*
Representative entity	Individuals and companies.	Central and local governments.	NPOs and NGOs, cooperatives, commons.
Expected functions.	Supply of private goods and services.	Supply of public goods and services.	Contributions in various areas that can be addressed more effectively than markets and governments. Human values (spiritual richness and solidarity).
Objectives to be pursued.	For individuals, material wealth. For companies, the pursuit of profit (efficiency, effective use of resources).	Equity of income and assets. Macroeconomic stability.	Contribution in areas that can be addressed more effectively than markets and governments. Human values (Mental richness and solidarity)
Responding to information	Individual entities hold information in a decentralised way and act on the basis of these information. No need for centralisation.	Government acquires information from the private sector and collectively utilise it in implementing public policy.	The information response format is intermediate (participants share and act on it).
Code of conduct	Individualism and decentralisation Selfishness (private interests) Importance of competition	Centralism (concentration of authority) Control by coercive force (legal and administrative powers)	Voluntariness, altruism, and reciprocity Trust and reputation are important.
Values emphasised	Freedom of action. Efficiency through the market mechanism.	Equality. Stability	Co-creation Common interest

Table 6.1 (Continued)

	Markets	*Government*	*Community*
Occurring issues.	'Market failure' (inability to supply public goods, generation of monopoly power in the market). Widening inequalities in personal income and assets.	'Government failure' (inefficiencies associated with lack of skills and competition). Since government is an entity entrusted by the people, agency costs (the conflict between the public official's position as an agent of the public and his or her pursuit of personal interests) are entailed.	'Communal failure' (inadequate enforcement and inefficiency; due to the diversity and inadequacy of organisational governance). The possibility of a permanent shortage of available financial resources.
Responding to problems	Application of antitrust law (elimination of concentration of economic power). Income redistribution policies by the government.	Competitive tendering rather than negotiated contracts in government projects. Improving transparency and objectivity by making information on government activities publicly available.	Clarification and strengthening of the position of non-profit organisations (improvement of public understanding and expanded legislation). In Japan, in particular, the challenge is to raise public understanding and awareness in this area.

Source: Based on Okabe (2022a: figures 8-2, and 9-1).

6.1.2.1 Basic nature of each of the three sectors

In modern societies, the first and most important functions are performed by a wide variety of 'markets'. The expected function of such markets is to supply private goods and services, in which case the goals are material wealth and the efficient use of resources. The representative actors of the market are individuals and enterprises, and both of their behaviour is based on individualism and

decentralisation, where self-interest (individual's own utility and company's own profit) is the key, and competition is important.

In contrast to this, the 'government' is positioned. Its expected function is to supply public goods and services that are difficult to be met by the market. The goals pursued in such cases are equity in the distribution of income and assets and overall economic stability. Typical government actors include central and local governments. In order to achieve their objectives, these entities have various powers concentrated in them under the law, and exercise order and control with coercive force.

In addition to these two sectors, this book introduces a third independent sector, the community, and takes the view that society and the economy are composed of three sectors. In this case, communities are expected, as described below (see Sections 6.3 and 6.4), to be the providers of quasi-public goods and services and to create and provide 'invisible social capital'.[7] The goal is to contribute in areas where they can respond more effectively than markets or governments, where human values (solidarity, spiritual enrichment, etc.) are emphasised. There are various forms of such actors but typically non-profit organisations (NPOs and NGOs), cooperatives, and commons, which emphasise voluntarism, altruism, and mutual aid in their actions.

6.1.2.2 Further features of the three sectors

These are the basic characteristics of each of the three sectors, but going further, they can also be understood to have mutually contrasting characteristics in the following aspects.

First, there are significant differences in the way information is collected and utilised. All organisations in society can be characterised from the perspective of how they process information and the mechanisms they have for making decisions based on this information. In terms of the way information is handled, firstly, private entities (companies and individuals) acting in the market do not need to centralise information, as each individual entity holds dispersed primary information, which is all reflected in market transactions (specifically, in price formation). Governments, on the other hand, can only function by acquiring and centralising information (various quantitative and qualitative data required for administrative purposes) from the private sector. In contrast, communities do not basically act within the market mechanism, so their position in terms of information response can be understood as an intermediate mode between the government and private actors in the market.

In other words, the market sector is characterised by the dispersed possession of various types of information held by individual actors, which is then aggregated in market transactions, leading to individual actors' actions. Governments, on the other hand, exercise their power to force the concentration of information necessary for public policy action by the government, which then uses the information acquired to take policy action. This contrasts with the market case. The case of community, on the other hand, is

characterised by the fact that participants share various types of information and act on the basis of this information.

Next, looking at behavioural norms, it can be understood that governments are based on law and administrative power, whereas private market actors are motivated by the pursuit of profit (companies) or the pursuit of satisfaction (individuals). On the other hand, in the non-profit private sector (e.g. NPOs), it is possible to consider the coexistence of diverse motives for action, both as an organisation and as each stakeholder involved in it. In addition, social recognition itself is particularly important for NPOs, as it lacks the ownership (shareholders) and discipline of a private company, and therefore, unlike private commercial companies and individuals, maintaining and increasing credibility and reputation become an important code of conduct. For NPO's, this is considered to be the case.

Given these organisational and behavioural norms, the performance characteristics of these three actors can be derived as follows. First, private market actors can expect that efficiency will be maintained through the operation of the competitive market mechanism. However, it is also necessary to recognise that there are situations where the market mechanism does not operate (market failure). In other words, the market cannot be expected to supply public goods. On the one hand, the government is an entity commissioned by the people, so inefficiencies[8] associated with agency relationships are inevitable in its actions. On the other hand, in contrast, it is difficult to specify *a priori* what the performance of NPOs will be like, and it is a matter of empirical results.

It should be noted that, when we say 'communities', there are various forms of it and there are conventionally two expressions. One is the term 'third sector', which is positioned in relation to the market and government, and the other is the term 'non-profit sector'. The difference relates not only to the name, but also to the historical background and the differences in substance. For this reason, they are discussed in somewhat more detail later in this Section 6.3. For the sake of convenience, however, this publication will use the terms 'community', 'third sector', and 'non-profit sector' interchangeably, unless a distinction needs to be made. Whichever terminology is used, they are simply a collection of NPOs.

The above-mentioned behavioural norms and performance characteristics seem to come from the differences in the values emphasised in these three sectors. Namely, in the case of markets, the emphasis is on freedom of action, whereas for governments, equality of income and assets and overall economic stability are important values (its policy objectives). And, for communities, co-creation and mutual benefit are important values. Thus, each of the three sectors has its own set of value criteria.

On the other hand, it should be noted that each sector has its own problems as well. Firstly, in the market, as mentioned above, so-called 'market failure' accompanies the market system.[9] In other words, the supply of public goods cannot be expected from the market. In addition, monopoly power often arises

in markets, which often prevents efficiency through the price mechanism from being achieved. Furthermore, competition in markets has a strong tendency to increase the disparity in income and assets of participants. It is therefore essential to address these 'market failures'. Specific measures to tackle these failures include the application of anti-trust laws (eliminating the concentration of economic power) and income redistribution policies by governments.

Secondly, the activities of the government sector also inevitably pose challenges. First, inefficiencies inevitably arise because government activities and their skills are not exposed to competition. This is sometimes referred to as 'government failure' as opposed to market failure. There can also be 'agency costs' associated with government activities. That is, public officials are expected to act in their capacity as agents of the public, but since they may act in pursuit of their personal interests, a situation may arise where the two conflict (the agent may not fully meet the expectations of the commissioner). In order to address these challenges, it is essential to place greater emphasis on competitive tendering rather than negotiated contracts in government projects, and to improve transparency and objectivity through the disclosure of information on government activities.

Furthermore, for communities, this entails 'communal failure'. This means that communities can be diverse and inadequate with regard to their governance, which may lead to their actions being insufficiently coercive and efficient. It can also be pointed out that available financial resources may be permanently scarce for communities, and therefore may not reach the same scale as market or government activities. Therefore, a major challenge (especially in Japan) is to clarify and strengthen the position of NPOs (expansion of legislation) and to improve public understanding.[10]

It is clear from the above that the third sector (the community sector), which is a new addition to expand the conventional two-sector model, includes many things that go beyond the assumptions of human behaviour in economics or various concepts in economics. Therefore, the three-sector model is qualitatively a new framework for understanding human-constituted societies and economies, rather than a simple further division for understanding the macroeconomy. Adding a third sector as a socioeconomic model therefore inevitably involves a number of points that cannot be discussed simply in economic concepts and terminology. Therefore, we would like next to highlight this point in particular.[11]

6.1.2.3 Interrelationships between the three sectors

Having characterised the sectors above, what kind of internegotiation or interdependence do the three sectors have? This is an extremely important issue to consider.

First, the relationship between markets and government, or between government and the non-profit sector (non-profit organisations), are both relatively easy to discuss and there are various developments in reality. For example,

regarding the relationship between government and the non-profit sector, a new movement called public–private partnership (PPP for short) is gaining momentum in Japan and abroad (Okabe 2017a: 81–83).

On the other hand, the relationship between markets and the non-profit sector has not been studied much because it cannot be dealt with simply. In this regard, Suzuki (2022, chapters 6 and 7) presents an interesting economic-theoretical and empirical study of the significance of NPOs (agricultural cooperatives) for markets and consumers, taking agricultural and livestock markets and assuming the general situation there (imperfect competition). It is strongly expected that in the future, there will be more diverse research on this aspect of NPOs, particularly in relation to markets.

Next, the three-sector model takes into account the function of the community, which did not appear in the two-sector model, to understand society, and therefore requires ideas not found in mainstream economics (two-sector model). This is because, while mainstream economics is based on the idea of society as an aggregation of atomistic individuals, the three-sector model emphasises human society as a group of people bound together by a bond and their functions. Therefore, for the smooth functioning of the three sectors, including the market, it is not enough to have neutral rules and procedures in human society, but shared moral culture, which is an element of community, is also an essential condition for society as a whole. Furthermore, taking into account the element of community (human groups) means taking into account human society, where social capital, social networks, etc. exist. This also transforms the necessary conditions for the smooth functioning of society itself, including markets.[12]

This three-sector model, which emphasises the importance of community, could be called a social model of 'communitarianism'. However, we will not use such a term in this publication. This is because the term communitarianism has been used in a variety of ways, including in the context of political ideologies (socialism, collectivism, etc.), in order to describe a social idea of a particular period, or to emphasise the importance of community in the development of the individual personality. The term is used in a variety of ways.

Researchers belonging to the Japan Economic Association rarely pay attention to research that takes the non-profit sector (NPOs) into account. In fact, there are almost no research papers published on the subject,[13] and in some cases, there are even opinions that it should be actively excluded from the subject of research.[14] This is unfortunate for the development of economics or the social sciences as a whole.

6.2 On the basis of economic anthropology

The author initially proposed an understanding of society that introduced a third sector in view of the need to recognise independent sectors that differ from government and markets in terms of function and motivation (Okabe 2009b). This was a natural conception for the author. However, I subsequently learnt

that various 'three-division' understandings of society had been presented in social sciences.[15] What was even more encouraging was that the three-sector model (three-sector understanding of socioeconomic systems) presented by the author turned out to have a foundation that was directly supported by the perspective of economic anthropology. More specifically, this was because the social model presented by the author in this chapter (Figure 6.1) turned out to be nothing more than a modern development of the 'three-function model' by economic anthropologist Karl Polanyi (Okabe 2018d).

6.2.1 Polanyi's three-function model

The author subsequently learned that various three-sector models had in fact already been presented by some European researchers. They are usually based on an economic or sociological perspective (see Chapter 7, Section 7.4). However, somewhat differently, an economic anthropologist Karl Polanyi (Polanyi 1944: chapter 3; Polanyi 1977: chapter 3) proposed a 'three-sector model'[16] from a social or economic anthropological perspective at a relatively early stage. Here, we review the Polanyi model first.

Many researchers have traditionally considered the motivations and mechanisms of primitive societies to be of no use in explaining the mechanisms of civilised societies. However, the economic historian Max Weber emphasised that man is invariant in that he or she is a social being throughout the ages, and this idea was proved to be entirely correct by subsequent research in social anthropology (Polanyi 1944: 45–46). Polanyi, who insisted on the importance of this perspective, also noted that the innate qualities of human beings appear repeatedly in all societies with a certain pattern, regardless of time and place, and judged that the preconditions necessary for the survival of human societies appear to be always the same (ibid.).

Polanyi developed the idea that human society is supported and functions by three principles of action. These three are reciprocity, redistribution, and exchange (Figure 6.2). Reciprocity means giving and mutual assistance (where market functions are not involved). Redistribution is centred on power and its obligatory collection and distribution of collections. And, exchange means the movement or trade of goods based on self-interest in the market.

He pointed out that there is a distinctive pattern in the functioning of each of the three. In reciprocity, there is symmetry because giving and receiving have the same character. Redistribution is characterised by centricity because power is central. In the market, the movement of goods is aimed at gains for each individual, so exchanges become the functional pattern.

Polanyi emphasised that these three behavioural principles (or a combination of them) enabled human societies and their transformations to be understood. For example, in the case of tribal societies, the two behavioural principles of reciprocity and redistribution ensured the functioning of their economic systems (Polanyi 1944: 48). And, he presented the understanding

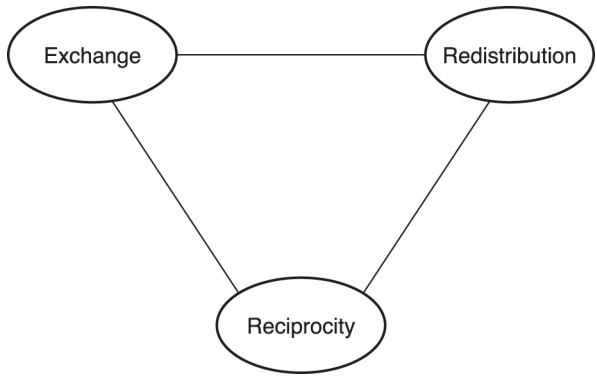

Figure 6.2 Polanyi's understanding of human society: a three-function model.
Note: A diagram by the author (Okabe) based on Polanyi (1944: chapter 3; 1980: chapter 4).
Source: Okabe (2018d) chart 10.

that, until the end of feudalism in Western Europe, any economic system could be understood as organised on the principles of reciprocity, redistribution, or the market (or a combination of these three principles each with some importance), and that the institutionalisation of these principles as the organisation of society ensured orderly production, distribution, and consumption (ibid.: 55). In this period, he analysed, profit (the market) was not the most important of these motives for action, but custom, law, witchcraft, and religion worked together to subject individuals to appropriate principles of behaviour, resulting in a system whereby individuals ultimately fulfilled their function in the economic system (ibid.).

It then presents an understanding that from the 16th century onwards, the number of markets increased significantly and their importance grew, and from the 19th century onwards, there was a rapid transformation to a new economy due to the strengthening influence of the self-regulating market sector (ibid.: 55).

Given this understanding of Polanyi, it is clearly a major flaw that modern mainstream economics does not take reciprocity (where the pattern is symmetry) which is universally observed in human societies into account at all (or rather actively excludes it from consideration). This is because the very idea of market exchange, which is only one of the three functions, is currently sweeping the world (Takahashi and Tsuji 2018: 99). The watchwords there are rationalism, utilitarianism, competition, efficiency, and the ongoing homogenisation of the world in the name of global standards (ibid.). This is why gift-giving and reciprocity (i.e. the role of communities) are now attracting attention (ibid.).

Polanyi's three sectors can be paraphrased as: exchange → 'market', redistribution → 'government', and reciprocity → 'community'. This corresponds precisely the expression of each sector (market, government, and community) in the three-sector model presented by the author (Figure 6.1). In this sense, it can be seen that the latter model has general nature from the perspective of economic anthropology.

Here, it would be appropriate to point out that Raghuram Rajan,[17] a leading figure in the global economic discourse, recently wrote a book, *The Third Pillar: How Markets and the State Leave the Community Behind*, which claims that historically human societies eventually adapted, so that the three pillars restored balance and that the restoration of that balance is now called for (Rajan 2019: 25). This is nothing more than an application of the very idea of Polanyi's three-function model (although the author Rajan does not explicitly state that it is an application of the Polanyi model).[18]

The three-sector model in this book is a modern version of the Polanyi model.

Focusing on the three functions described above by Polanyi (Figure 6.2), it is clear that each can be expressed in concrete terms as 'exchange' → market, 'redistribution' → government, and 'reciprocity' → community. Based on this understanding, the following two points can be derived.

First, there is the problem that in current mainstream economics, 'reciprocity' (community), one of the three universally observed sectors of human society, is completely ignored (or rather actively excluded from consideration[19]). Secondly, therefore, from the perspective of the universal nature of socioeconomic systems, it is necessary to include community explicitly when examining contemporary society.

Given this, the author's representation of the three sectors (market, government, and community respectively) and the resulting understanding of society can be attributed to the 'three-function model' (Table 6.1). And, this way of understanding has two important characteristics.

First, it is clear from the above derivation process that the model we presented is a model having generality, supported by an economic anthropological ground. In this respect, it has importantly a theoretical basis. Secondly, when solving problems in modern society, a three-sector model can be used more effectively than in the case of two-sector model (more desirable and effective results can be obtained). This second proposition is verified to some extent by Polanyi's assertion that the three-function model can explain the historical transition of the human socioeconomic system. The author (Okabe 2017b: 35–37) has provided a contemporary and theoretical explanation of this, which will be presented later in Chapter 7 (Sections 7.2 and 7.3).

6.3 Conceptual clarifications: community and non-profit sector

In mainstream economics, as has been repeatedly mentioned, a 'dichotomy' or 'two-sector model' of market and government has traditionally been adopted as a framework for understanding society. However, this understanding of

society, despite being an oversimplified view, is not only found in US economics, but is particularly prominent in Japanese economics, where economic research has been 'institutionalised'.[20]

In real society, the community or NPO becomes an important independent sector, because its characteristics are different from households, businesses, and government. Therefore, in order to properly understand social systems, appropriate positioning of this sector is important and indispensable. And, the addition of the community sector or the third sector (the three-sector model) provides a more appropriate framework for understanding society (OECD 2003; Ostrower and Stone 2006; Okabe 2009b, 2016a, 2017a, 2017b).

In this section, the significance of 'community' is first briefly summarised. It then focuses on the two expressions 'third sector' and 'non-profit sector', which are relatively commonly used as specific designations for communities from the perspective of socioeconomic systems, and sorts out the differences between them. It will then be argued that communities need to be positioned as an independent 'third sector', rather than as a sector situated between government and the market.

6.3.1 Significance of the community

When looking at human society, there are human motivations for forming human groups that cannot be captured by the 'market and government' dichotomy, and the importance of it has increased in recent years. For this reason, there is a growing need to explicitly reposition the private sector, which is neither government nor market, i.e. communities of various kinds (connections between independent individuals). These communities are 'public', as distinct from the traditional 'private', and 'government' sectors, and are characterised by the fact that human beings are often involved voluntarily rather than under compulsion, with an added altruistic rather than merely selfish motivation.[21]

Since the beginning of the 20th century, community has been defined as 'an area or living space in which people live together in a certain region, and the requirement is that common interests and social consciousness be found among each other' (Society of Economic Sociology 2015: 115). In other words, the concept used to refer to a group of people (local community) who lived in the same area, shared interests and were deeply connected in terms of customs, beliefs, objectives, and resources, where geographical conditions were important.

However, the development of the internet has made geographical conditions less restrictive than in the past, and an increasing number of communities (online communities) have the character of spatially diffuse functional groups that are not limited by regional characteristics. For this reason, in recent years, broad definitions that do not include geographical conditions have come into use. That is, for example recent research defines a community as 'a group of people or a network of people who are linked by social relationships that are

durable beyond blood and geographical ties and which are mutually regarded as important for their social identity and social activities'.[22]

In other words, it can be understood that effective communication is a prerequisite for the formation of a community, which in turn creates a social network or social capital that enables a group of people to fulfil a function. This is also connected to the fact that for a market to function smoothly, it is not enough to have neutral rules and procedures, but that the sharing of social norms and morals, which are the elements that maintain a community, is also an essential condition for society as a whole (Okabe 2018a).

6.3.2 Third sector or non-profit sector?

The above-mentioned 'communities' come in a variety of forms, but when focusing on them, there are two traditional expressions to describing them. One is the 'third sector', which is positioned in relation to the market and government, and the other is the 'non-profit sector'. The two are sometimes used almost synonymously, but often refer to somewhat different things in European countries and the USA (Table 6.2).

First, the expression 'third sector' is often used exclusively to describe social reality and policy in Europe. In other words, it is often positioned as a sector with an eclectic character (social midfield; hybrid) between the market and government, and is not seen as an independent sector on an equal footing with the other two sectors (market and government). The reason for this is that the various organisations included in this sector have been founded and developed historically in diverse ways, and there is a strong tendency to understand them as a sector with significant socioeconomic and sociopolitical significance, rather than one that should be understood solely from an economic perspective. In addition, it is not simply the 'non-distribution constraint' (as in the case of the USA) that characterises organisations in the third sector, but rather whether or not profits are used to achieve organisational objectives, and it is said to be too mechanical to focus simply on the non-distribution constraint of profits.[23]

In Europe, the 'third sector' is used in this sense largely because of the idea of a mixed system (welfare mix) as a means to realise a welfare society. In other words, the concept was born from the perspective of policy theory in the search for a way of society (a desirable social image) that achieves welfare. It is also unique in that its research was conducted exclusively from the perspective of sociology or political science, and was produced as a result (for this reason, it is sometimes referred to as the European approach).[24]

In contrast to the above, the expression and concept of the non-profit sector is often used to describe the reality in the USA, as it was introduced in the USA and research into the actual situation in the country has become active as a result. In the US school of economics, society has traditionally been understood as consisting of two sectors (market and government) with completely

Table 6.2 A comparison of two similar expressions

	Third sector	*Non-profit sector*
Etymology and primary target	The term was introduced with the motivation of understanding the reality in Europe. The main focus of the research is mainly on Europe.	The term was introduced as factual research in the USA became more active. The main focus of research is mainly in the USA.
Target positioning	The sector is positioned as a social midfield (hybrid) between the market and the government. It is not seen as an independent sector on an equal footing with the other two sectors (market and government).	Positioned as an independent sector with different motives and modes of action from the other two sectors (market and government).
Positioning perspective	Emphasis on the socioeconomic and sociopolitical sector as a diverse, socioeconomic and sociopolitical sector founded in reality and historically developed. Emphasis on whether profit is used to achieve organisational objectives, rather than seeing it as characterised by non-distributive constraints on profit. The concept emerged from the perspective of a mixed system (welfare mix) as a means to realise a welfare society.	Set up as a sector with functions to address 'market failures' and 'government failures'. Non-distributional constraints on profits are the most important condition characterising NPOs. It can be positioned as an independent sector from the perspective of various human behavioural motives (self-fulfilment motives, altruistic motives, etc.), the locus of authority in society, the information processing system as a society, etc. (author Okabe's understanding).
Research Perspectives	Mainly sociological and political science perspectives (European approach). Pestov welfare triangle, social enterprise, etc.	Mainly from an economic perspective (US approach or international model). A three-sector model of the economic system (present author's understanding).

Source: Authors' compilation based on Evers and Laville (2004a,2004b), Prestoff (1998: Chapter 2), Kramer (2004), Laville, Young and Eynaud (2015), Anheier (2012), Wikipedia "Self-actualisation" and Okabe (2017a: chapter 10).

different characteristics, and the non-profit sector is positioned as an independent sector with different motives and modes of action from these two.

The concept emerged in the USA because, with the growing discussion of 'market failure' and 'government failure', it was a natural move to explicitly introduce a new sector with a function to address these issues. In this case, the most important condition is that NPOs must not distribute profits to

stakeholders (non-distribution constraint of profits), unlike in the case of joint stock companies (where surplus profits are distributed to shareholders). The US NPO is thus positioned as an independent sector alongside the market and government, and its research is characterised by its focus on economic perspectives (hence the term 'US approach' or 'international model').

6.3.3 Perspective of this publication: the third sector rather than the intermediate sector

When understanding NPOs or new sectors that include NPOs, as discussed above, research in Europe has focused exclusively on sociological and political science perspectives, whereas in the USA, the emphasis has been on the economic perspective. In recent years, however, research contacts appear to be gradually being established between the two disciplines, for example through the publication of books that include research from both fields simultaneously (Evers and Laville 2004b).

In Japan, however, the majority of research on NPOs and the non-profit sector appears to be from a sociological or practical perspective, and at present has little contact with economics.[25] So, how should NPOs (or the non-profit sector) be positioned in future research on NPOs (or the non-profit sector)?

The author considers it appropriate to capture the social system by introducing NPOs as a third independent sector that should be placed on the same level as the existing two sectors (market and government). In other words, it is preferable to switch from the standard two-sector model of society in economics to a three-sector model, and to understand society and develop policies within that framework (the three-sector model of the economic system). In this sense, this publication adopts the US approach as its general framework.[26]

This is because, firstly, the theoretical model for analysis must be a clear and understandable framework. In other words, it is only by establishing three independent axes of coordinates (divisions) that intermediate and eclectic types can be accurately located.[27] In the case of the European approach, where the 'sector' is considered to be intermediate or eclectic from the outset, it is necessary to clarify what is meant by intermediate or eclectic, but the meaning or content (e.g. the specific content in the case of intermediate or eclectic between the market and government sectors) is not always clear. The non-profit sector is qualitatively different from the market and government in many aspects in terms of its basic character (e.g. motivations and standards of behaviour of participants and organisations), which makes it necessary to establish the sector as an independent sector.

Secondly, to understand social systems, it is necessary to construct sectors with an understanding that goes back to the motivations for human action and the functions of the constituent elements (sectors). In other words, the correct

way to approach social science is to construct a framework of understanding based on the idea of first accurately understanding reality (issue-driven approach), rather than suddenly starting from the idea of policy theory (policy-driven approach) as in the European approach.[28] Policy theory can naturally be developed on the basis of this understanding of the nature of society.

For example, the motives and behaviour patterns of a person acting in the marketplace (usually based on selfish motives) are clearly different from those of that same person engaging in the activities of a NPO (altruistic motives, self-realisation, etc.). It is also necessary to look at how the various powers that run society are distributed, and furthermore, what kind of processing systems the various types of information in society comprise. Taking these things[29] into account, a more fruitful approach is to position the non-profit sector as an independent sector. This is the perspective of this publication (see explanation in the second box from the bottom in the right-hand column of Table 6.2).

6.3.4 A point to remember

One important point to the above two understandings needs to be emphasised. That is, the existence of the third sector must not be understood merely from the economic dimension of being a supplier of goods and services, as is the case when understanding commercial enterprises, but it must be understood as a 'morally and politically valued sector' (Evers and Laville 2004a: 6).[30] In this respect, this publication goes beyond a simple US approach; it incorporates an important aspect of a European approach.

Specifically, it is necessary to understand that human behaviour is not only motivated by selfishness and rationalism, but that there are other motives, such as those found in this sector, which are based on human nature, and that these aspects make people involved in the non-profit sector. Therefore, if such aspects of human beings (diversity of motives for action) are also taken into account, the rationale for the non-profit sector to be a separate independent sector becomes even stronger.

6.4 Requirements and raisons d'etre of non-profit organisations

The most obvious example of an organisation belonging to the third sector is the non-profit organisation (hereafter, referred to as NPO).[31] NPOs generally refer to all organisations other than for-profit organisations (private for-profit companies such as corporations). For this reason, the motives for establishing NPOs, their organisational forms and activities are extremely diverse, but they are now developing dynamically as an interdisciplinary research area in the social sciences, keeping pace with their growth.[32] In this section, we will summarise the conditions for their establishment and reasons for their existence, relying heavily on Anheier (2005).

6.4.1 Four conditions for the formation of an NPO

As the name suggests, NPOs are organisations established to achieve some social purpose without profit-making objectives. Therefore, their basic character lies in the fact that they do not operate to increase the profits of their owners or operators, and in form they are an institutional form that is intermediate between commercial enterprises and government organisations (Steinberg and Weisbrod 2008: 118–120).

The most general and appropriate definition of what constitutes an NPO is that of the *Handbook on Nonprofit Organizations*, introduced by the United Nations in 2002 (Anheier 2005: 53–54). Rather than emphasising the objectives and sources of income of NPOs, it focuses on the organisational structure and operational aspects and defines an NPO as an organisation that has the following four characteristics (Table 6.3, top row). Namely, (1) self-governed, (2) non-profit and non-profit-sharing, (3) institutionally separate from government, and (4) non-compulsory participation in its activities.

Table 6.3 Conditions for non-profit organisations (NPOs), main subject areas, and organisational forms

	Specific items
Four conditions for non-profit organisations (UN standards)	1. A self-governing organisation. 2. A non-profit and non-profit-sharing policy must be adopted. 3. The organisation must be institutionally separate from the government. 4. Participation in the activity is non-compulsory.
Primary target area	Health (hospitals, nursing homes, blood donation) Education (primary, secondary, university) Culture, sport, and the arts (museums, etc.) Public sale of local products Social services (welfare organisations, etc.) Environmental protection (recycling) Research (policy advocacy) Law (protection of human rights) Politics (political parties) Foundations Religion
Organisational structure	1. Forms with relatively high entrepreneurship: social enterprises (social businesses), incorporated associations, cooperatives, etc. 2. Forms that are relatively more focused on achieving social objectives: aid organisations, grant-making foundations, political parties, etc.

Source: Okabe (2017a) figure 10-1. Upper row based on Anheier (2005: 54), Middle and lower rows are based on Anheier (2005: 55: table 3-2), Yamauchi (2004: Chapter 3), Borzaga and Tortia (2007: figure 1-1).

While the significance of these can be easily understood, only (2) requires some explanation. In other words, requirement (2) not only stipulates that the organisation is not operating for profit, it also means that any profits generated are restricted from being distributed to the owners and managers of the organisation. This means that profits can accumulate within the organisation in order to achieve its objectives (public benefit), but must not be distributed to the owners, members, founders, or managing directors of the organisation. In this respect, it follows that NPOs do not exist to make a profit and are not organisations that act primarily for the profit motive. For this reason, the 'non-distribution constraint' has become a central feature when defining NPOs in law and in the social science literature.[33]

These NPOs operate in a wide variety of areas and have diverse organisational structures (middle and bottom rows of Table 6.3). And, their management also has many characteristics not found in commercial organisations (Drucker 1990).

6.4.2 Significance of NPOs in the overall economy

When NPOs are considered as an organisational entity, they come in a wide variety of forms and names.[34] But, how important are NPOs in terms of a country's economic activity?

In terms of a country's overall economic activity, the non-profit sector is a much larger economic force than is commonly thought (OECD 2003: 11–12). In a survey of 35 countries around the world, some 40 million of the total number of permanent employees are employed in the non-profit sector (excluding traditional cooperatives). That employment represents 3.6% of the working-age population, which corresponds to 7.3% of non-agricultural employment, and the non-profit sector has also shown remarkable growth as a social and economic force in recent years (ibid.).

Next, let us compare the size of NPOs by country. Figure 6.3 shows an international comparison of the non-profit sector workforce as a percentage of the economically active population. From this, the following points can be noted.

6.4.2.1 Developed countries have larger non-profit sectors

First, developed countries have relatively larger non-profit sectors than developing and transitional countries. On average, the size of the former is about three times larger than that of the latter. The reasons for this are: (1) the low per capita income in developing countries (relatively small urban middle-income groups), which means that NPOs cannot afford to develop; (2) the degree of development as civil society and skills in organisational management are still limited in Central and Eastern Europe, as these countries remain coloured by centralised political systems; and (3) there is insufficient institutional development for NPO activities (Anheier 2005: 82).

6.4.2.2 Whether the economy is market-oriented or not has little effect

Secondly, looking at the situation in developed countries by the nature of their economic system, whether it is Anglo-Saxon market-oriented (USA, UK, Australia), continental European countries where the government plays a relatively large role (France, Germany), or Nordic countries (Sweden, Finland), the difference between economic regimes are relatively small.

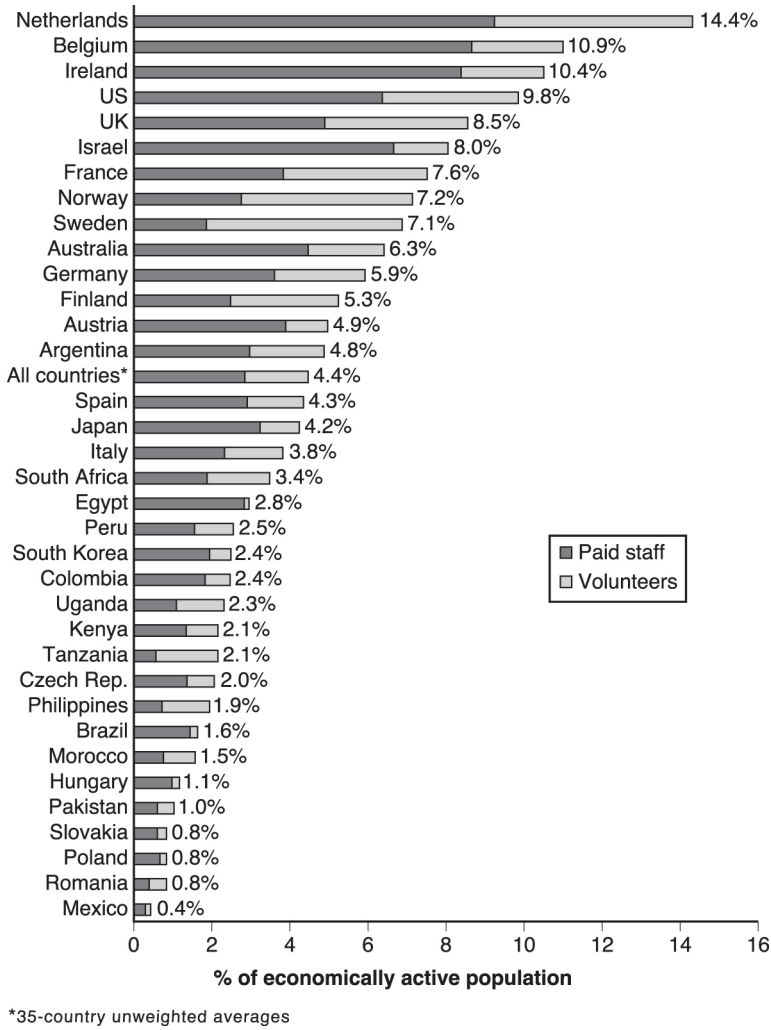

Figure 6.3 Non-profit sector workforce as a percentage of economically active population: an international comparison.

Source: Anheier (2005:Figure 4-15).

In an economy that places the market at the centre of its social philosophy, the size of the non-profit sector may be redeemed not as large as it might seem at first glance, because the economy is dominated by the self-interested actions of for-profit companies and individuals. Nevertheless, the non-profit sector is large in the USA and the UK. This is surprisingly different from common understanding.

There are two possible reasons for this. One is that the degree of activity in the NPO sector is not so much dependent on the economic ideology of for-profit or not-for-profit, but rather is more closely related to the degree of economic development, as discussed in (1) and (2) above.

The other reason is that human beings can be understood to harbour altruism regardless of their economic system or culture. Incidentally, when the workforce supporting NPOs in the USA and UK is divided into paid staff and volunteers (see the breakdown in the bar chart in Figure 6.3), it is clear that the proportion supported by volunteers is generally high, even in these more market-oriented countries. Volunteering is closely linked to a country's culture and history and needs to be understood as a social rather than merely an individual behaviour (Anheier 2005: 83–84). And, Figure 6.3 suggests that the simple understanding of human behavioural motives as fundamentally selfish is accordingly highly questionable.

6.4.3 Reasons for the existence of NPOs: theoretical clarification

Two theoretical explanations are possible for why NPOs exist. One is to focus on the types of goods in the economy and understand the significance of NPOs as providers of those goods. The other is to focus on the asymmetry of information between the actors in market transactions and to position NPOs as institutions to reduce this problem.

6.4.3.1 Types of goods and supplying entities

According to the basic propositions of economic theory, it is the market system that most efficiently supplies purely private goods (e.g. food, clothing, passenger cars, etc.), while it is the state or public sector that supplies pure public goods (e.g. national defence, fire-fighting, justice system, etc.) in the desired form (Table 6.4).

Pure private goods are efficiently supplied by the market because of the competitive principle at work in the market. Pure public goods, on the other hand, cannot be expected to be supplied by the market (due to market failure[35]). This is because pure public goods are very different in character from pure private goods in two respects (Anheier 2005: 118).

Pure public goods are generally defined as goods or services that satisfy two conditions simultaneously. One is non-rivalry in consumption, i.e. the consumption of a good or the enjoyment of a service by an individual does not

reduce the consumption of the remaining good or the opportunity to enjoy the service by others. The second is non-excludability from consumption, i.e. that it is difficult to exclude those who do not pay for the use.

For example, the enjoyment by Individual A of the service of national defence does not reduce the amount of defence services enjoyed by anyone other than Individual A (non-rivalry). Furthermore, even if Individual B does not pay taxes, he can still benefit from the same defence services as Individual A as long as he is resident in the same country (non-excludability).

These characteristics contrast with pure private goods. For example, foodstuffs and clothes, which are pure private goods, cannot be used by anyone else if the consumer who has the right to own them uses (consumes) them (competitiveness), and only those who pay for them can use them and exclude those who do not (excludability). In other words, pure private goods thus have both competitive and excludable character. Conversely, goods that do not have both of these characteristics are public goods.

6.4.3.2 Quasi-public goods: NPOs as providers of such goods

The above definition of public goods shows that in reality, there are not a few goods and services that have a character intermediate between private and public goods. These are positioned as quasi-public goods because of their intermediate nature between the two.

For example, a good that satisfies non-competition but not non-exclusion (quasi-public good) is art appreciation at museums and concerts. If only those who have paid a fee are allowed to enter, it is easy to exclude those who have not paid for their use (excludability), while the visitors can enjoy the exhibition or performance to the same extent whether or not other people enter (the 'amount' of art appreciation is not reduced and consumption is not in competition with others) (the 'quantity' of art available for viewing is not reduced and consumption is not in competition with others). For this reason, museums and concert halls may be run by *for-profit* organisations, while in other cases the governing body may be *NPO*s.

In contrast, a type of quasi-public good that satisfies non-excludability but not non-competitiveness (where there is competition for consumption or use by multiple actors) is fishing resources in the open ocean. In the open ocean, while in principle anyone can fish without paying to fish (free fishing cannot be excluded), non-competitiveness is not satisfied (competition) because if one fleet increases its catch, the catch of other fleets is likely to decrease. In this case, the issue of long-term protection of fisheries resources can be addressed, for example by setting up a fisheries association (a form of NPO) to manage the fisheries resources.

As described above, neither the market nor the government (public sector) is an appropriate actor in the supply of quasi-public goods, and NPOs (non-profit sector), which can take a variety of forms, are the appropriate actors (see Table 6.4).

Table 6.4 Type of goods and suitability of the supplying entity

	Private goods	*Quasi-public good*	*Public goods (i.e. goods or services such as parks or highways)*
Markets	◎	△	×*2
Non-profit organisations and non-profit sector	△	◎	×*3
Government or public sector	×*1	△	◎

◎: most suitable. △: conflicts with other sectors. ×: unsuitable.

Notes: *1 Inappropriate because of government failures.
*2 Inappropriate due to market failures.
*3 Inadequate due to failures (insufficient scale) in the voluntary sector.

Source: Okabe (2017a) chart 10.3. Original table is Anheier (2005: 119) Table 6-3. However, the method of presentation has been changed by the authors (symbolisation of the textual expression in the original tables).

Table 6.5 Typology of goods and services

	Rivalrous	*Non-rivalrous*
Excludable	**Private good** (Food; home electrical appliances)	**Club good** (Movies; satellite broadcasting)
Non-excludable	**Common property resource** (Fishery resources; water resources)	**Public good** (National defence; judicial system)

Source: Hindriks and Myles (2006: figure 5.1), with some examples added by the author (Okabe).

However, quasi-public goods include a wide variety of goods with different characteristics. This does not mean that the supply of all quasi-public goods should be carried out by the non-profit sector. Depending on the nature of the quasi-public good, some can be handled by the market (private sector), while others are better suited to be handled by the government.

To advance this argument further, we can sort out the matter as follows. When we classify the character of goods and services, we may define (pure) private goods and (pure) public goods more rigorously on the basis of 'excludability' and 'rivalrousness' (Okabe 2017a: 318–319). If we utilise this framework, we can categorise the nature of goods and services still further (Table 6.5), and it becomes possible to understand quasi-public goods as consisting of 'club goods' and 'shared resources'. It can be seen that among the club goods, satellite broadcasting, for example can be better addressed by

the private sector, while fisheries resources can be better addressed by the government as well as by cooperatives.

6.4.3.3 NPOs to reduce information asymmetries in market transactions

The second perspective is that when goods and services are traded on the market, the problems caused by information asymmetry (increased transaction costs, lack of reliability, and other so-called market failures) are relatively large, and NPOs are positioned as a system to compensate for this.

Let us take the blood donation activities as an example and consider why this is not done by commercial companies (Anheier 2005: 115–117). First, blood sellers may know that their blood is unfit for transfusion (contaminated with infectious diseases) but may conceal this for financial gain (moral hazard), while the buyers may buy without knowing this. Therefore, buying and selling blood through free market transactions does not lead to fair outcomes (market failure due to information asymmetry).

In these situations, as a buyer of blood, you can of course test the seller's blood for problems. However, as blood testing increases transaction costs, commercial companies have an incentive to cut their costs to increase profits. This may lead to inadequate testing. In other words, normal market transactions cannot avoid essential problems (lack of reliability or increased transaction costs) based on information asymmetry for both the company buying the blood and the ultimate user (the transfusion recipient).

Correcting the problem requires institutional responses, such as prohibiting profit-sharing, government supervision, and insurance. This limits the extent to which blood donation services can be left to market transactions by *for-profit* companies and makes it more appropriate for NPOs to conduct them.[36]

6.4.3.4 Communities as a means to cope with increasingly powerful market

A third perspective is the growing importance of the role of communities as a means of dealing with the problems associated with the increasing power of the market.

The market has a propensity to destroy communities and morals. For example, as already noted,[37] an empirical study (Gneezy and Rustichini 2000a) found that in Israeli day care centres, when fines were imposed on parents who were late in picking up their children, tardiness increased rather than decreased (thinking that the tardiness was justified as long as the fine was paid), and later abolishing the fines did not reduce tardiness.

In high-income countries that have achieved growth through the use of market functions, the community sector has become relatively small along with economic growth, making it necessary to reconsider the relationship between intrinsic values and markets that human society should maintain (Sandel 2012, 2013). For example, in an ageing society, the number of people with dementia must increase, and the role of the family (certainly a community) needs to be

increased as such people may not be able to use the market. Furthermore, there is an increasing need to focus on 'community' for a variety of new needs, such as various social services (care, welfare, etc.) and environmental protection (recycling, etc.). Under these prospects in developed countries, there is a need to strengthen and expand the community as the 'third pillar' (Rajan 2019).

6.4.3.5 Non-profit organisations as organisational entities consistent with humanity

Finally, as a fourth perspective, it can be pointed out that NPOs have many aspects that are more in line with human nature and therefore have a richer future when compared to traditional market-based organisations (especially business organisations) and governments.

Humans are almost always involved in some form of organisation through which they carry out their daily activities and from which they derive their means of livelihood. Therefore, the nature of the relationship between the individual and the organisation is of decisive importance for both society and the individual. From this perspective, Laloux (2014) presents an understanding that, looking at human history, the nature of organisations can be broadly divided into 'Red-type' and 'Green-type' organisations. The former is further divided into three categories (Red-, Amber-, and Orange-organisations), where hierarchical-pyramid, top-down command and control, beating competition, etc., are considered basic, and the organisations that fall into these categories include militaries, government agencies, multinational companies, etc. On the other hand, the latter is divided into two categories: green-organisation and teal-organisation, which is a development of green-organisation. They are characterised by a focus on organisational culture and participants empowerment, which is positioned as a 'stakeholder model' (id. at 36). It is also pointed out that green-organisation is already achieving a lot of results because it is resilient in its management and is in line with the human nature of 'we are all connected' (id. at 48). Furthermore, Laloux (2014) states that 'teal-organisation', a further developed form of green-organisation, enables 'self-actualisation' (the final stage of human desire as pointed out by Maslow),[38] which, if promoted, will lead to a 'more soulful and fulfilling' (id. at 49) organisation, and predicts that this will be the goal in the future (id. at 51).

NPOs have the very elements of 'green- or teal-organisation' described above. This makes it necessary (i.e. important for social understanding and public policy) and appropriate to promote it.

6.4.3.6 Limitations of the response by NPOs

The above shows that NPOs have an intermediate character between the market and government and compensate for some of the inadequacies of the market and government, respectively.[39] However, just as there are 'failures' in both markets and governments, there are 'failures' in NPOs (Anheier 2005: 119; also see notes to Table 6.4).

Markets fail to provide public goods, while the government's response is to prioritise political decisions and respond irrationally (market failure and government failure, respectively). And, in the case of NPOs, it should be noted that the human and financial constraints are much greater than in the case of the market or government, and the scale of activities may not be reached as required (failure of voluntary sector).

6.5 Conclusion of this chapter

In summary, what has been discussed in this chapter is as follows.

(1) In economics, it has traditionally been assumed that society basically consists of two sectors (market and government). However, in real society, in addition to the market (households and companies) and government, the 'community', which is different in character from these two sectors, also plays an important role. For this reason, it is realistic and effective to understand society through the three sectors (market, government, and community) and to discuss solutions to problems.
(2) The reason why it is desirable to view society in terms of three sectors (or three functions) in this way is that, although there are differences in the importance of each sector at any given time in human history, such three functions are the underlying structure of human society (it has an economic anthropological basis).
(3) The 'community sector' is often referred to as the 'non-profit sector' (more specifically, NPOs) in the USA and the 'third sector' in Europe. However, regardless of the name, this sector (or organisations such as NPOs) has the function of providing quasi-public goods or quasi-public services, from which society can benefit greatly.

The above perceptions can be shown more rigorously. Let us therefore move on to the next chapter, which provides an economic-theoretical explanation of these.

Notes

1 This chapter is based on Okabe (2022a: chapters 8 and 11; 2016a, 2016b, 2017d).
2 Market failure refers to: (1) the occurrence of monopolies or oligopolies that prevent the optimum allocation of resources, (2) the failure to achieve an adequate supply of public goods, and (3) the widening of income and asset distribution (i.e. the failure to guarantee equity), among others. See Table 6.1.
3 When understanding society, two distinctly different typologies thus emerge: the 'two-sector model' and the 'three-sector model'. The respective outlines of both can be expressed in aggregate as in Figures 6.1 and 6.2.
4 In the following, the terms community sector, third sector, and non-profit sector will be used interchangeably for convenience (unless a particular distinction needs

to be made). For the differences between the third and non-profit sectors, see Table 6.2.

5 For example, in the standard introductory textbook of economics, Krugman and Wells (2018: figure 7-1), only households and firms are depicted as domestic sectors of the economic and social system.

6 The reasons for this understanding, its significance and its academic history will be explained in detail in Chapter 7.

7 Refers to social relations that invite people towards cooperation, such as networks, norms, and trust. For more information, see Okabe (2017a: 322–327).

8 Inefficiencies that arise when someone hires a representative (agent) to do a certain job (this is called an agency relationship) rather than doing it themselves. This inefficiency is referred to as agency costs, as the interests of the client are compromised because the agent may act in favour of the agent's own interests over those of the client.

9 See footnote 2 of this chapter.

10 For more information, see Okabe (2017a: 310–316).

11 Ogaki (2022) considers a social model similar to that described in this book. However, it is referred to as a 'three-mechanism' (market mechanism, power mechanism, and community mechanism) model rather than a 'three-sector' model, and argues that virtue ethics is an essential element for the community mechanism to function.

12 One episode that suggests this is worth mentioning. After being diagnosed with a fatal form of cancer and told he had only 6 months to live, renowned computer scientist Professor Randy Pausch (Carnegie Mellon University, USA) said in his final lecture. 'The United States of America is a country that places considerable emphasis on rights. It should be, but it makes no sense to talk about rights without talking about responsibilities. Rights come from the community and in return we all have a responsibility to the community. Some people call this "communitarianism", but I would call it common sense. (omitted). By engaging with others, we can become better people' (Pausch and Zaslow: 175–176). Note that this final lecture (live) is available on YouTube and has already been viewed 21 million times (https://www.youtube.com/watch?v=ji5_MqicxSo).

13 Incidentally, looking at the conference programme of research presentations at the 2016 Spring Conference (total of 210 research papers were presented) and at its Autumn Conference (143 papers) of the Japan Economic Association, there was no presentations at all that included the word 'non-profit organisation' or 'NPO' in their titles. Although there is a separate Japanese NPO Society and another society called the Society for Integrated Human Studies, the membership and research interests of these three societies appear to be mutually segregated (The author presented his research at these three conferences in 2016 and also reviewed the research presentation programmes of each conference at that time, and this is his impression).

14 See footnote 42 in Chapter 1.

15 For example, the 'Pestoff welfare triangle' (Pestoff 1992, 1998). For the detail of various three sector models, see Section 7.4.

16 Polanyi himself described it as 'principles of behaviour in production and distribution' (Polanyi 1944: 47) and did not use such expressions as 'three-sector model' or 'three-function model'. In this publication, however, we use expressions such as

'three-sector model' and 'three morphology' to clarify the content and facilitate comparisons with other researchers.

17 Professor at the University of Chicago, USA, since 1995. He specialises in monetary and banking theory. He once served as Director of Research at the International Monetary Fund (2003–2006) and Governor of the Reserve Bank of India (Central Bank) (2013–2016). He is currently regarded as one of the most influential economists worldwide.

18 It should be noted that Rajan considers a community (proximate community) to be a group of people living adjacent to each other, and as such, it includes a fairly broad range of people, including families, neighbourhood associations, school boards, as well as mayors and local councils. National organisations, on the other hand, are excluded from it, even if they are not-for-profit organisations (Rajan 2019: preface xiv). In contrast, the author's (Okabe's) definition of the third sector (community) takes the position that it is not defined solely on the basis of neighbourhood residence, but recognise the importance of the behavioural motives of its members. For this reason, the latter includes not only families, neighbourhood associations, school boards, etc. (communities that fulfil residential adjacency and whose motives for action are also non-selfish), but also nationwide non-profit organisations. In this respect, it differs slightly from Rajan. The Rajan's concept of community is somewhat weaker from the perspective of an economic theoretical framework, as it emphasises the political power of the third pillar (and thus includes a considerable diversity in the behavioural motives of its members).

19 See footnote 42 in Chapter 1.

20 On the 'institutionalisation' of economics research in Japan, see Okabe (2017a: 47–48). Furthermore, Japanese economics has in some respects inherited (or rather reinforced) distortions of US economics. Incidentally, it has been pointed out that the US economics research community lacks diversity, which has led to certain distortions in the direction of research. This is because: (1) US economists are more likely to be male and White than researchers in other fields (e.g. sociology), (2) survey research shows that male economists tend to favour market solutions over government intervention (female economists are more interested in areas such as income distribution and environmental protection regulations), (3) therefore, there is a lack of diversity in the US economics community, which has led to certain distortions in research directions, (4) market solutions therefore form the mainstream in US economics academia ('Barriers to entry', *The Economist*, 12 May 2018: 65). Consequently, in the Japanese economics community, which consists of a very large number of researchers with degrees from US universities, the above tendencies in US economics add to the market-oriented tendencies even more strongly.

21 A careful explanation of the community concept can be found in Maeyama (2009: part 2, chapter 1).

22 https://en.wikipedia.org/wiki/Community.

23 In Europe, cooperatives and mutual societies currently distribute part of their profits to stakeholders (Pestoff 1998: 43).

24 There are various variations of this 'European-style three-sectoral understanding', including the Pestoff welfare triangle (see Section 7.3).

25 See footnotes 3 and 4.

26 The author is not particular about whether the sector introduced here is called the non-profit sector or the third sector. This sector is unique in that it has aspects that are intermediate between the two existing sectors (market and government; e.g. efficiency of activities, amount of information held, etc.), while also having its own aspects (e.g. altruistic and self-fulfilment motives).
27 Even if the European proximity (hybrid) described above is close to reality, there are difficulties in this sense in using it as a single independent axis of coordinates. It should be noted that in European research in (or about) Europe, the third sector is not so much an independent sector as 'an entity with an intermediary nature of the third sector' (Evers and Laville 2004a: 5), 'a social midfield, a mixed area' (social midfield, hybrid; Kramer 2004: 229).
28 In Sweden, the 1990s saw an increasing emphasis on the idea of a 'welfare society' or 'stakeholder democracy' rather than the idea of a 'welfare state'. This was the idea of 'integrating rights and duties', i.e. 'providing work for those who can work and a secure life (security) for those who cannot work', which led to the presentation of the idea of the 'third sector' (Pestoff 1998: 1).
29 Details are discussed in Section 6.4.
30 In the European approach, the third sector is also discussed more broadly, linking it to social economy theory, civil society theory, democratic values, etc. (Evers and Laville 2004a: 2–3, Laville, Young and Eynaud 2015: introduction), but this publication will not go into political aspects but limit itself to the aspect of human well-being.
31 In addition to NPOs, another organisational entity belonging to the third sector is 'social business', which has attracted a lot of attention in recent years. This was proposed by Muhammad Yunus (Nobel Peace Prize winner) and has aspects closer to private enterprise rather than to the community in general. For more information, see Okabe (2017a: chapter 4, 104–110; Okabe 2012b). Social organisations with similar functions are increasingly discussed in Europe under the term 'social enterprise' (Laville, Young and Eynaud 2015).
32 In the USA, the Society of Non-Profit Organisations was established in 1971. In Japan, the role of NPOs attracted attention following the Great Hanshin-Awaji Earthquake (1995), and the Japan NPO Society (http://www.janpora.org/) was established in 1999.
33 Because of these non-distributional constraints, the monitoring of organisational operations by funders (e.g. donors) does not work so well as in the case of for-profit companies, which in turn reduces the efficiency of activities and the incentives to respond quickly to changes in demand (Steinberg and Weisbrod 2008). This is an important future research question for NPO research.
34 For instance, cooperative, corporation aggregate, social business, advocacy organisation, grant-making foundation.
35 See footnote 2 of this chapter.
36 In Japan, blood for transfusion used to be secured through blood sales, but in 1964, the Government of Japan passed a Cabinet decision on the promotion of blood donation, and today 100% of blood for transfusion is secured through blood donations (Website of the Osaka Red Cross Blood Centre, Japanese Red Cross Society, 'History of Blood Business'). In fact, a wide range of parties are involved in blood services, including the national, prefectural, and municipal governments, the Japanese Red Cross Society, manufacturers and distributors of blood products, medical institutions that actually use the products, and other non-profit-making

entities (Website of the Japanese Red Cross Society: https://www.jrc.or.jp/english/).

37 See Chapter 2, Section 2.3.

38 See footnote 36 in Chapter 8.

39 See Table 6.4, for visual economic analytical explanation of this.

7 Theoretical bases of the three-sector model

In the previous chapter, it we concluded that a more accurate understanding of human society and the economy needs to be based on a three-sector (market, government, and community) model instead of the traditional two-sector (market and government) model, and explained the nature of the third sector was explained in detail. This chapter argues that such a paradigm shift can be grounded in multiple perspectives of economic theory.

In Section 7.1, we point out that there are inevitably major distortions in mainstream economics policy theory and show that the three-sector model corrects them; in Section 7.2, we show that the three-sector model is valid in that it satisfies several basic principles of economic policy; in Section 7.3, we use a theoretical framework to show that public policy utilising the three-sector model can enhance the welfare of society as a whole. And, Section 7.3 uses a theoretical framework to illustrate that public policies that utilise the three-sector model can enhance the welfare of society as a whole. Finally in Section 7.4, we list various similar three-sector models that have been proposed so far, and show that the model in this publication has high generality and validity among them.[1]

7.1 Rectifying policy distortions of mainstream economics

Mainstream economics, as we have pointed out repeatedly, has a strength or 'bright' side, but also a weakness or 'shadow' behind it.[2] One such 'shadow' is that the assumption that humans are selfish and rational actors (*homo economicus*, or economic man) is too one-sided and simplistic (Sen 1987: 1). The second is that the view of society built on such assumptions places too much emphasis on the importance of the market, resulting in the distortion of economics into a discipline with an emphasis on efficiency and an unethical character that excludes ethical factors (ibid.: 2).

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7.1.1 Efficiency-oriented distortions

Mainstream economics has the danger of distorting public policy through the misuse or abuse of economic logic when it comes to policy discussions. Specifically, mainstream economics' policy recommendations overwhelmingly prioritise the pursuit of efficiency, and therefore tend to be inclined towards the simple recommendation that 'any factors that hinder the functioning of any market should be removed and a competitive environment promoted'.

Table 7.1 contrasts the public policy recommendations of mainstream economics and those that take a broader perspective (i.e. those that consider policy objectives other than efficiency), taking up agricultural policy, enterprise policy and employment and wage policy, as examples. Although the details of what is presented in the chart are omitted, mainstream economics policy understands citizens only from the perspective of consumers and producers, and not only understands markets as places where goods and services are traded, but even 'business entities' are regarded as objects of market transactions. Indeed, there may be a point to such simplification and modelling in understanding society.

However, in the management of actual public policy, it is necessary to consider not only such simple logic, but also more diverse aspects of human beings and society, such as the uniqueness of agriculture as a life-giving industry with multifaceted functions and extensive use of land (see Table 7.1). Such a larger perspective, or consideration or humility towards humanity, is essential in policy management (Sen 1987: 2). Nevertheless, the policy recommendations of mainstream economics are often remarkably simplistic, lacking such awareness.

Japanese society has seen many important problems in recent years (e.g. widening income inequality, the trend of increasing non-regular employment, the decline of local communities, etc.), but it cannot be denied that one important cause has been the neoliberal (competition-oriented) policies that were pushed in the past during the Jun-ichiro Koizumi administration (2001–2006) and persisted thereafter in various forms.

The view of society that does not lead to these policy 'failures' is the social model (three-sector model) detailed in the previous chapter. We will now show in turn that the three-sector model, as an alternative view of society to mainstream economics and policy theory, has a strong and clear basis in terms of some of the basic principles of established economic policy.

7.2 Support by basic principles of economic policy

In this section, we shall focus on a rather rigorous (but as intuitive as possible) discussion of the theoretical basis for understanding the economy by three sectors.[3]

Table 7.1 Contrasting public policy: mainstream economics vs. broader perspectives

	Public policy of mainstream economics (prevailing arguments)	*Criticism to the mainstream economics policy and the desirable public policy based on a broader perspective*
Agricultural policy	• Japanese food prices are significantly high by international standards (rice is more than three times higher than in the USA). • The elimination of high tariffs on Japanese rice imports would improve the lives of the Japanese people.	• Economists understand citizens only in terms of consumers and producers (efficiency) thus ignoring other measures (fairness, food safety, culture, etc.). • The non-plasticity of agricultural land, the perspective of food security, and the culture of rice paddy cultivation need to be taken into account.
Enterprise policy	• The ultimate holders of a company are its shareholders and therefore the value of the company can be measured by the total value of its shares. • Stock trading should be fully liberalised, regardless of the holder, seller, or trading motives.	• The company's employees are regarded as mere factors of production and not as human beings with personalities. • Organisational bodies and goods cannot be equated. It is necessary to understand that a company is a place also for the development and growth of human capacity and an organisation that contributes broadly to society.
Employment and wage policy	• In companies, the amount of remuneration received, whether by directors or ordinary employees, is decisive for their willingness to work. • The company should introduce a profit-linked system for executive remuneration and a meritocratic/performance-based wage system for general employees, as well as a labour market in which employees can change jobs at any time.	• Ignores the conditions for unity and strength as an organisation. Leads to disparities in the workplace, an increase in the number of non-permanent employees, a retreat from a sense of unity and a loss of psychological stability. • The meaning of working in an organisation should take into account not only money and promotion, but also the blossoming of abilities, a sense of achievement, a sense of unity, and a sense of contribution to society.

Note: The content of the prevailing arguments is based on Noguchi (2007) for agriculture, Arai (2007) for enterprises, and Nakatani (2000) for employment and wages, respectively.
Source: Okabe (2011a) table 3.

7.2.1 Rationale for a three-sector view: an explanation by combining the three principles of economic policy

The theoretical basis for a three-sectoral view of society can be shown from three theoretical propositions in economic policy theory. They are: (a) Tinbergen principle, (b) Mundell's theorem, and (c) Poole's proposition.[4]

As an initial and intuitive explanation, it is possible to explain the validity of the three-sectoral model by simultaneously applying two important principles (Tinbergen's principle and Mundell's theorem) concerning policy goals and policy instruments (Okabe 2017a: 103–104).

In other words, these two principles can be used together to explain that: (1) even if one policy instrument (or policy actor) is the most effective (absolute advantage) for any of several policy goals, it is not possible to achieve all (several) goals by itself (Tinbergen's principle) and that other policy instruments (or policy actors) need to be introduced additionally. It can then be derived that: (2) in such cases, it is necessary to allocate policy instruments (or involve the most suitable implementing actors to achieve the goals) based on the principle of comparative advantage for achieving the goals (Mundell's theorem). In other words, these two policy principles show that society will be better and more efficient at solving some problem if three sectors are involved in the response than if two sectors are involved. Let us now go into this a little further.

7.2.1.1 Tinbergen principle

The Tinbergen[5] principle can be shown as follows (Tinbergen 1956: 53–55). That is, an economic system can generally be understood to contain four types of variables

x^i: economic variables that are not targets (irrelevant variables)
y^j: target economic variables
z^k: policy instrument variables (which can be manipulated by the policy authority)
u^l: exogenous variables that cannot be manipulated by the policy authority.

The number of these four types of variables, in order (if each is denoted by a capital letter), is I for irrelevant variables, J for target variables, K for policy instruments, and L for exogenous variables that cannot be manipulated by the policy authorities. The structure of the economy is also assumed to be represented by N equations as follows:

$$\varphi_n\ (x^i, y^j, z^k, u^l) = 0,\ n = 1, 2, \ldots, N.$$

If the model is consistent, then the number of equations equals the number of economic variables. In other words, $I + J = N$ (if this were not the case, then

this economic system would have no solution). The economic policy problem in this simplest model is nothing more than finding the value of the policy instrument variable z^k (but x^i is an unknown, while y^j is a given value at this stage). Therefore, there are $(I + K)$ unknowns.

Now, if the number of means equals the number of goals, then $K = J$. Since it can be assumed that the number of unknown economic variables (I) equals the number of equations (N), this economic system will have a solution. In other words, 'in achieving a policy goal, the same number of policy instruments correspond to the goal'. This is one of the basic propositions of economic policy, which in later years came to be known as Tinbergen principle.

7.2.1.2 Mundell's theorem

While the above Tinbergen principle is the most fundamental principle for economic policy, there is one principle that is complementary to it. That is the principle known as the Mundell's[6] theorem. This is a principle that was initially set out in Mundell (1962), which discussed the nature of economic policy under a fixed exchange rate system,[7] but was established as a more generalised policy proposition in a subsequent paper (Mundell 1963).

It is the principle that if a policy objective is to be achieved, even if it can be done by several different policy instruments, 'policy instruments should be used in combination with the policy objective on which they have the strongest impact' (Mundell 1962: 76). Mundell used to call this the 'principle of effective market classification'. If this principle is not followed, the economy will tend either to reach equilibrium with oscillations or to destabilise (ibid.).

After presenting this principle, in the same paper Mundell points out that 'there are two important principles in economic policy' (ibid.: 76–77) and that a more general principle is Tinbergen's principle because 'to achieve a certain number of independent policy objectives, there must be at least the same number of policy instruments'.[8] That is, Mundell locates Tinbergen's principle first (ibid.: 77), because he recognised the Tinbergen principle as a proposition about whether an equilibrium solution exists for the economic system when implementing a policy, and whether its value can be determined. However, he continues, whether or not we can ultimately get there is another matter, and for this, he pointed out that it is necessary to clarify the dynamic path of the economic system, and argued that the principle of effective market segmentation (Mundell's theorem) provides precisely this answer. Thus, he concludes that Tinbergen's principle and Mundell's theorem are 'a necessary companion' (ibid.: 77).

7.2.1.3 Poole's proposition

The above two propositions on policy theory implicitly assume that there is a reliable relationship (leading to reliable outcomes) especially between public policy and its outcomes. But Poole (1970) drew attention to the existence

of uncertainty between public policy action its outcome, and analysed policy models that take it into account in the case of monetary policy. He contrasted policy effects in the movement of target variables in the absence of uncertainty and in the presence of uncertainty. And, he drew some interesting conclusions that may be applied to policy theory in general. Let us examine them somewhat more concretely below.

7.2.1.3.1 IN MONETARY POLICY, WHICH IS THE OPTIMAL POLICY INSTRUMENT: THE INTEREST RATE OR THE MONEY SUPPLY?

The objective of monetary policy is to bring overall economy (especially prices and output) to the desired level. In this case, the central bank, which is the policy maker and implementer, has two policy instruments. These are the interest rate and the quantity of money (money supply). In other words, there is a basic choice problem in monetary policy: which is better to manipulate the level of interest rates or the money supply to achieve the policy objective.[9] Poole (1970) analysed this question in a relatively simple model (the standard IS-LM model in macroeconomic analysis) but introducing uncertainty.

As a result, the following conclusions were drawn. (1) When there is no uncertainty (deterministic model), there is no difference in the outcome (GDP) regardless of which policy instrument is used; (2) however, when there is uncertainty in the movement of economic variables (stochastic model), there is a difference in the outcome depending on which of the two instruments is used, (3) which of the two instruments (interest rate or money supply) better achieves the policy objective depends on the economic structure and the nature of uncertainty, and either one instrument is not always better than the other.

More interestingly, the study concludes that: (4) when the movement of economic variables is accompanied by uncertainty, a combination policy (a policy in which two instruments are used simultaneously while maintaining a certain degree of linkage) will produce better results than either of the instruments used alone. However, (5) the success of such a combination policy is conditional on the policy authorities having a lot of information about the economic structure (structural parameters) and changes in it.

7.2.1.3.2 UNCERTAINTY AND ECONOMIC POLICY

The above results are highly suggestive for policy theory in general. First, they suggest that policy authorities (central bank in the case of monetary policy) need to have a thorough understanding of the structure of the economy, the substance of finance, and the working mechanism of policy effects. In the case of monetary policy, the first step required is to analyse economic trends and to forecast the future, based on an understanding of economic theory, statistical

analysis and other forms of 'science'. And not only that, as the expression of *The Art of Central Banking* (Hawtrey 1932) suggests, central bank operations can only be carried out properly if they are also familiar with market realities, practices, and institutions. Thus, in implementing proper monetary policy, not only science but 'art' is also required.

Second, the above analysis suggests that, since uncertainty is inevitably involved in the management of economic policy, it is generally necessary and effective to utilise a combination of various policy instruments simultaneously. Although Poole's (1970) analysis does not directly prove such a general proposition, by analogy, it is easy to infer that such a general understanding could be established.

In the case of monetary policy, the two instruments (interest rate and money supply) are not mutually independent of each other and there are certain constraints between them.[10] Therefore, when both instruments are used in 'appropriate' combinations, it is necessary to manage policy while satisfying certain constraints between each other.[11] However, in more general economic policy, where there are no such constraints and the instruments can be used independently of each other, the implementation of a combination policy will be easier and policy effectiveness more assured.[12]

7.2.2 Three basic principles and their implications for economic policy management

The three principles of economic policy discussed above are all highly general in nature, but they range from focused propositions to include a wider range of conditions and can be positioned as shown in Figure 7.1 as a whole.

In other words, Tinbergen's principle specifies the necessary conditions for the number of policy goals and policy instruments, and states the most basic requirements for achieving policy goals. And, Mundell's theorem is a principle that states which policy objectives are rational and effective to achieve

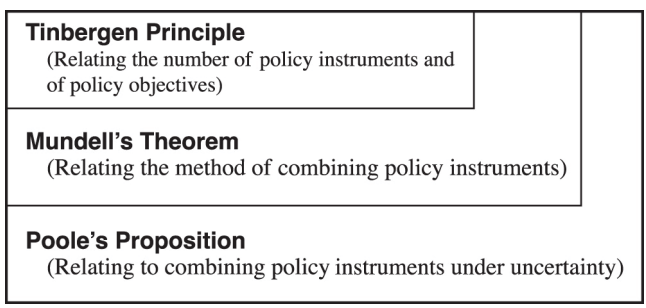

Figure 7.1 Basic principles of economic policy implementation.

Source: Prepared by the author based on Tinbergen (1956), Mundell (1962), and Poole (1970).

by which means (how policy instruments are allocated). Furthermore, Poole's proposition, which is premised on Tinbergen's principle and Mundell's theorem, argues that policy management must take into account the economic structure (relationships among various variables) and uncertainty in the policy effects. In other words, the overall judgment based on these three propositions suggests that the choice of policy instruments may change depending on the nature of uncertainty, and that it is useful to utilise a combination of policy instruments.

It is clear from the above that these three principles of public policy are fundamental requirements for maintaining and improving the effectiveness of policy, whatever the field of policy. Therefore, these three principles should always be borne in mind when discussing public policy.

At the same time, these three principles also provide interesting suggestions. The Tinbergen principle and Poole's proposition are interesting because, jointly, they suggest that the more instruments or actors for solving social problems, the better (a rationale for the explicit recognition and addition of a third sector). And, Mundell's theorem suggests the rationality and efficiency of having the 'community' (the non-profit sector or non-profit organisations (NPOs)) rather than the market or government deal with the various 'in-between' areas that cannot be dealt with accurately by the market or government.

Here, such diverse areas are included as various social services (e.g. nursing care, welfare, or comprehensive community care systems in which residential, medical, nursing care, and lifestyle support are provided in an integrated manner for an ageing population) and environmental protection (e.g. recycling). In these areas, human values are an important element, and therefore, a response based on coercion or selfishness is not appropriate there, and concepts that characterise the nature of the third sector, such as voluntarism, altruism, and non-profit-making, are the key words.

The above summary of the basic principles of public policy leads to the conclusion, based on the principles of economic policy, that it is more desirable to understand the social system not according to a two-sector model but according to a three-sector model, and to solve social problems by means of such a system.

7.3 Increase in social welfare: theoretical explanations

In general terms, efficiency (achieving a certain amount of output with fewer inputs) and equity (equality in income distribution) can be considered the two key measures in any economy or society. The challenge then is how to achieve a successful combination of these two incompatible situations. In the following, we will consider, by means of a theoretical model, what the differences are between the case where society is understood by a two-sector model and the case where it is understood by a three-sector model when trying to achieve such social objectives.

7.3.1 Preliminary considerations

First, by utilising Model 1 (Figure 7.2), let us compare two cases where society is understood as comprised of two or three sectors. When the economy is understood as comprised of two sectors, market and government. Here, the market is overwhelmingly superior in terms of efficiency because of the principle of competition, while nothing can be expected in terms of achieving equity (income distribution). On the other hand, while efficiency cannot be expected in principle from the government, equity is fully achievable based on its powers. For this reason, the market decentralisation regime can be represented by OM, and the centralised regime can be represented by OG. In other words, the performance of a society based on a two-sector model, which assumes market and government, is OD, the composite of vectors of OM and OG.

Next, consider the case where an additional non-profit sector (specifically, NPOs) is introduced into this society. For the time being, NPOs would be given exogenously. Then, NPOs can be shown to be located between the vertical and horizontal axes, as they have a character intermediate between the market and government, as mentioned earlier.

On the other hand, their size (the influence of their activities) is clearly smaller than that of markets and governments. For this reason, NPOs can

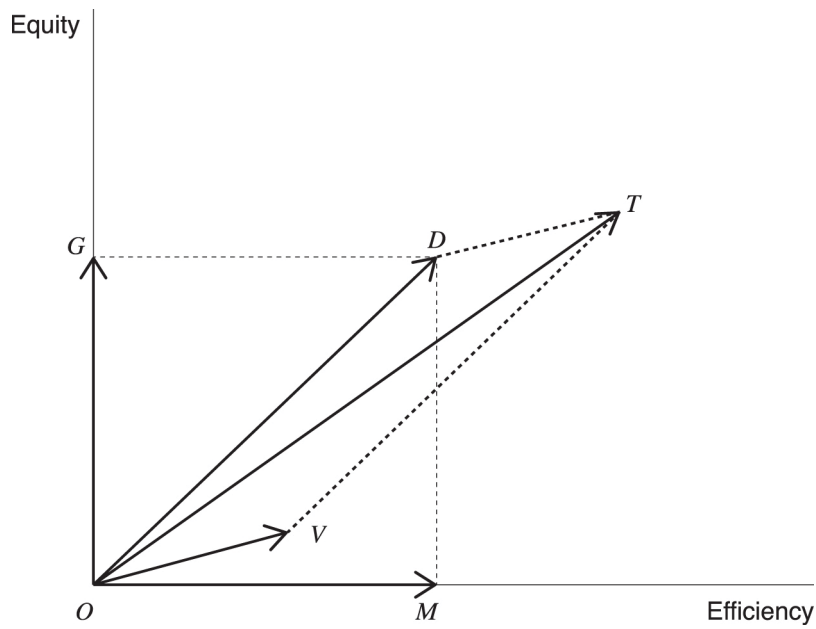

Figure 7.2 When society is understood as comprised of two or three sectors: Model 1.
Source: Okabe (2016a) chart 10.

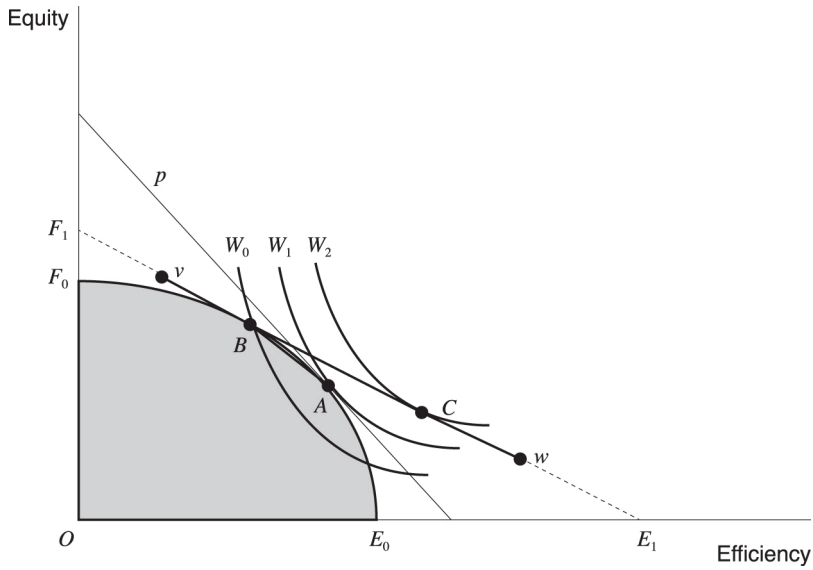

Figure 7.3 The case where society is understood as composed by three sectors instead of two: Model 2.

Source: Okabe (2016a: figure 11, 2017b: appendix 1).

generally be shown as vectors like OV. As a result, the performance of society under a situation where two other sectors exist (vector OD), plus NPOs (vector OV), is OT, a composite of the two vectors. It is clear from this diagram that the performance of society in terms of efficiency and equity is better (the arrow extends further away from OD to the OT) as long as NPOs function as a single independent sector, even if they have an intermediate character between the market and the government.

However, the above analysis actually leaves two aspects unaddressed. (1) It assumes that the NPO sector can be established without sacrificing the resources (available resources) of society as a whole (new OVs added on top of existing OG and OM), and (2) even if the NPO sector improves social performance in terms of efficiency and equity, it is unclear whether this is in line with the needs of society as a whole.

So, let us now consider introducing another theoretical model to allow for general considerations, including resolving these two issues (Figure 7.3).[13]

7.3.2 Choosing between efficiency and equity: the case of the two-sector model

The question of whether to take efficiency or equity means a relationship (trade-off situation) in which, if one is emphasised, the achievement of the

other has to be abandoned to some extent. For example, in a world of perfect competition, high efficiency can be achieved because there are winners and losers, but the gap between winners and losers is large. On the other hand, if a policy of complete income equalisation is enforced, the efficiency of society will decline because even those who are able and willing to work will not do so.

The possible combination of efficiency and equity can therefore be represented by the curve $F_0\ E_0$ and its lower part (the area in grey). In other words, the desired combination of efficiency and equity cannot be achieved depending on the case of total dependence on the market alone or total dependence on the government, which not only requires some form of combination of the two, but also creates a relationship where increasing one target forces the other to decrease (hence, the curve $F_0\ E_0$ becomes rightward falling). Moreover, since the degree to which one has to sacrifice the other gradually increases as the other is increased, so it can be assumed that this curve has a convex shape towards north-east direction (technically speaking, the marginal rate of substitution between the two is diminishing).

Under these circumstances, what combination of efficiency and equity would this society choose? To answer this question, it is necessary to introduce a preference function for both goals, i.e. a measure as indicated by several W-curves in the diagram (a group of indifference curves as a social welfare function which is convex toward the origin). The curve showing the preference relation between the two has a convex shape with respect to the origin O, as is usually assumed, and it can be assumed that a rational society will choose to reach the indifference curve as far from the origin as possible.

If now the relative importance of the means of achieving efficiency and equity (the degree of interchangeability of the means of achieving the social goals) is indicated by the slope of the straight-line p, then, this society will choose the combination of efficiency and equity indicated by the coordinates of point A. In other words, point A and point B (or any point on the curve $F_0\ E_0$,) are both capable of combining the two goals in the most advantageous way, but because point A is socially preferred over point B. This is because, in terms of society's satisfaction, the indifference curve W_1 is above W_0 (and point A on the curve W_1 is in the selectable area shown on the margin of grey area). If we view society in two sectors, we arrive at this state of affairs.

7.3.3 Effects of the introduction of the third sector

Now, consider a situation where the third sector (NPOs) exists in addition to the two existing sectors. The situation can be understood as a change in the relative importance of the means of achieving efficiency and equity such that the straight-line p becomes a straight line with a different slope, for example the straight-line $F_1\ E_1$. This is because the third sector is an independent sector that enables the achievement of social goals through a different combination of means than in the case of the two traditional sectors. Strictly speaking, however, it is somewhat less than the maximum function that the market or the

government could fulfil on its own. For this reason, only the line *vw* part of it, rather than the line $F_1 E_1$, is available in reality.

In this case, point A is no longer the optimum point. This is due to the following reasons. That is, after the introduction of the NPOs, society first selects point B (which is within the feasible domain) and then, through the activities of the third sector (i.e. by moving the combination of goals indicated on the line *vw*), point C. Thus, point C becomes the new optimal point. It can be seen that the level of satisfaction of society at point C corresponds to W_2, which is higher than the initial level W_1. Thus, the social significance of the third sector (NPOs) can be understood.

In other words, by reducing the resources allocated to society as a whole (market and government) by a certain percentage, both those targeted by the market and those allocated to the government, and to create a sector with a new character (third sector or non-profit sector) with them (i.e. not simply to change the utilisation and allocation of domestic resources, but to develop an innovative sector with the sacrificed resources). This is not simply a change in the utilisation and allocation of national resources, but may be understood to be the opening up of an 'innovative sector' with the sacrificed resources (which may be understood as a kind of 'exchange')[14] thus increases social satisfaction.

As the above model analysis is rather abstract, let us consider what it implies in somewhat more concrete terms. First, the addition of a third sector to the original two sectors means that the attainable area of the social goal has changed from the original curve $F_0 E_0$ (and the shaded area below it) to the area below the straight line $F_1 E_1$ (to be precise the area below the line *vw*; the area is not explicitly shown in the diagram), meaning that the nature of feasible area has changed with some extension. Generally speaking, this means that completely new opportunities for 'exchange' (innovative use of resources) are now provided, thereby opening up new possibilities. As a result, this can lead to a more satisfying situation for society. Recognition of the existence of the third sector thus functions to diversify the means of achieving social goals and to bring about better results.

This can be related to the qualitative theoretical interpretation described in Section 7.2 as follows. First, the expansion of the possible domain of means in achieving social goals (the transfer from the curve $F_0 E_0$ to the line segment *vw*, which is further to the upper right) can be interpreted as the addition or expansion of means (tools) for achieving goals, in terms of Tinbergen's principle.

And secondly, the addition of a third sector activity (i.e. the possibility of selecting a point on the line *vw*) can be interpreted as the fact that part of the role traditionally played by government and markets in solving problems (achieving social goals) is now taken up by a newly introduced sector (by point C rather than A or B) and more appropriately than markets and government. This can be understood as a phenomenon consistent with Mundell's theorem.

The above result shows that by explicitly introducing a third sector (NPOs), society is better able to solve problems and achieve goals with higher

preferences. Technically speaking, the introduction of the third sector implies 'Pareto improvement'.

Although the above discussion is still abstract, its meaning can be stated intuitively and conclusively as follows. If we contrast the case where two sectors (market and government) are engaged to solve social issues (efficiency and equity) with respect to the resources given to a society as a whole, and the case where three sectors (market, government, and community) are engaged to address various issues in society (efficiency, equity, stability, innovation, humanity, well-being, etc.). In this situation, the latter case now produces more desirable results when contrasted with the former case.[15]

When discussing the overall picture of the whole economy by introducing the 'three-sector model', it is important to understand how the three sectors relate to each other and how the economy as a whole will develop in new ways. In this case, the relationship between 'market and government' and 'government and community' has been studied extensively and is relatively easy to understand.[16] However, analysing the relationship between 'markets and communities' is not always easy, as there are many different perspectives. This publication does not go into it, but future research is expected.[17]

7.4 Comparison with other similar models

In the preceding section, we introduced the third sector as an extension of the mainstream-economics framework and presented a new framework of the 'three-sector model' in order to understand society more effectively. In economics, however, the third sector has traditionally been little studied (in fact, there is a tendency in mainstream economics to intentionally *exclude* it as a subject of study).[18] While, in other areas, such as sociology or the study of NPOs, various 'three-sector' perspectives (various 'triangular' models) can be found.

Here, we would like to first cite three such examples mentioned by Evers and Laville (2004b), as well as another three relatively new examples which were obtained by the author in a literature search. It should be noted that they all end up presenting models for understanding society but do not go as far as the theoretical explanations as discussed in Section 7.3.

7.4.1 Welfare triangle

First, the concept of the 'welfare triangle' (Figure 7.4) has traditionally been seen as a way of dealing with the welfare domain, where the human element is important. This is because, in addition to the 'market' and the 'state,' the role of the 'private household' (family and community), which enables close contact between people, is important for improving welfare, and these three factors are therefore fundamental to welfare. This is presented as the 'welfare triangle' (Evers and Laville 2004b: 14–16). Within each of these three sectors, the concepts of profit, income redistribution, and individual responsibility are

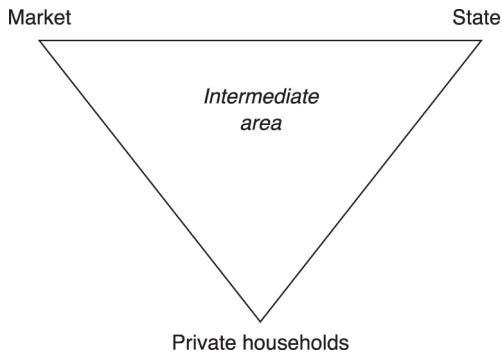

Figure 7.4 Welfare triangle.

Source: Evers and Laville (2004b: 15). Originally published in Evers (1990).

understood to occupy a central position (ibid.). It is also suggested that there is an 'in-between area' between the market and the state, where various types of organisations exist.

However, the meaning of the market is not always clear in this diagram. This is because, in addition to companies, individuals (private households) are also heavily involved in the market through the provision of labour and the purchase of goods and services, and participants in the market are supposedly acting on their own responsibility. Therefore, the characterisation of 'private households = individual responsibility' is rather one-dimensional and unreasonable.

7.4.2 Overall structure of the complex economy

Next, a triangle with the character of 'overall structure of the plural economy' (Figure 7.5) has been shown. This diagram shows the understanding that, when society is viewed on the basis of an economic perspective, it is composed of three different sectors: the market economy, the non-market economy, and the non-monetary economy. Looking specifically at their content, the first two are characterised as the private and public sectors, respectively, which are both characterised as money-mediated sectors. In contrast, the third sector is defined to be the one in which relationships between each other are not mediated by money, such as the family, collective self-help, volunteering, and intracommunity exchange systems.

These three sectors are characterised, respectively, by the 'market principle', the 'redistribution of income and assets', and 'reciprocity'. The third element (reciprocity) is explained as being rooted in 'gift' as the first human action, which is an economic action before the concept of 'contract', and is the basis of society as it creates social links (Evers and Laville 2004b: 16–18).

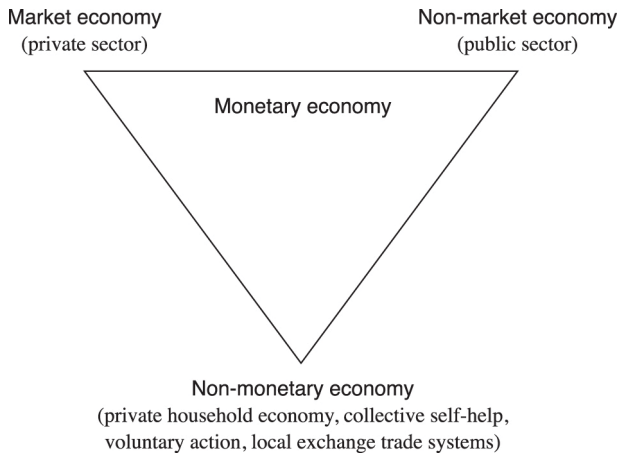

Figure 7.5 Overall structure of the complex economy.

Source: Evers and Laville (2004b: 16). Originally published in Roustang et al. (1990).

This view is unique in that it defines a mixed welfare system by actively taking into account sectors that are established by factors other than money (such as gifts, trust, and altruism). Therefore, this scheme has a broader perspective than the aforementioned 'welfare triangle' (Figure 7.4). It is also easy to understand that it defines three 'sectors' in correspondence with the three 'functions' that Polanyi argued for (see below). However, it is unclear how the 'non-monetary economy' relates to the 'market economy' and the 'non-market economy'.

7.4.3 Pestov's welfare triangle

There is also a scheme in which various elements are added on top of the 'overall structure of the complex economy' described above. It is called the 'third sector and the welfare triangle' or 'welfare mix' or 'Pestov's welfare triangle' (Figure 7.6).[19]

Since this scheme was presented by Pestoff (1992, 1998), the expression 'Pestoff's welfare triangle' is often used. In this model of the welfare triangle, three 'poles' (sectors in the usual sense) are depicted—the market, the state, and the community—each containing the apex of the triangle. In addition, an organisation with elements in common with (or mixed with) all three sectors are represented by a circle inside the triangle, which is defined as the third sector (see diagram). This third sector is therefore not defined as a separate and distinct sector, but as a component of a mixture of solidarity and various economic principles (Evers and Laville 2004b: 20).

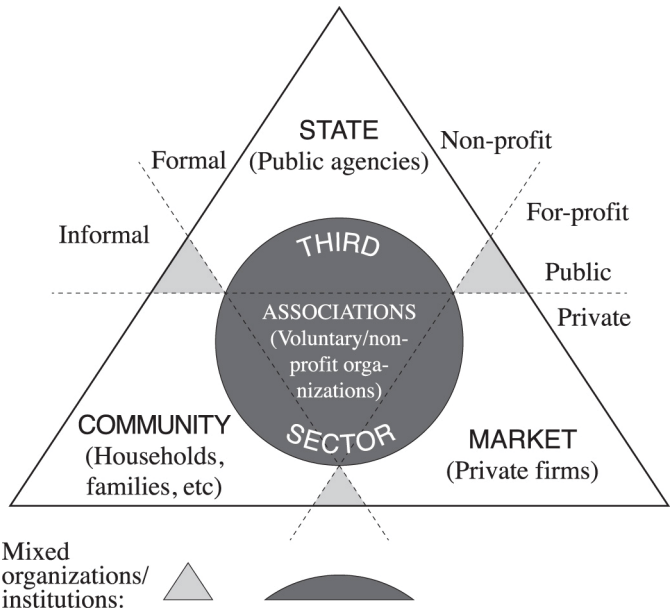

Figure 7.6 Welfare mix (Pestof's welfare triangle).

Source: Evers and Laville (2004b: 17). Originally published in Pestoff (1992, 1998).

In other words, the Pestov welfare triangle is not simply a three-sector model, but rather a 'three sectors + α' model (or a four-sector model, depending on the point of view). Incidentally, this is sometimes described as a 'tripolar economy' (Evers and Laville 2004b: 18–20).

These are three of the 'three-sector models' introduced in Evers and Laville (2004b). However, when understanding society, the idea of adding another heterogeneous sector to the two existing sectors (market and government) and understanding it in terms of three sectors is quite natural. Therefore, it is not difficult to imagine that there are other varieties of such schemes than those mentioned above. Three additional similar schemes that the author has relatively recent seen are presented below.

7.4.4 Three mechanisms to sustain the society

First, there is the three-sector model illustrated by Hayami (2009) (Figure 7.7). Here, 'community' is introduced in addition to market and government. This is a direct successor to Polanyi's three-sector model already described (see Figure 6.2 in Chapter 6). What is distinctive here is that the three components are referred to as the three 'functions' (mechanisms) rather than the three

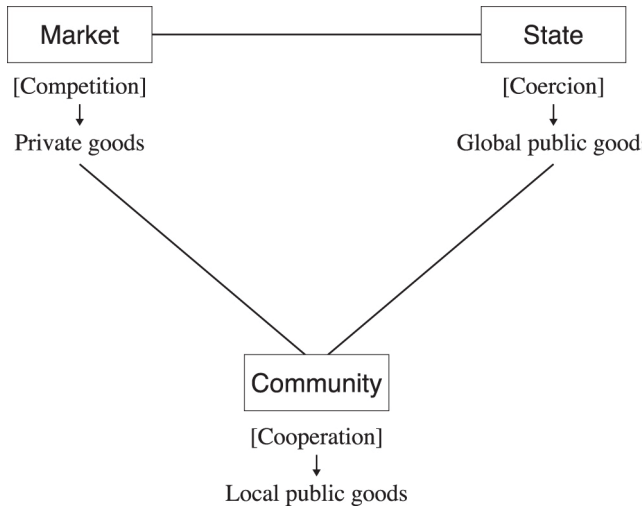

Figure 7.7 Hayami's (2009) 'three mechanisms' model.

Source: Hayami (2009: 108).

'sectors'.[20] The focus in his paper is on common social capital, so it is characteristic that the government and the community are characterised as the providers of broad-based and local public goods respectively (i.e. his emphasis is on whether the sector is broad-based or local).

7.4.5 Tripolar model incorporating 'civil society'

In his major work (Bowles 2004: chapter 14), Bowles emphasised the need to understand economic governance as being realised by three sectors (market, state, and community). However, the idea was not initially illustrated, but has been very recently presented visually (see Figure 7.8) in a co-authored paper (Bowles and Carlin 2020a).

There, markets and government are positioned, as in other studies, as two independent sectors, while the third sector (which this book refers to as community) is positioned by the expression 'civil society'. This is because, the authors explain, contemporary society cannot be properly understood simply as capitalism, but needs to be more just, democratic and sustainable, as well as a well-functioning economic framework (ibid.: 372). To this end, they emphasised that, by replacing the Marshall-Walras style framework,[21] we need a useful paradigm for policy implementation and institutional design, as well as an economic model with an empirical basis (ibid.). Further, they emphasise that for a modern economy to function well, it is essential to have a perspective

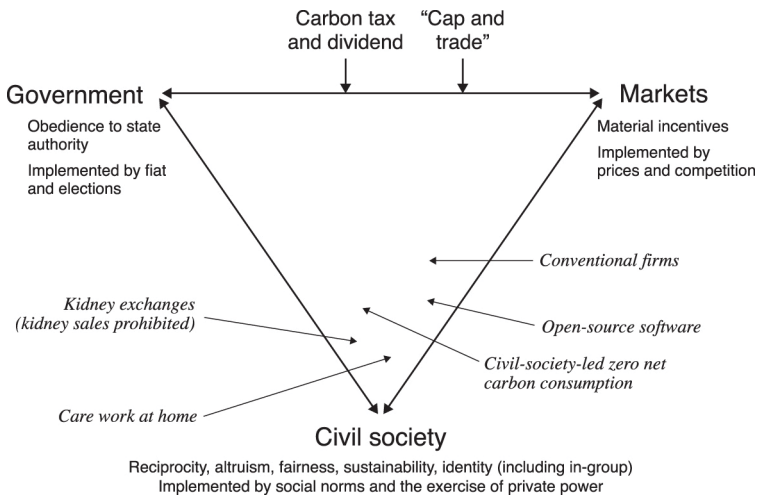

Figure 7.8 Bowles and Carlin (2020a) tripolar model.

Source: Bowles and Carlin (2020a: 376). Copyright American Economic Association; reproduced with permission of the *AEA Papers and Proceedings*. A similar figure is presented in Bowles and Carlin (2020b).

accompanied by norms such as freedom, solidarity, fairness, reciprocity, and sustainability (ibid.: 377).

It is unusual for an economics researcher to introduce such ethics and values and to use them as criteria for understanding society and conceiving public policy. Thus, the breadth of their perspective is commendable. On the other hand, their explanation that Figure 7.8 indicates an exploration of non-governmental and non-market dimensions (ibid.: 377) is unclear whether their statement refers to a way of understanding reality (a part of the economic modelling conception) or the criteria for policy evaluation. Furthermore, the introduction of the broad and vague concept of 'civil society' (a concept with diverse definitions) as a third sector may further amplify the ambiguity.

However, in another paper (Bowles and Carlin 2020b) discussing measures to respond to the COVID-19 pandemic, they state that 'in addition to markets and government, a third pole is needed in terms of economic thought and policy' and argue that 'solutions to societal challenges can be implemented through a *weighted combination* of government fiat, market incentives, and civil society norms' (italics by the quoter). For this reason, it may be more appropriate to understand their model as presenting a framework for discussing the nature of various policy responses by the public and private sectors on the

basis of the three elements, rather than as a model of the functions or sectors of society.

7.4.6 Various other three-sector models

So far, five cases have been reviewed, but similar models or ideas can be found in various places.[22] For example, Rajan (2019), although not illustrated in his book, defines a proximate community as a group of people living next to each other, as already mentioned,[23] and argues for the need to strengthen and expand it as a 'third pillar' in an age of over-expansion of markets and governments. This is an introduction of the idea of the three sectors, not as a way of understanding the society but mainly from the perspective of policy theory.

In addition, the social image described by Hiroi (2015: 178) is conceptually a successor to Polanyi (1944: part 2, chapter 4, 1977: part 1, chapter 3), but he did not illustrate. In the author's (Okabe's) own way, Hiroi's claim can be depicted as Figure 7.9. There, the structure is exactly the same as Polanyi's diagram (Figure 6.3), although some factors are added.

Furthermore, Ogaki (2022) analyses three 'mechanisms' (not sectors) in the economy, and concludes that there can be a behaviour that follows motives other than selfishness (namely, virtue ethics). Although the perspective is somewhat different from the analysis of 'sectors', his understanding of society is consequently common to the various studies referred to above and the 'three sector' perspective presented in this publication.

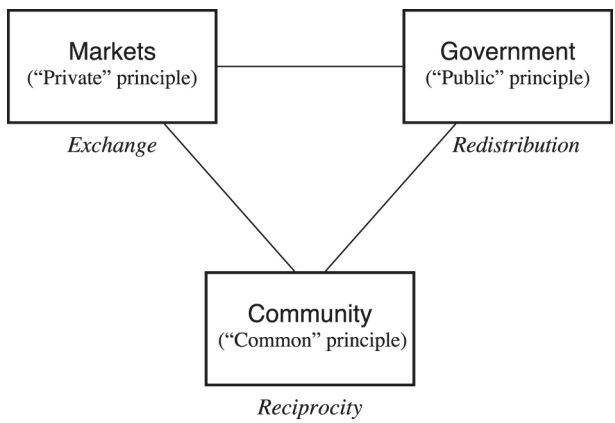

Figure 7.9 Economic system proposed by Hiroi (2015) succeeding Polanyi.

Note: The author (Okabe) has diagrammed what Hiroi (2015: table 8-1, 178) presented in tabular form.

7.5 Summary

Based on the above survey, four points can be noted. The first is that not a few ideas have traditionally sought to view society in terms of three sectors (existence of diverse proposals). And, it is characteristic that such proposals are often from research fields other than economics, such as sociology, NPO theory and economic anthropology, rather than from the field of economics.

Secondly, the number of proposals to actively recognise the third sector has increased and it can be attributed to the fact that the limitations of traditional economics ideas (understanding society through two sectors, market and government) have become apparent due to the expansion of the market sector and its problem.

This may be due to the fact that in high-income countries that have achieved growth by utilising market functions, the community sector has become smaller as the economy grows, and it has become necessary to reconsider the relationship between intrinsic values and markets that human society should maintain (Sandel 2012, 2013). For example, in an ageing society, people with dementia may not be able to use the market, and the role of the family (community) needs to be increased. Furthermore, there is an increasingly greater need to focus on the third sector (community) for diverse and emerging needs, such as various social services (care, welfare, childcare, etc.) and environmental protection (recycling, etc.). These are all groups of problems that cannot be effectively solved in competitive markets. Rajan (2019), mentioned above,[24] further generalises this perspective and argues for the strengthening and expansion of communities as a 'third pillar' to the two pillars of markets and government in the current over-expansion of the existing two sectors.

Third, the proposed third sector includes a variety of elements other than markets and modes of government behaviour, and therefore there is naturally a wide variety in the proposals (diversity in the nature and naming of the third sector). In other words, while the names of the two initial sectors (government and market) are generally common, as discussed above, the names of the third sector are quite distinct. For example, there is a variety of names such as third sector, third function, third mechanism, third pole, third sector, etc., and a variety of functions are envisaged for the third sector. Furthermore, various other names are also found. These include 'market, plan, reciprocity' (Kolm 1984) and 'market, bureaucracy, clan' (Ouchi 1980). And Ostrom (1990), who won the Nobel Prize in Economics, defines the third sector as 'informal local self-management organisations' (Bowles and Carlin 2020a: 377), and so on.

Fourth, although various proposed three-sector models explain the important role of the third sector in the implementation of various policies, from the perspective of policy theory, there are few theoretical explanations (lack of positioning by policy theory).

For example, a multifaceted and theoretically organised list of the nature and significance of the third sector (corresponding to Figure 6.2 in Chapter 6) could not be found in any of the articles or books as far as the author conducted

a literature search. Nor was there any explanation of the functions of the third sector with the aid of standard policy theories (Tinbergen's theorem, Mundell's principle, etc.), nor was there any theoretical explanation (as done in Section 7.3 in this chapter) that the use of the third sector can enhance social welfare. In these respects, we believe that this book offers a somewhat new perspective.

Notes

1 This chapter is based on Okabe (2022a: chapter 9; 2018c, 2018d).
2 For more information on light and shadow, see Section 1.2, as well as Okabe (2017a: chapters 2-1, 2-2) that discuss the issue in more detail.
3 The validity of the three-sector model can also be explained from the perspective of public philosophy (or positive psychology), which is a completely different dimension from the economic policy perspective presented below. For example, Kobayashi (2021) states that 'the role of the "public", taken in the sense of "government", is important for society to function well, but in modern society the "public community", which is created by individuals or "I" working side by side in solidarity, also plays an important role. This "public community" is the link between the "public" and the "private"' (ibid.: 12–13), a thought-provoking argument that in effect lays the groundwork for the three-sector model.
4 For an explanation of (a) and (b) of these, see Okabe (2017a), chapter 5, section 2. There is also an explanation in Asako (2000: chapter 4). The first two principle were initially presented by Tinbergen (1956) and Mundell (1962), respectively.
5 Dutch economist (1903–1994). One of the founders of econometrics as well as the developer of applied dynamic models for the analysis of economic processes; first recipient of the Nobel Prize in Economics established in 1969.
6 Canadian economist (1932–2021). Awarded the Nobel Prize in Economics in 1999 for his extensive work in international economics.
7 A specific conclusion in Mundell (1963) is the assertion that under a fixed exchange rate system 'monetary policy should be used to achieve balance of payments target and fiscal policy should be used for domestic stability'.
8 '"At least as many" policy instruments' means 'policy objectives can be achieved more effectively with an equal or greater number of policy instruments'.
9 For a detailed discussion on this point, see Okabe (1999b: chapter 14, Management of monetary policy and its effects).
10 For example, if M is the quantity of money and i is the level of interest rate, these two variables, which correspond to the final shape of the economy, can be shown in reduced form as $M = a + b\,i$ (a and b are constants). In other words, M and i are related and cannot take any values independently.
11 How exactly to combine both means is a practical and important question, which Poole (1970) does not enter into.
12 A specific example of this can be taken from agricultural policy (a combination of import tariffs and subsidies to agriculture). See Okabe (2022a: chapters 10-2 and 10-3) for more information.
13 Figure 7.3 is a diagram that appears in theoretical analyses of the effects of financial transactions (Okabe 1999a: 4–11) and also in theoretical analyses of the effects of international trade (Kenen 1985: 29–32, Bhagwati et al. 1998, 140–142). They are diagrams that show that where a 'new deal' (a new type of exchange)

becomes possible as well as traditional exchanges, it brings significant benefits to both trading parties. The reason why similar diagrams can be used for seemingly completely different economic phenomena is that finance can be understood as an 'exchange transaction' between present and future goods, while trade transactions are 'exchange transactions' between home and foreign goods at a certain point in time, both being 'exchange' transactions (Okabe 1999a: 12–13). The reasons why this diagram can also be applied to the emergence of a third sector are discussed in the text below.

14 This figure can be interpreted as showing the benefits of creating an innovative new sector (a kind of resource transformation) by investing a certain proportion of existing domestic resources (see footnote 13), similar to the figure in the theoretical analysis showing that financial and trade transactions generate new benefits. In other words, it can be interpreted as a case where the development of new means (social system innovation) is made possible by a new, unconventional mix of resources, unlike the case where the mix of utilised government and market resources is simply changed (which is only moving on a transformation curve).

15 Of these targets, those relating to humanity and well-being are dealt with in Chapter 8.

16 For example, a new movement of 'public–private partnerships (PPP)' is gaining momentum in Japan and abroad with regard to the relationship between 'government and community' (Okabe 2017a: 81–83).

17 A valuable study from this perspective is Suzuki and Takagi (2021). In their paper, the relationship between communities (agricultural cooperatives) and markets is clarified theoretically and empirically from the perspective of imperfect competition.

18 See footnote 42 in Chapter 1.

19 Evers and Laville (2004b: 16–18) show also 'civic and solidarity economies' and others in addition to the figures cited here, but these are omitted here.

20 The term 'function' is a strict successor to Polanyi. In this book, however, the term 'sector' is used throughout, as these three are the entities that actually carry out their respective functions and are easy to visualise concretely.

21 Refers to the idea of explaining overall economic movements on the basis of the behaviour of selfish economic agents, i.e. methodological individualism (note by quoter).

22 For example, Furusawa (2016) presents a rather complex picture in which the various institutions (cooperatives, Japanese-style third sector, civic projects, and community trusts) are explicitly positioned, but will be omitted here.

23 See Table 5.2 (B) of Chapter 5.

24 See footnote 16 in Chapter 6.

Part III

Enriching human society

A practical philosophy

8 A practical philosophy for well-being and better society (I)

In mainstream economics, two basic assumptions have been made about humans. First, that humans are *homo economicus* (economic man), in which case the motive for action (or 'incentive' in more general terms) is selfish, and second, that human capacity is constant. With these two basic premises, economics has tried to describe the mechanisms by which society operates and considers public policies to move towards a desirable state. This has been regarded as the fundamental research in economics.

However, humans also possess a sense of connectedness (networking), and more or less altruism which cannot be overlooked. They are also, as Adam Smith pointed out, beings with unmanifested potential. If we assume such a broad view of human beings, the relationship between the individual and society opens up a completely different research perspective from mainstream economics.

For this reason, this chapter and the following will specifically argue that, if such a broader view of man and society is assumed, economics opens up new areas that have not been discussed by mainstream economics at all. First, we point out that a unique 'practical philosophy' has been developed in Japan, which proposes that if individuals promote self-development that draws out their inherent abilities, they can not only realise their well-being but also contribute to building a better society by activating their own mission in a society where the 'division of labour' plays an important role.

Accordingly, this chapter introduces the content of this practical philosophy in some detail, and in the next chapter, we try to evaluate it in the context of broad human researches. Although these perspectives and arguments may be far removed from traditional economics, the author believes that they offer an important perspective for social science or the study of man and society.

In Section 8.1, we take up the general topic of 'self-improvement', which has been attracting from both practical and academic attention in recent years, and consider its significance by reviewing some related books on the topic, including the practical philosophy. Then, in Section 8.2, the basic framework of the practical philosophy, which was born in Japan and is making a remarkable progress in recent years both nationally and internationally, will be

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introduced and explained.[1] And, in the next chapter, Chapter 9, we try to put it in a broader context of international human research, and try to look ahead to the future of this practical philosophy.

8.1 Self-improvement of an individual and its implications

Self-improvement (also described as self-development; self-help; self-enlightenment) refers to self-discipline to improve oneself in one's economic, intellectual, or emotional aspects.[2] In other words, it is voluntarily training oneself with the aim of elevating oneself to a higher level (in a word, to bring about a good life), with the aim of achieving greater success, acquiring higher abilities, developing a better personality, living a more fulfilling life, etc.

This is ultimately closely related to the pursuit of happiness (well-being) or the good life for human beings. The discussion is naturally multifaceted, but here, we will proceed on the premise that happiness for humans lies in 'self-actualisation', i.e. 'realising one's true self by realising one's full potential'.[3]

In recent years, interest in self-help has increased in the USA and Japan, while psychology[4] relating closely to this area has become more active in recent years, leading to an increase in the publication of related books. Here, we first examine the contents of related books selected on the basis of certain criteria,[5] such as having a reputation in Japan (including translations of foreign books) and the USA.

8.1.1 Implications of self-improvement

The results of an overview of six books[6] (five authors) that are considered to be representative of the diverse range of national and international books on self-help are summarised in Table 8.1. What can we really draw from this? We will not go into detail at[7], but the main points can be pointed out as follows.

Firstly, all of these works share the goal of acquiring basic human values, ethics and a way of life (acquiring a good way of life) rather than achieving a specific goal (material wealth, vibrant daily life, etc.) through self-development. To this end, the emphasis in these books is not on acquiring specific intellectual or physical skills, but on the more basic issue of understanding what it is (accurate self-awareness), focusing on the human character (personality).

Secondly, in order to realise the upgrading of personality, which is the aim of self-development, the question of how personality is formed in the first place and how it can be changed into something desirable is raised. And, the answers to this question are emphasised in all of the works (although the treatment and emphasis varies).

For this reason, in understanding the formation of personality, such academic results are often utilised as the perspectives of philosophy, ethics, history of ideas, brain science, statistics and, in particular, psychology (personality psychology). These help to understand the characteristics of one's sensations, judgements, and behaviour, and explain how to change one's personality. In

Table 8.1 Five books on self-development

	Author and book title (Area of activity).	*Main contents*	*Features*
A	*The 7 Habits of Highly Effective People* (1989) by Stephen R. Covey. (Consultant).	The principles of sincerity, humility, courage, perseverance, diligence, simplicity, moderation, etc. are assumed to be highly universal. The seven habits to be acquired by human beings are presented in combination with these principles. The first point is the habits that help individuals to mature, followed by a list of personal habits that are necessary for good relationships (organisational and social).	As it is not based on a specific existing religion, it has a wide acceptance regardless of time and country (translated and published in 38 languages worldwide). On the other hand, there is no concrete discussion of what the readers' weaknesses are, how to identify them and how to improve them.
B	*The Purpose Driven Life* (2002) by Rick Warren. (Religious).	Emphasises that the purpose of life needs to be based not on the values of this life but on those of eternity, and positions the way of life (self-transformation) from this perspective. It points to the elements of such a way of life (honesty, humility, kindness, compassion, fidelity, patience, service, love, etc.) and emphasises personal development. Emphasis is also placed on the formation of good communities.	Plainly and systematically explains the basic structure of Christianity. Asserts the significance of purposeful living (pleasing God) and action from this perspective (translated into more than 70 languages worldwide). On the other hand, there are aspects that are difficult to understand or sympathise with if you are not a Christian.
C	*What Life Should Mean to You* (1932) by Alfred Adler. (Psychologist)	People form their 'style of life' unconsciously from an early age, which directly influences their values and sense of well-being. So, self-development can change one's personality and increase happiness. The individual is not an isolated person, but lives together with his or her peers. Therefore, the cultivation of a sense of community is ultimately important for the well-being of the individual.	Personality theory formed at the beginning of the 20th century. Many aspects of its concepts and perspectives support modern self-help thought, and it has recently gained a high reputation both in Japan and internationally as personal psychology (Adlerian psychology). On the other hand, individual psychology is probably the most difficult of the various types of psychology to learn and practise (Adler himself stated as much).

(*Continued*)

Table 8.1 (Continued)

	Author and book title (Area of activity).	*Main contents*	*Features*
D	*The Self Care Prescription* (2019) by Robyn Gobin. (Psychologist)	The author argues that a balance between mind, body, and spirit is important to enrich life, and explains how to train oneself in these six aspects (relationships, body, intellect, work, spirituality, and emotions). Claims that it has been scientifically proven that people can choose how they live their lives and have a richer life.	It presents the challenges of self-development and how to deal with them in a comprehensive and systematic way. The explanations are plain and based on the results of various modern sciences, away from specific ideologies and religions. On the other hand, the self-discipline method is generalised and the overall impression is rather weak due to the unclear priorities and focus of the items to be addressed.
E	*How to Make Your Life the Best* (2018b; 2020); *The Power to Know Oneself* (2019; 2021a) by Keiko Takahashi. (Practical philosopher).	It argues that there are four basic typologies of human feeling and behaviour. While discovering the typology to which one belongs, it is argued that living according to one's true heart will lead to spiritual fulfilment, the activation of the individual's mission and a better society. Developed and provided practical worksheets on self-diagnosis and daily living, claiming that their effectiveness has been proven over many years.	The books distinguishes four categories of personality, based on 25 years of exploration and quantitative evidence (data from 100,000 people), and liberally use Western and oriental terms and concepts of human understanding. On the other hand, the lack of explicit references to the relevant literature could make the originality of the book clearer if this were done.

Note: For details on the main issues in each book, see Okabe (2022a: 300–318).

all of these books, it is emphasised that the individual retains the initiative in changing his or her own personality (such recognition is important in itself).

However, in some cases, specific methods for recognising one's personality are not mentioned (books A, B, and C), while in others, on the contrary, various personality types and self-diagnostic methods are developed in detail (E) as being of decisive importance, and even methods for changing oneself are specifically developed and proposed (A and E). That is, there is a wide range of cases.

Thirdly, self-development is not seen as being exclusively for the pursuit of individual happiness, but on the contrary, as individuals inherently possess human connections (networks) or a sense of community, it is necessary to understand individual happiness (well-being) from the perspective that it is closely connected to other people or society. All five books share the idea that individuals need to be understood from the perspective that their well-being is closely connected to other people or society. For this reason, various types of work (e.g. occupation, domestic work, volunteer work, etc.) are not seen simply as a means of earning a living, but as fulfilling an important function of connecting oneself to society, which in turn has an important meaning for personal happiness.[8]

Furthermore, a sense of humility as well as a deeper understanding of humanity (which can be expressed as spirituality[9]), which is not limited to the connections between human beings, but also includes an awareness of connections with larger phenomena beyond human beings, is found at the bottom of all books, although it is expressed in different ways.

Lastly and fourthly, the view of human beings expressed in these books is very different from the view of human beings (*homo economicus)* assumed in mainstream economics. As already mentioned in Chapter 1, mainstream (neoclassical) economics assumes that 'humans are subjects who act selfishly and rationally in order to maximise the goods and services they can consume' and that society is a group of humans who act in this way (i.e. humans are atomistic subjects who have no consideration of their connections to each other). In mainstream economics, the social picture and policy theory are constructed according to the idea that 'society is a group of people acting in such a way, i.e. atomistic subjects who have no regard for their ties to each other' (methodological individualism). It is analytically convenient and leads to beautiful theoretical systems and clear policy theories (deregulation or market fundamentalism).

However, the image of the human being suggested by the above five books (the image of the real human being pointed out as the third issue above) is incompatible with the assumptions made in economics. Furthermore, the case of the human being expected to be realised through self-development (a human being with good character) is also not as simple and one-dimensional as assumed in economics. On the basis of these views, two directions may be suggested for building a better society, a society with human warmth.

One is to spread self-empowerment as a movement among a large number of citizens.[10] As the third argument above suggests, this would provide a means to solve various problems and move towards a better (more humane) society by improving social solidarity and by encouraging people to engage in a wide range of activities (e.g. non-profit and volunteer activities) outside of the market and government activities.

The second is for researchers to re-examine the assumption of selfish and isolated human beings in mainstream economics, and to develop a new economics (which might be called a new social science beyond economics) based

on an image of human beings that also has an altruistic and solidarity aspect. This may be easier said than done, but such a social science not only has great potential to become a humanistic discipline, but also to solve social problems more effectively.[11]

8.2 A practical philosophy (1): the basic framework

Each of the five self-help philosophies discussed in the previous section is certainly unique in its own way, but Keiko Takahashi (1956–), a Japanese practical-philosopher, presents a modern 'practical philosophy' that is not only based on a universal and solid view of human nature, but also has many characteristics that are unique when compared with other self-help philosophies, such as the specificity and science of self-improvement methods. It is not only unique in having traditional oriental philosophical colour, but also highly universal since it is based on a firm view of human nature and has many features that are unparalleled in other self-help philosophies, in terms of the concreteness and scientific nature of self-improvement.

'Practical philosophy' generally refers to 'philosophy that takes human practice as the object of study and tries to give guidelines for practice' (*Daijirin*, 3rd ed.), which is said to contrast with 'theoretical philosophy'. However, what we will deal with below is not philosophy in the general sense, but rather 'practical philosophy' developed by Takahashi over the last 40 years.[12]

This Section 8.2, presents an outline of the practical philosophy, particularly the classification of personality into four types. And in the following chapter, Chapter 9, we show how it has continued to develop in recent years, and give some future prospects. It should be noted that all Takahashi's books were first published in Japanese, and subsequently most of them have also been published in English and Portuguese. In the following, where an English edition exists, quotations will be taken from it, but where there is no English edition, quotations are taken from the Japanese edition (English translation by Okabe).

8.2.1 Four types of personality

In all of the aforementioned self-help books (five or six examples), the basic important theme was to be aware of what kind of personality one has and how to improve it. In this respect, Takahashi first presents a clear perspective not found in other books, namely the understanding that there are four basic types of personality. She then uses this as a starting point to discuss specific methods of personality improvement.

In other words, the first characteristic of this practical philosophy is that it provides a clear framework that there are four types of personality and that every human being falls into one of these categories (although the degree of each category varies from person to person, as will be explained later).

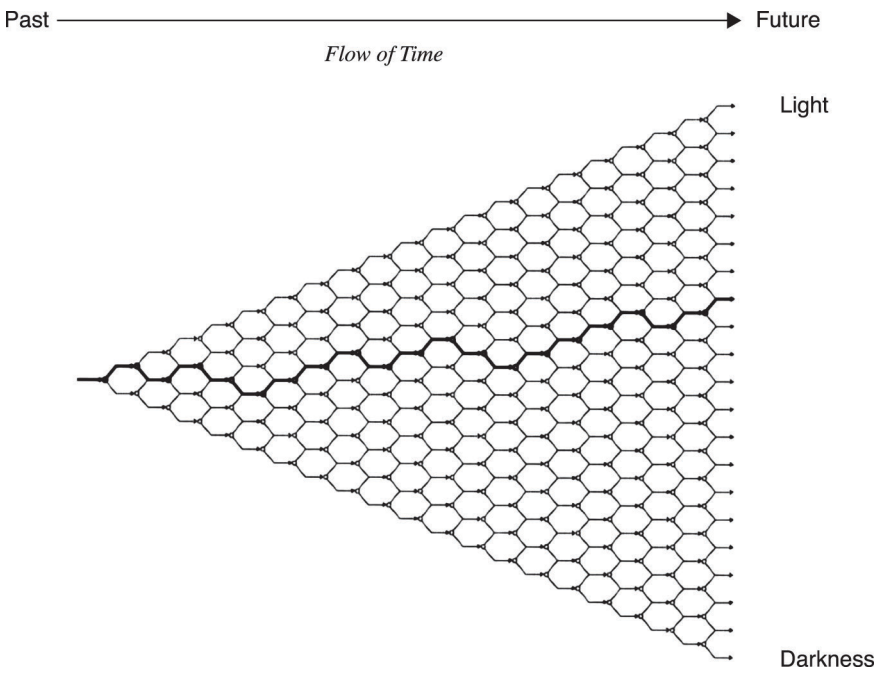


Figure 8.1 Tree diagram of life.

Source: Takahashi (2017b) figure 9: 133.

Therefore, let us first look in some detail at the four types of personality that form the basis of Takahashi's practical philosophy.

Takahashi recognises that a person's life over time is nothing more than a succession of decisions and actions at different points in time, and that the accumulation of these decisions and actions shows the trajectory of the person's life. In other words, this kind of life, from the past to the future, can be understood as a tree diagram of life (Figure 8.1).

It is clear from the diagram that whether one leaves a wake in the direction of a bright life (labelled 'light' in the diagram: joy, harmony, vitality, and creation) or a dark life (labelled 'darkness' in the diagram: pain, confusion, stagnation, and destruction) depends on how one decides and acts at each point in time that one faces. The starting point is the realisation that this depends on the decisions one makes and the actions one adopts at each point in time that one faces.

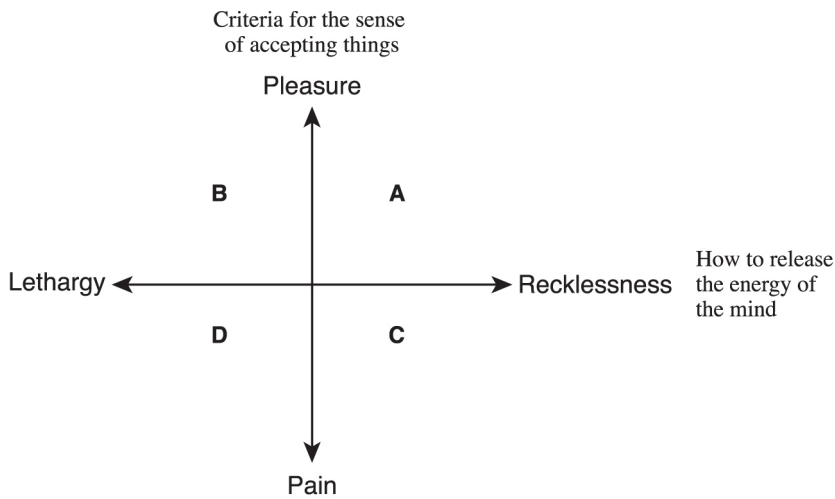
The question then becomes: on what basis should we base our decisions and actions at each juncture that we face, so that we can subsequently move towards a brighter life, a well-being life, or a meaningful life (edudaimonia[13])? In other words, what should we do in order to always make 'good decisions'

at each crossroads of the diagram? Takahashi gives a clear and practical answer to this question, and the practitioners of her philosophy have in fact achieved a 'good life'. As will be discussed below, this is the most distinctive feature of this practical philosophy.

The starting point of Takahashi's practical philosophy is that, based on this understanding, human beings (personality types) can be understood in terms of four types. In other words, as a criterion for the way we perceive things, we must first establish a coordinate axis of 'pleasure or pain' (positive or negative perception). This is about our cognitive function, which in fact is not allowed to freely choose, and in fact needs to be understood as something that is bounded by birth. In Takahashi's expression, it is the binding by 'Three Streams of Influence,'[14] which unconsciously creates a bias in our judgement, forming an automatic circuit of judgement (Takahashi 2019: 31–48; 2021a: 35–48).

And the second personality factor is how we react to some external stimulus. Two tendencies are distinguished in this: the tendency to generate energy (rampant system) and the tendency to suppress it (declining system).

When organised in this way, four types (A, B, C, and D in Figure 8.2) of thinking and behaviour that appear in humans can be distinguished, which are created by combining these two co-ordinate axes. The starting point



A= Pleasure-Recklessness. **B**= Pleasure-Lethargy. **C**= Pain-Recklessness. **D**= Pain-Lethargy.

Figure 8.2 Four types in human thought and behaviour.

Source: Okabe (2017a: chart 13-2). Originally from Takahashi (2009: 101–105; 2010: 193–200; 2021a: 66–71).

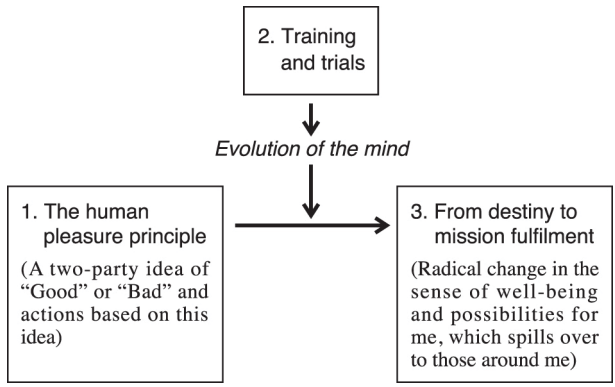


Figure 8.3 The structure of the practical philosophy as expounded by Takahashi (2017b).

Source: Prepared by the author (Okabe) based on chapters 2, 3 and 4 of Takahashi (2017b).

of Takahashi's practical philosophy is that it is possible to understand that everyone has one of these tendencies relatively strongly (although the degree of which tendency is stronger varies greatly from person to person).[15]

These 'four typologies are very effective coordinates for accurately identifying and capturing all the "darkness" of human beings' (Takahashi 2010: 196), and 'we call it the "map of vexations"[16] because it is a guide and map for going beyond vexations' (ibid.). The important point is that we all unconsciously have the four elements shown here (A–D; which element is strongest differs from person to person), and that we need to see through this fact itself. This kind of recognition is the starting point of this practical philosophy.

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8.2.2 Personality detection and improvement: specific methods

The second feature of this practical philosophy is that it provides very concrete methods for: (1) which of the above four types of personality we fall into, and (2) how we should respond (self-development) to develop the desirable aspects of our personality while suppressing the negative aspects of our personality.

Fortunately, Takahashi has continuously provided various means to do this. First, she has published many books on the subject. Moreover, she has been giving lectures[17] or various seminars[18] organised by the organisation led by her, to which anyone can attend. In addition, various and specific tools have been developed and made available to the public, such as self-improvement through various worksheets on discovering and improving one's personality (such as the 'Shikan Sheet' or 'Reflection and Insight Sheet'[19] and the Wisdom Sheet[20]). Specific ways of living and training sheets for learning them, such as the 'Method of dealing with chaos', [21] are also available. This makes the practical philosophy clearly available to everyone with 'practicality'.

The four types of personality described above can be shown more concretely as in Table 8.2 (items 1 and 2). The important point here is that all four have both limitations and potentials (weaknesses and strengths, or darkness and light). Therefore, Takahashi's view is that if each person's limitations are identified and purified, they can realise their potential and move closer to their true selves (ibid.: 78).

It is clear from the above that in self-development, it is critically important to first find out which of the four personality types we fit into, and then to know what kind of training we need to do to move from the False Self to the Good Self.

8.2.3 Three-step practice

The way of life advocated by Takahashi is 'a system of theory and practice that is neither materialistic nor spiritual, but a practical philosophy that consistently aims to merge visible phenomena with invisible spirit' (Takahashi 2016: 19–20), which Takahashi characterises it as. In other words, it is not merely a philosophy about how to live, but is significantly characterised by its particular emphasis on 'practice'. For this reason, its methods of practice are elaborated on the basis of a number of clear concepts, which are outlined below.

The practice can be understood to involve three main steps. The first step is to understand exactly what tendencies one has unconsciously shown in the past when making decisions and taking action at each point in time that one faces on a day-to-day basis. This is a classic example of 'easier said than done', but as mentioned earlier, Takahashi presents a framework in which the tendencies that emerge in humans fall into one of four typologies[22] (see Figure 8.2 and Table 8.2). The starting point in this practical philosophy is therefore to determine precisely which of these four personalities the aspirant oneself falls into. In addition to the methods already mentioned (xx), a simple internet-based method has recently been developed (see Figures 9.1, 9.2, and 9.3 in the following chapter).

The second step is to correct the tendencies identified in the first step, thereby overcoming the shortcomings of each tendency in daily life and in dealing with things, while cultivating or manifesting the strengths[23] that they inherently contain. Takahashi refers to this as the expression of 'genuine

Table 8.2 Four personality types: traits, potentials, and how to train the mind

Personality type	*A*	*B*	*C*	*D*
	Pleasure-Reckless	*Pleasure-Lethargy*	*Pain-Reckless*	*Pain-Leghagy*
1. Acceptance, behaviour, and consequences	Energetic, with a strong sense of superiority that they can do it. The result is a tendency towards self-righteousness and isolation in relationships. 'Confident' syndrome.	The company's products are used in the following ways: They give a gentle, mild impression, and are soothing. On the other hand, they tend to put-off troublesome matters and let things stagnate, as well as repeatedly making mistakes due to lack of concentration. 'Well-wisher' syndrome.	A strong sense of justice and a desire to put right what is crooked. As a result, the minds of those involved tend to become weary and bleak. 'Victim' syndrome.	They take things cautiously and behave in a reserved and restrained manner. As a result, they tend to give up quickly and always spread a heavy atmosphere around them. 'Deplorable' syndrome.
2. The light that lies latent in its depths.	Brightness, energy, vision, transcendence, freedom, hope, motivation, creation, pioneering, leaps forward, etc.	Warmth, gentleness, healing, purification, stability, embrace, trust, affirmation, meekness, acceptance, etc.	Justice, single-mindedness, protection, autonomy, discrimination, courage, earnestness, simplicity, strength, and responsibility.	Sincerity, seriousness, earnestness, dedication, innocence, red heart, devotion, yin virtue, foolishness, mercy, etc.
3. The emphasis and methods when changing minds.	Training (e.g. participation in lectures, writing lines, hands-on experience, etc.), such as changing 'distortion to honesty' and 'domination and discrimination to concomitant'.	Training, such as changing 'insensitivity to acuteness' and 'laziness to earnestness' (ibid., left).	The training of the members of the group, such as changing 'criticism to empathy' and 'righteousness to love language' (ibid., left).	Training, such as turning 'fear into autonomy' and 'escape into responsibility' (ibid., left).

(*Continued*)

Table 8.2 (Continued)

Personality type	*A*	*B*	*C*	*D*
	Pleasure-Reckless	*Pleasure-Lethargy*	*Pain-Reckless*	*Pain-Leghagy*
4. The resulting power that can be dedicated to the world.	The power of challenge.	The power to trust.	The power to fight.	The power to plan.

Note: List prepared by the author based on descriptions in Takahashi (2019: chapter 2; 2021a: chapter 2).

human power' (Takahashi 2016: 28) or 'the soul, that is the energy of will that has wisdom' (Takahashi 2017b: 31; 2019: 22; 2021a: 27), which she describes as the liberation of.[24] This naturally requires continuous self-discipline, and to this end, Takahashi has published a number of books available to the public, as mentioned above, as well as numerous public lectures and various study opportunities.[25]

The third step is to see the situation as 'chaos' when dealing with the various situations and things that need to be dealt with in daily life, while at the same time, making decisions and acting on them with the mindset developed in the second step. Here, chaos refers to a chaotic state in which possibilities and constraints (light and darkness) are mixed, which can lean either way and crystallise in either direction, with no result yet (Takahashi 2017b: 80). In other words, she states that this can be called 'the art of chaos thinking' (id. at 85), as it accepts and acts upon all reality as a set with its own mind.

This way of life (practical philosophy) can be understood graphically as shown in Figure 8.3. First, the human mind naturally has major problems for everyone (Takahashi 2017b: 134). This is because, since humans are living organisms, pleasure or suffering (easy or difficult to live) is of decisive importance for them, and for this reason humans have the 'pleasure principle' (the tendency to attract pleasure and keep away suffering) as an instinct of living organisms (ibid.). And, if a person acts according to his or her senses (almost unconsciously) in everyday life or when faced with situations that require judgement, one of the four personality types mentioned above (and especially its shortcomings) will strongly manifest itself, which will have an undesirable impact.

However, Takahashi (2017b) argues that when people are able to grasp their own experience (or experience the descent) through the experience of trial and error, and when they are able to act in accordance with the voice (or mission) coming from the depths of their heart (i.e. when their heart and behaviour evolve in this way), the reality that appears will be completely different from the past. For example, in the case of a person with a tendency towards the 'victim' syndrome among the above four types, if the person's mind can be evolved through training and the way in which it produces strong energy can be transformed, a strong sense of justice, responsibility, and single-minded, earnest courage will emerge from deep within the person, and their sense of well-being will change completely from what it was before (Takahashi 2017b: 151).

In other words, by transforming decisions and behaviours at each point in time a person faces, and by cumulating it, they can move towards a good life (well-being) or a meaningful life (edudaimonia[26]). Furthermore, it will eventually change the surroundings and society, through the connections between people (human networks) and their professional work. The above is a big picture of this practical philosophy.

8.2.4 The art of chaos thinking

An important wisdom for the above way of life proposed by Takahashi is to respond to all situations with 'the Method for Engaging Chaos' (Takahashi 2018b: 165–170; 2020: 125–129). In other words, whatever situation we try to respond to is first seen as chaos. Here, 'chaos indicates the primordial state, which has yet to have any form or clear outline, nor results or conclusions. There exist various possibilities and limitations, as well as light and darkness harboured within' (ibid.: 167; ibid.: 127). In order to extract and realise the desired blueprint from this, it is necessary to 'know oneself' as described above, as well as to take the appropriate response (action) to the situation.

In order to enable this, Takahashi has developed an initiative sheet[27] called 'Wisdom' (foresight). If one work on it, one will be guided on how to change one's attitude (mind) and how to respond. By responding to challenges with this changed mind (inside-out approach[28]), the highest potential can be drawn out of chaos (ibid.: 183; ibid.: 138). As a result, not only does the individual's life evolve and enable him or her to fulfil its own mission, but the person also changes the surroundings and, through this, influences the state of society and the world (ibid.: 210; ibid.: 156).[29] And, through a series of such ways of life, one will come to a 'true self' that responds to the purpose and mission entrusted to one's own life, as well as being able to contribute to society (ibid.: 289–290; ibid.: 212–213).

In other words, the practical philosophy is an idea that not only brings about the well-being of the individual, but also leads to the building of a better society through the individual's specific work (generally speaking, occupation). We have chosen to focus on the practical philosophy in this publication, because it is unique in that people are redeemed to be deeply connected to society through their professions or specific tasks.[30,31] And, this perception is also congruent with the Adam Smith's view that human society works through the division of labour.

Notes

1 This chapter and the next are based on Okabe (2022a: chapters 12, 13 and 14; 2020b, 2020c).
2 Wikipedia, 'Self-help' (English version). Wikipedia, the encyclopaedia on the internet, is a relatively reliable source. For reasons for this, see Okabe (2022a: appendix 6-2).
3 This is based on the American psychologist Maslow's hierarchy of needs (Maslow 1943), which states that the final stage of human need is the need for self-actualisation (Okabe 2017a: 233).
4 For an overview of 'positive psychology', see e.g. Peterson (2013).
5 Five factors were considered in the selection criteria for the books, including the fact that they have already been highly rated by readers, and as a result the five books shown in Table 8.1 were selected on this basis (Okabe 2022a: 297).

Incidentally, we selected books published roughly over the last 30 years, thus excluded such 'classical' items as Carnegie (1948).

6 Takahashi (2018b, 2019) are both in Japanese, but these English versions have since been published as Takahashi (2020, 2021a), respectively.

7 For more information, see Okabe (2022a: 300–318).

8 Incidentally, mainstream economics contrasts with these books, since in economics work is considered 'disutility' (as opposed to leisure, which is the opposite of utility as less is more desirable).

9 Spirituality is discussed again in Section 9.2.3. For more information on its meaning and its relation to religion, see Okabe (2022a: chapter 14).

10 When it comes to this possibility, the practical philosophy presented by Takahashi (2020, 2021a, 2022a, 2022b, among others) seems to meet the practical and empirical requirements. See Section 9.2.2.

11 For the detail, see Chapters 8 and 9.

12 In developing her ideas and arguments, Takahashi uses the term 'practical philosophy' as well as 'the Study of the Soul', 'the System of Divinity', 'Total Human Studies', 'Total Life Human Studies', and 'TL-Human Studies' interchangeably. See Okabe (2022a: chapter 13, section 1) for details. In this book, however, for convenience, they are uniformly referred to as 'practical philosophy'.

13 Eudaimonia. A concept defined by Aristotle as 'lasting and profound happiness'. Okabe (2017a: chapter 7, chapter 2, section 5).

14 Of the 'Three Streams of Influence', *Family* is the thoughts, way of life, and values that flow from parents and families. *Place* is the thoughts, way of life, customs, and premises that flow from the region and industry. *Era* is the thoughts, way of life, knowledge, conventional wisdom, and values that flow from the times (Takahashi 2019: 39–44; 2021a: 40–45).

15 The classification of personality into four types is said to have been 'repeatedly explored and demonstrated since 1995, and has been refined based on implementation data for a total of 100 000 people' (Takahashi 2019: 83; 2021a: 77). The significance, characteristics, uses and social implications of viewing personality in this way in four categories are summarised in Okabe (2017a: chapter 13).

16 Buddhist terminology. The workings of the mind that disturb, annoy the thinking, thus obstructing wisdom.

17 Lectures are periodically held in Yokohama (Pacifico Yokohama National Convention Hall), Osaka or Nagoya, from where they are usually relayed by satellite to other major cities across the country.

18 Held regularly in Tokyo addressed for leaders in the professional field, such as business leaders, medical doctors, educators, lawyers, scientists, and artists.

19 A worksheet for consciously stopping and observing one's mind's instant reaction, from day to day or moment to moment, to external stimuli, discovering its tendencies, clearing away idle thoughts and transforming mind and reality simultaneously (Takahashi 2005:314–321; 2011:240–247). It is one of the Buddhist meditation techniques.

20 A worksheet to help us identify what we truly wish for, solve problems and achieve new creations.

21 The idea and method of crystallising the reality of light from a state of seemingly 'chaos' which is seen as pregnant with all possibilities and constraints.

22 In Figure 8.2 and Table 8.2, The four personality types (A, B, C, and D) can be referred to as the syndromes shown at the bottom of column 1 of Table 8.2.

That is, 'Confident' syndrome, 'Well-wisher' syndrome, 'Victim' syndrome, and 'Deplorable' syndrome, respectively (Takahashi 2019: 74–77; 2021a: 68–71). See Okabe (2017a: chapter 13) for further details on this and other aspects which will be discussed below.

23 Takahashi refers to this as the excavation of *Bodaishin* (the heart to seek the real self, to love others, and to contribute to world harmony) (Takahashi 2006: 688; 2014a: 388; 2016:131). She defines *Bodaishin* as 'the "great wish" that brings us the right motive, the original intention', which is like 'an engine to escape the gravitation sphere' (Takahashi 2016:131–132).

24 She defines soul as 'the source of our mind's power and it is our true entity' (Takahashi 2015b: 72; 2018a: 56), and may be expressed as 'the energy of will that has wisdom' (Takahashi 2017b: 31; 2019: 22; 2021a: 27). For example, as terms such as Yamato (Japanese) spirit and craftsman spirit indicate, the soul cannot be shown as a physical object, but is the most central human essence (the criteria for value judgements and principles of behaviour beyond temporary pleasure, anger, sorrow, and pleasure) and is regarded as the source of energy deep in the heart (ibid.). Incidentally, similar phenomena can also be found in the natural sciences. For example, it may first be known theoretically that a view of matter or the universe based on such a view has logic and universality, even if its existence is not directly proven, and later on its existence may be proven by direct detection (gravitational waves, predicted by Einstein and directly observed in 2016, is an example of this).

25 In terms of study, there are a variety of study programmes for the general public as well as for different age groups and professional fields, and in recent years, there has also been an expansion of online study systems via the internet, which have developed so that study can be tailored to individual interests and lifestyles, and through different media.

26 A concept defined by Aristotle as 'sustained and profound happiness' (Okabe 2017a: 7-2 to 7-5).

27 An initiative sheet for paving the way for solutions and creation by changing one's mind to any situation or problem (Takahashi 2018b: 138; 2020: 105). For an example of its use, see Okabe (2017a: 432–438).

28 This recognition and representation are in line with the 'inside-out approach', in the case of Covey (2004: 50), mentioned above.

29 Takahashi stresses that even if one faces severe trials, one need to see them as 'a call [for you to change]' (Takahashi 2019: examples are described in chapter 4 there; 2021a). Incidentally, this assertion is in line with the idea that 'God's ultimate goal for your life on earth is not comfort, but character development' (Warren 2002: 43, 173).

30 See Table 9.1 for concrete examples.

31 Recently, Takahashi mentioned the importance of 'mental vitality, physical vitality, connected vitality' (monthly magazine '*G.*', December 2022, 52–53). This may be considered one definition of 'well-being', suggesting that she sees connectedness is an integral part of it.

9 A practical philosophy for well-being and better society (II)

Since we overviewed, in the previous chapter, the notable practical philosophy, here we try to evaluate it in a broader context of international human research, by referring to such relevant areas as 'Adler psychology', Amartya Sen's 'human capabilities approach', Plato's idea, and in particular, the empirical and statistical evidence of the practical philosophy's effectiveness. After that review, we try to look ahead to its future.

In Section 9.1, we broaden the viewpoint to academic aspects to assess this practical philosophy. Firstly, by evaluating it with reference to broad academic tradition of philosophy, and secondly, by asking whether it has sufficient empirical evidence for the betterment of individuals as well as human society. In Section 9.2, mainly by referring to the assessments by scholars, we point out why this practical philosophy has continuously been making progress, and finally, we briefly predict its future.

9.1 The practical philosophy (2): key features

As already noted, Takahashi, the initiator and promoter of the practical philosophy, defines her view covering both people and the world as 'the Study of the Soul' (Takahashi 2018b: 50; 2020: 42). And, she explains that 'in contrast to "the study of phenomena", which science represents by dealing with the materialistic dimension, "the Study of the Soul" goes beyond that, dealing comprehensively with the materialistic dimension and the invisible dimension of the *mind* and *soul* (id.; id.).

The soul is defined here as 'the energy of our will, which is filled with wisdom' (Takahashi 2018b: 50; 2020: 42).[1] And, as such

> 'the Study of the Soul is a system of theory and practice. It is neither a materialistic way of life nor a spiritual theory. It is consistently characterised as a practical philosophy that aims to merge visible phenomena with the invisible spirit' (Takahashi 2016: 19–20).

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The author of this book considers that practical philosophy, as defined in this way, has several notable features. These are: (1) scientific as well as cutting-edge features, (2) universality and demonstrability, and (3) capacity to make social changes. These features are described in turn below.

Takahashi has continuously published a series of books for the general public on her arguments. Besides, it is noteworthy that she is extremely active in a variety of ways, including public lectures, various seminars, group instruction, individual instruction, and internet transmitted exercises, which are aimed at a wide range of members of the general public. In the following, we will attempt to position and evaluate what the author of this book (Okabe) understands about its contents, mainly from an academic perspective.

9.1.1 Scientific and cutting-edge features

The first characteristic of this practical philosophy is that it has scientific and cutting-edge feature. In other words, it is based on the idea of understanding everything, including individual behaviour patterns and the relationship between individuals and society, in terms of a causal relationship. In this respect, it is scientific, modern and, as will be discussed below, also cutting-edge.

9.1.1.1 Modernity

In other words, as already mentioned, this practical philosophy emphasises the interrelationship of the three elements of 'soul–mind-reality', in which case the observed 'reality' always reflects the 'mind' of the person, and the 'mind is understood in turn to express the positive or negative element (intrinsic wish or karma[2]) of the 'soul'[3] that man conceals. This is Takahashi's recognition of causality. Therefore, if this law of cause and effect is applied in the reverse direction, minimising the negative elements (karma) in the soul and expanding and drawing out the positive elements (intrinsic wishes), the next step is for the mind to evolve, which can then change reality in the desired direction. Needless to say, the understanding that all things (results) are caused by causes, i.e. the idea of law of causality, is the basis of science, and this practical philosophy has this structure (specific examples are given below).

It should also be noted that this practical philosophy is based on a number of scientific (especially psychological) findings, although Takahashi does not explicitly state this. Namely, in this practical philosophy, the starting recognition is that people have a motivation for action to fully realise their potentials. This is because the fulfilment of one's individual mission is considered to be self-fulfilment, thus happiness. This view is in fact in line with Maslow's five-stage needs theory,[4] which states that human needs have stages from lower to higher, and self-actualisation corresponds to the fifth and last stage.

9.1.1.2 Affinity with Adler psychology

In addition, the human senses and behaviours that Takahashi argues for are fundamentally grounded in psychology, which makes use of cutting-edge scientific results. Currently, one mainstream in the area of self-development is Adlerian psychology (Adler 1932, 1984; Lundin 1989), a new psychology of personality founded by the Austrian psychologist Alfred Adler[5] in the early 20th century, but Takahashi's practical philosophy framework can be evaluated as essentially the same, although quite different in terms of terminology (Okabe 2017a: 425–426).

In other words, personality psychologist Adler emphasises that a person's perceptual system (the way a person perceives, judges, and acts, i.e. his or her *style of life*) is formed early in life and cannot be easily abandoned even if it is inappropriate. But, he stresses that it is our responsibility to make great efforts to change them. The practical philosophy of Takahashi inherits these basic perceptions of Adlerian psychology.[6]

In more concrete terms, Adler's argument goes something like this: (1) We all develop regular patterns of coping with situations (style of life) during the course of our development. (2) The starting point for all of this is to first become concretely 'aware' of these patterns and to consciously change oneself so that, when faced with a choice, one can choose the most appropriate one. (3) In choosing the most appropriate option, we need to make decisions in relation to the pursuit of our own goals[7] in life, rather than using others as a yardstick for our superiority or inferiority. (4) If we make such judgements and take such actions, we cannot change the facts of the past, but we can change the meaning of the past and therefore change the future by changing our present behaviour. (5) As human beings are beings who live in connection with others (and have a deep sense of community), and if we respond to our challenges in this way, we can make ourselves and others happy. This understanding of Adler's is, as mentioned above, Takahashi's very argument.

If we relate these five stages to Takahashi's case, item (1) corresponds to human understanding based on the four types, item (2) to the training of the mind (working on the Cessation Sheet[8] and the Wisdom Sheet), items (3) and (4) correspond to discovering one's life mission through self-discipline and acting accordingly, and item (5) corresponds to self-transformation to contribute to society by way of one's own occupation, work or responsibility.

Adler described the pre-transformational behaviour patterns that individual unconsciously manifest as a 'style of life'. Thus, it corresponds roughly, in Takahashi's term, to the 'automatic circuits' of cognition and behaviour due to the 'three streams of influence'[9] that all humans acquire in the process of living.[10] Also, 'even if the past reality could not be changed, one could change the meaning of the past by the way one perceives the past reality. Moreover, if one could change the meaning of the past, one could change the future' (Takahashi 2018b: 254; 2020: 188). Such an understanding of

Takahashi shows that, as noted above (Adler's point (4)), the significance of self-improvement is common with Adler.

9.1.1.3 Affinity with Sen's theory of capability

Furthermore, the practical philosophy emphasises the releasing of 'soul power', i.e. the manifestation of human potential, as a way of living a happy and good life (well-being). In this respect, it is also cutting-edge.

This is because the traditional emphasis for humans (especially in economics) has been on utility from the use of goods, income (resources), or property. However, in the late 1980s, Amartya Sen[11] proposed a new theory that suggested that it is the liberation of human capabilities that corresponds (see Chapter 2, Section 2.4). In other words, the idea of releasing the power of the soul is nothing other than recognising and releasing human capabilities as proposed by Sen. The practical philosophy can therefore be said to contain new ideas from a scholarly point of view (cutting-edge).

If Sen's theory of capabilities and the aforementioned theory of self-actualisation[12] are taken together, it can be understood that, for example when a person has a false consciousness, this is one of the situations in which potentiality is not being fulfilled.[13] Therefore, it can be understood that if the situation can be de-escalated, the latent potential can be made manifest. This is precisely one of the key arguments that Takahashi (1991, 2002, 2009, 2013, 2015a, 2016, 2017a, 2022a) has developed over the years, and is one of the core points of her practical philosophy.

9.1.1.4 Leading edge

This practical philosophy is not only a continuation of the scientific tradition described above, but is also clearly cutting-edge in that it provides an unparalleled framework for human cognition. A concrete example of this is the introduction of a novel and original perspective, as already seen at,[14] which seeks to understand the characteristics of human thinking and behaviour through the 'four typologies',[15] which combine two heterogeneous elements. This idea has already been validated by applying it to total of about than 100,000 people, as mentioned above.[16]

Furthermore, it is noteworthy that Takahashi has gone as far as to provide a system that quantitatively presents diagnostic results as to which of the four categories an individual falls into (including the degree to which an individual falls into the category). In other words, Takahashi developed and provided readers with methods for both from early on, and in her recent book (Takahashi 2019: chapter 3; 2021a: chapter 3), she provides a 'self-diagnosis chart' on the internet using a QR code or a freely accessible URL.[17] Anyone can access it and take a free personality assessment on the internet. The system also provides a mechanism whereby self-improvement goals based on the results are presented simultaneously and instantly. It is not only scientific but

also cutting-edge to offer such a method for both self-diagnosis and advice for development.[18]

9.1.2 Universality and empirical evidence

It has been pointed out above that this practical philosophy has scientific and cutting-edge characteristics, but it is noteworthy that it also has significant features that go beyond this. The second characteristic of the practical philosophy is that it incorporates ancient wisdom on the understanding of humans and human society (universality), and that it has accumulated a wealth of empirical examples that clearly demonstrate its effectiveness (empiricism). The practical philosophy is also characterised by the continuous publication of books for learning it, frequent public lectures and seminars (openness), and the development of concrete tools for study (practicality).[19] In the following, the 'universality' and 'practicality' of these will be explained in somewhat more detail.

9.1.2.1 Universality: wisdom from all ages and cultures

Takahashi actively introduces her own terminology as 'new words are necessary for understanding and experiencing a new world' (Takahashi 2019: 54; 2021a: 54). Also, she relies on a number of Buddhist concepts and terms.[20] Thus, the basic concepts and values that appear in this practical philosophy reflect aspects of the ancient and modern wisdom of humanity.

In other words, many of the human views and ethics that make up this practical philosophy have inherited central currents in the history of human thought, and are universal in this respect. For example, 'happiness'[21] in this practical philosophy does not merely mean material wealth, but a meaningful life through which a person achieves his or her mission.[22] For this reason, it requires a departure from any of the four types of human character, and the character that is not biased towards any of the four (i.e. a behaviour that falls at the intersection of the two axes in Figure 8.2[23]) needs to be sought. Such a view of happiness leads to what Aristotle called 'eudaimonia', i.e. a lasting and profound happiness that comes from a life based on 'moderation' (mean).[24] Moreover, it overlaps with the Buddha's insistence on the attainment of the 'middle way', which lies between hedonism and asceticism (Numata 1995: 117; Okabe 2017a: 424–425).

Also, this practical philosophy emphasises that humans approach the wish (blueprint) they should aim for by transforming their minds (**Takahashi 2018b: 22–32; 2020: 21–27**). Therefore, it is a modern translation of Plato's emphasis on the realisation of the ideal blueprint, which he called an 'Idea'. Furthermore, the importance of self-discipline, spiritual cultivation, and practice, rather than relying on some transcendental power, in approaching the Idea, is in line with the philosophy of the Buddha (primitive Buddhism).

In this way, Takahashi's focus on the importance of human capabilities and her positioning of their release as a major issue resonates with the ideas of both Adam Smith and Amartya Sen, who, as mentioned above, hold a broad view of humanity. What is particularly noteworthy is that this practical philosophy is not merely an idea, but emphasises practice, and therefore provides plenty of concrete tools (such as the worksheets mentioned above[25]) developed for self-discipline and the evolution of the mind (human growth). The fact that both the idea and the programme is unique in this respect is completely unparalleled.

9.1.2.2 Demonstrability

One of the most important features of the practical philosophy is its demonstrability, which means that the intended and expected effects of the philosophy have been achieved on an ongoing basis by individuals and society. Table 9.1 lists some of the examples.[26]

The table shows that whatever one's occupation or work, whatever one's background, one can change one's behavioural pattern through an encounter with practical philosophy, and that by fulfilling one's mission, one's sense of happiness can change, and one's work style can change significantly. This is reflected in the fact that their sense of happiness changed, which in turn led to a significant change in the way they worked and, as a result, an increase in their contribution to society.

9.1.2.3 System for diagnosing and studying one's own personality on the internet

Let me give you another contemporary and interesting example of the demonstrability of this practical philosophy. It is that the aforementioned personality assessment of the self[27] (traditionally done by working on books or worksheets) is now available as an online, anonymous, free, and easy-to-use system for anyone from autumn 2019 onwards. The method of use is described in Takahashi (2019: chapter 3; 2021a: chapter 3), but can be used without reading the book. All one has to do is access the prescribed screen[28] on the internet and answer the 36 questions that appear on the screen one after the other. Then, anyone can immediately obtain a diagnosis. This is a highly convenient system.

For reference, the results of the author's (Okabe's) case on this 'self-diagnostic chart' are shown in Figures 9.1, 9.2, and 9.3. These charts are not of a nature to be shown to a third party, but is included here for the purpose of giving a sense of how this system works and its modernity.[29]

Figure 9.1 shows what the personality of the subject (Okabe) is like (the extent to which it has each of the four personality pattern elements introduced in Figure 8.2 and Table 8.2) and specifically talks about the most basic personality that characterises the subject. Figure 9.2 shows the extent to which the sensory and behavioural circuits (three of each) of each of the four personality

Table 9.1 Examples of how self-transformation has changed the surroundings and the society

Name	*Occupation*	*Career*	*Personal self-transformation*	*Change in surroundings, organisation and society associated with the left-hand column*
Mr A	Manager of a long-established company.	Fostered to be the eighth president of a family business.	When the company's performance deteriorated, he blamed the employees and lived a safe life. As a result of his self-discipline, he became strongly aware of his connection with the people around him and became convinced that the company is a community.	The company's president and all employees became united and succeeded in developing new products one after another. The company's poor performance was turned around and a 'second founding' was achieved.
Mr B	Manufacture and sale of electric car chairs.	Overseas automotive adventures. Later, he founded and developed a boiler system company to utilise his skills.	Mr B pursued a 'distinguished way of life' from an early age, and after founding his company, had a smooth sailing life. After training himself to listen to his inner voice, he realised that his job (mission) was to serve others with his skills, and set up Wheel Chair Studio.	He set up the Wheel Chair Studio, which produces custom-made chairs for disabled people in Japan. He has since expanded his activities to other countries in Asia and elsewhere, and helped the President of Pakistan to establish a grant system for wheelchairs.
Mr C	Paediatrician.	He entered medical school and became a doctor on the advice and expectation of his parents and others.	He was a doctor, but he was not able to save the children who died as a result of his knowledge and skills, and fell into a sense of defeat and nihilism. He was convinced that there should be not only 'medicine to cure' but also 'medicine to heal and support' in medicine as a result of training to look deeply into human beings.	He discovered that his life's work is medical treatment from the viewpoint of medical treatment with a focus on the human soul. He established the field of home healthcare for children, a field that has not yet been explored in Japan, and has been instrumental in its spread.[a]

(*Continued*)

Table 9.1 (Continued)

Name	*Occupation*	*Career*	*Personal self-transformation*	*Change in surroundings, organisation and society associated with the left-hand column*
Mr D	Doctor and director of a facility for severely mentally and physically handicapped children.	Obtained from a medical university, and after studying abroad became head of a research laboratory at a national research institute.	He was a medical researcher with a promising future, but something was not fulfilling his heart. He was electrified by a deep-seated desire to respond specifically to critically ill patients, and changed his direction to become a clinician. He then faced an unexpected ordeal, but he discovered that the cause of the problem lay in himself and transformed himself.	He has been working with children of patients not only in the doctor–patient dimension, but also in the human–human and soul-to-soul dimensions. It is attracting attention as a model for similar facilities.
Mrs E	Housewife, head of the NPO Retired Horse Association.	Raised in a wealthy family, and an ordinary housewife in a married family.	Her husband, who ran a horse-riding club, died of a brain tumour and most of the staff resigned. She was unable to accept her husband's aspirations. She has been able to bring out the wishes engraved in her soul (the bond between man and horse, her feelings for horses) through self-discipline, while establishing the central axis that she is the cause, not the seeker of results, in order to bring about good results.	Not only was she able to revive the riding club, but she also set up a non-profit organisation, the Retired Horse Association, so that retired horses can live slowly, and started working on this initiative in cooperation with many other countries abroad.

Mr F	Former ski jumper.	Winner of national and international ski jumping competitions since his school days.	He had a serious accident while training in Finland (skull fracture, brain trauma, loss of memory at the time) and his fiancée was later diagnosed with cancer (she has since passed away). The couple had been working on their mental training before the accident and were convinced that there was one best way forward, so they worked hard every day. The couple supported each other to cope with the ordeal.	After retiring from the sport, he has devoted himself to giving lectures to encourage and bring hope to people. The story of the couple who overcame their ordeals was broadcast as a documentary on television in early 2013.[b]
Mr G	He is responsible for the planning and management of urban redevelopment.	De facto head of redevelopment, including his own building, at a building management company in his native Otaru City in Hokkaido.	The company's response to the continuous occurrence of major problems related to redevelopment (bankruptcy of tenants, hollowing out of buildings, difficulties in adjusting rights, outbreak of opposition movements, etc.) was ambiguous, saying that one day something would be done about it. The trials are a call to action, a self-discipline to see everything as a possibility, and a readiness to take the initiative in thinking and preparing for the challenges.	He ensures that he responds by 'listening, listening, listening' and thinking together with his counterparts. As a result, the redevelopment of the buildings in front of Otaru Station was realised.

Notes: Specifically, Mr A represents Tatsuo Nonouchi, Mr B represents Sho Saito, Mr C represents Hirotoshi Maeda, Mr D represents Hiroshi Konomi, Mrs E represents Kyoko Numata, Mr F represents Yusuke Kaneko and Mr G represents Koji Asamura. All real persons.

[a] Paediatric home healthcare by Mr C was later featured in NHK-TV's *Close-Up Today* (Protecting Young Lives: Cooperation between Medicine and Welfare, on 28 May 2013).

[b] Mr F was also featured in the *Asahi Shimbun*'s 'Hito' (People in the news) column (15 January 2013).

Source: List prepared by the author based on descriptions in Takahashi (2013, 2014b, 2015b). Notes a and b are additions by the author of this book.

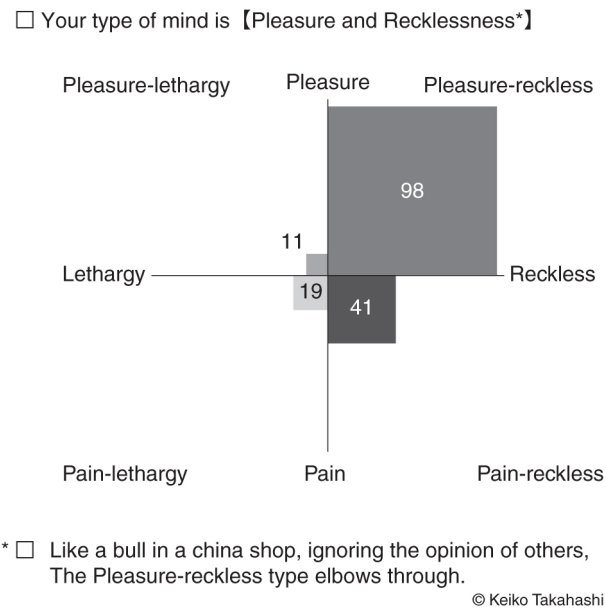

Figure 9.1 An example of a self-assessment (part 1).

Source: The figure shows the result of self-diagnosis of the author (Okabe) using the website (https://bk.jsindan.net) developed by Keiko Takahashi, which is open to the public free of charge. The author appreciates her permission to quote this and the following two figures.

types are present (the result of factorising personality, so to speak).[30] Figure 9.3 shows which tendencies are particularly pronounced in the subjects' personalities and what kind of training (mental development) is needed to correct them. The author (Okabe) was surprised to find that he had such tendencies when he looked at Figure 9.1 and Figure 9.2, and felt that this was a diagnosis that made sense to him. He was also convinced of the direction of self-development indicated in Figure 9.3.

The practical philosophy initiated and presented by Takahashi is thus supported by statistical (empirical) analysis, and is perhaps unparalleled in having quantitative analysis as well as scientific nature.

It should also be pointed out that the practical philosophy, as its name suggests, is characterised by its practical and open nature (i.e. it is a Practical and Open Learning System). In other words, regular lectures by Takahashi (broadcast by satellite from the Pacifico Yokohama National Hall to major cities across the country) and seminars for leaders in professional fields are regularly organised, as well as a weekly study forum (once a week) connected via internet to 109 locations in Japan and six overseas countries.[31] Also, various practical tools have been developed for self-disciplining, such as the Cessation Sheet and Wisdom Sheet, which are widely used by many individuals, as mentioned above.

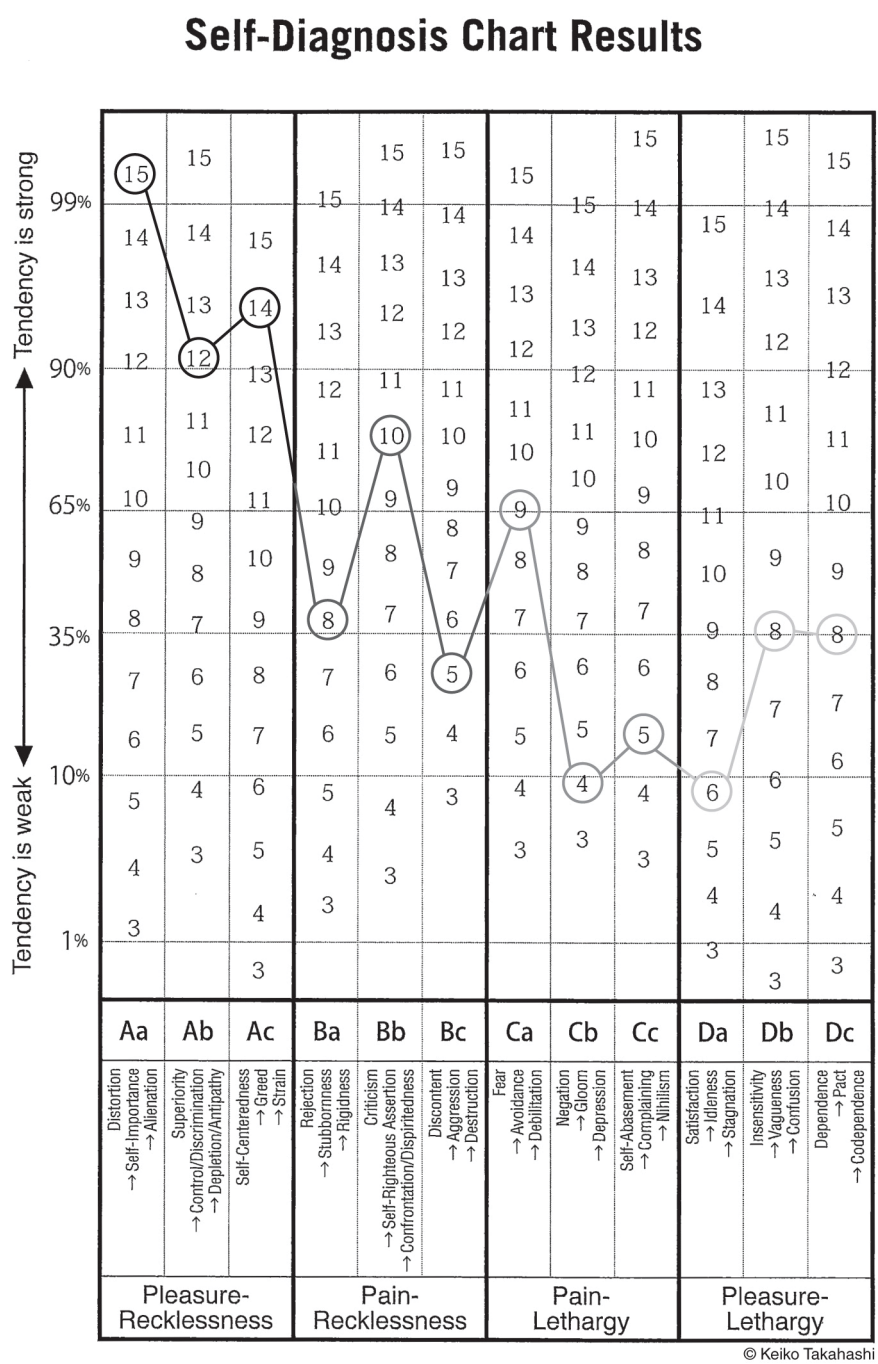

Figure 9.2 An example of a self-assessment (part 2).

Source: See Figure 9.1.

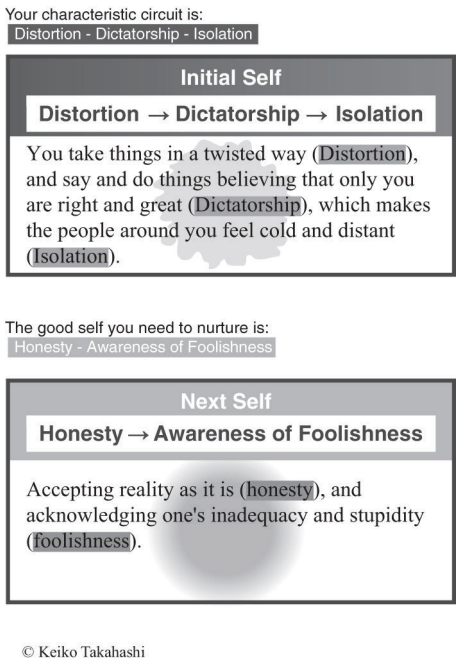

Figure 9.3 An example of a self-assessment (part 3).

Source: See Figure 9.1.

9.1.3 The power to transform society

As a third characteristic of this practical philosophy, it can be pointed out that it has the power to change not only the practitioners but society as well, i.e. the 'power to transform society'. This aspect was already pointed out in relation to the above-mentioned demonstrability, but it needs to be mentioned as one of its independent characteristics. This is because, as mentioned in Section 8.1, the main focus of other self-help (movements or books) is exclusively on individual happiness (and stops at that stage).[32] The practical philosophy, on the other hand, sees the achievement of individual happiness (fulfilment of the mission) as linked to the betterment of society.

In this practical philosophy, well-being is achieved first of all by enabling the individual to live a life that is essentially his or her own. However, it also goes beyond this to make the person's responsibilities and approach to work (profession) more appropriate. It also has the hidden power to lead the behaviour of the various organisations to which the person belongs (companies, non-profit organisations, government organisations, etc.) to the way it should be, and to lead society as a whole in the right direction by enhancing the

bonds between people and the network functions of organisations and companies. Incidentally, the examples of practice in Table 9.1 clearly show that the activities of each practitioner have taken a major step towards contributing to society by invoking their own mission. Practical philosophy therefore has the potential to generate the power to ultimately change society as a whole.

In this publication, only seven examples were presented in Table 9.1, but two more tables of examples of practice in the same format (the case of 14 more practitioners) were subsequently prepared and published (Okabe 2022b). These three sheets of practice examples (21 persons in total) show the varied and solid development of the lives of each person and how their lives and their work have changed significantly.

For example, there have been many cases of corporate CEOs making major changes to their management policies, such as setting a basic policy of contributing to society rather than directly aiming for short-term profits, or switching to a management policy of integrating employees, which has resulted in increased corporate profits. In the case of medical personnel, there are also examples of a shift from corrective medicine to healing medicine, and many people, including engineers, doctors, singers, athletes, members of national and local government councils, and managers of diverse organisations such as urban redevelopment organisations, have successfully fulfilled their respective roles as life's work. In a number of cases, the social activism of these people was introduced in newspapers and on television.[33]

These characteristics support and are consistent with practical philosophy's view of human beings, i.e. its understanding of society as being formed by the bonds between human beings rather than understood as a set of selfish individuals.

The fact that this practical philosophy creates the above-mentioned reality can be expressed as follows. When a person undertakes the above-mentioned initiatives, his or her personality is first changed. As a result, there are many examples of people who have not only changed their life course but have also fulfilled their personal mission as a result. In other words, first of all, a free, refreshing, energetic, patient, compassionate, inclusive, and humble self[34] emerges as an individual (Takahashi 2008: 7). And not only that, by demonstrating true human power (soul power) and fulfilling their respective missions (life tasks), society as a whole becomes a major force in solving various problems at the grassroots level. This list (Table 9.1) and a similar list drawn up afterwards (Okabe 2022b; a total of 21 people practicing) show this clearly.

Those who are drawing strength and energy from the soul and fill themselves with its light have a common brightness or signs, which could be called an aura (Takahashi 2015b: 61–67; 2018a: 48–52). It is, Takahashi indicates, such things as: (1) unwavering central axis, (2) focus on the goal (deep interest in fulfilling what they have wished for), (3) deep sympathy towards existence, (4) vision from the future (intuition born within oneself, sometimes a revelation from a being beyond oneself), and (5) light of personality.

9.1.3.1 Social aspects of the practical philosophy

The important social implication of practical philosophy, as described above, can be understood from an economic perspective as follows. First, this view of man is consistent with Adam Smith's understanding of man and society, as already mentioned. That is, Smith pointed out at the beginning of his *Wealth of Nations* that society is made up of various skills and emphasised that this 'division of labour' (Smith 1776: the first sentence of Book 1, Chapter 1) brings the benefits to society. Therefore, the recognition of the relationship between individual and society in practical philosophy is consistent with Smith's view.

If practical philosophy can be understood to provide an aspect of maintaining and strengthening human connections in society, as described above, its ideas can also be considered as an object of study from the perspective of economics. This is because, in economics, the market is understood as a social institution for decentralised solutions to the limitations of human reason and information processing capacity, thus fruitful transaction is positioned as the most important function for the operation of the economy and society. On the other hand, contracts in market transactions are necessarily incomplete, i.e. it is impossible to anticipate every eventuality and write it in a contract document. Thus, morality may have to play the role of price (Bowles 2016: 34–35).

In other words, market working is not unconditional, and certain practices and rules are essential to it. In such a case, 'morals' and 'ethics', which regulate relations between people with varying degrees of intensity, provide the norms of behaviour between people and govern their relations with each other. As we already discussed (see Chapter 2, Section 2.3), it is not the other way round, i.e. prices do not play the role of morality. Therefore, the norms of behaviour starting from the individual and the need for their cultivation, as suggested by practical philosophy, are included in the subject of economics in a broad sense. It is on the basis of this recognition that we have even referred to practical philosophy, an unusual subject for economics, in this book.

When understood in this way, Takahashi's practical philosophy is not just about self-development, but also about the idea and practice of transforming society through the transformation of the self.[35]

9.1.3.2 Takahashi's insights into contemporary economic society

Takahashi's practical philosophy, as described above, is reflected in her keen observation of contemporary economy and society, and in her strong appeal for a return to a more humane society in which 'marketism' has gone too far. In other words, Takahashi calls the three ways of life that have unwittingly permeated contemporary society—materialism (believing only in what you can see), ephemeralism (the good enough for now), and egoism (the good enough for yourself). She calls them 'the three poisons of our time' and worries that they are distorting our minds and reality (Takahashi 2014b: 80–84; 2017a: 55–57). She also positions 'soulism' (practical philosophy) as the

one that directly opposes and struggles against these three principles (id. at 85–87; id. at 58–59). It is worth noting that this view of society and policy theory is in some respects exactly in line with what leading social science researchers have separately argued.[36]

9.2 The practical philosophy (3): the progress and prospect

As described above, this practical philosophy, which was born in Japan, has been further systematised and enriched in recent years by incorporating scientific results. And the number of sympathisers, practitioners, and supporters has been increasing. What kind of prospects can be drawn for the future?

Before examining this, let us first consider why the continuous and steady development to date has been possible. The author believes that there are three main reasons. The first is Keiko Takahashi's outstanding competence as a thinker, practical philosopher, and herself a practitioner who has promoted this practical philosophy. Secondly, the practical philosophy is scientific, empirical, and practical in nature, as we have already discussed. And thirdly, the spiritualism at the heart of the practical philosophy seems to match modern men and women. Let us look at these in turn.

9.2.1 Outstanding competence as a thinker, practical philosopher, and practitioner

The primary reason for the development of this practical philosophy is probably due to Takahashi's unparalleled competence as a thinker and Practical Philosopher,[37] and also because Takahashi herself has actually acted as a Practical Philosopher herself.

The systematisation, scientificisation, and enrichment of this practical philosophy over the past two decades, as evidenced in her writings, is difficult to imagine without Takahashi's outstanding competence and energy. It is also her unique leadership that has led and developed the GLA(God Light Association: the governing body to promote practical philosophy) as a practical organisation.

Specifically, Takahashi has led the organisation's leadership and development by practising the practical philosophy herself, and has increased the number of sympathisers and practitioners. This has not been achieved by a top-down approach in which the top management exercises strong authority, under a tree structure of organisation. As Numata (1995: 158) has pointed out, the GLA is unique in that it has been managed under Takahashi with a 'semi-lattice structure' (a structure in which the organs, like the human body, have independent functions and can interact with each other in a complementary manner).[38]

This competence and view of humanity of Takahashi is also applied to the self-improvement of members by the GLA, the organisation promoting this practical philosophy. The information booklet for new members states that 'What we value above all else as GLA members is the attitude of learning

from Takahashi-Sensei (Teacher and preacher Takahashi). We would like you to learn directly from her how she perceives the times and society, how she relates to each individual and how she leads the way in solving problems. She is also the best holistic model for GLA members to follow (GLA 2016: 8). One recent concrete example of how such leadership by Takahashi has permeated the organisation and led to significant developments (the introduction of online studies in the wake of Covid-19) has already been mentioned.[39]

In many cases, she has also given lectures and studies on how to perceive contemporary human society, not just on individual ways of life or domestic issues, but also on deep insights into the world as a whole. For example, in a lecture in August 2021, she raised the major question of whether we should choose despotism (authoritarian regime) or democracy as the society, we should aim for as human beings (with the cases of China and Russia in mind), and even suggested ways to avoid losing our humanity in response.[40] Incidentally, 6 months after her speech, in February 2022, Russia invaded Ukraine, testifying to the precision and advanced nature of Takahashi's awareness of the issues.

9.2.2 Scientific, empirical, and practical

A second reason for the continued development of practical philosophy is its scientific, empirical, and practical nature. As already mentioned, these characteristics are evident in many aspects of practical philosophy, such as its doctrine, its organisation, and its form of activity, the method of study of its members, and its insights into contemporary society.

First, the doctrines and methods of study of this practical philosophy have an affinity with modern psychology, as mentioned above (e.g. understanding of human perception and behaviour, the four types of personality, counselling-reflective techniques). Furthermore, it draws on a wide range of scientific disciplines (although this is not directly stated), such as decision theory, behavioural economics, business administration, organisational theory, statistics, and internet science. These features have been pointed out by researchers from an early stage as 'providing intellectual and rational explanations that are also related to cutting-edge scientific theories' (Numata 1995: 175), and it can be understood that this has become even more pronounced in recent years.

Incidentally, in her recent book, Takahashi states that 'Best life' does not mean to find a different life from the one we are now living. Instead, it means that we can crystallize the best potential that lay dormant within our current lives' (Takahashi 2018b: 29; 2020: 25). This can be understood as a confident statement that the book is not proposing a risky one-shot deal, but a solid self-help proposal based on scientific evidence and proven results.

The fact that 'Buddhism and spiritualism are also important components in Takahashi's thought' (Numata 1995: 175), together with 'the fusion of modern science and Eastern mysticism' (ibid.) makes it easier for the Japanese to accept.

Furthermore, the GLA has adopted, since early years, a very flexible methods not only of organisation, as mentioned above,[41] but also in learning and training this practical philosophy. This approach of organisation, sometimes called 'teal organisation',[42] seems to spread globally replacing the conventional rigid pyramid type organisation, called 'red organisation' (Laloux 2014: 32–36). Thus, not only in governing but also in learning, the practical philosophy may be said to have been ahead of its time.

On the other hand, as a view of humanity, it is based on an emphasis on human individuality, respect for equality and spontaneity of members in the study system[43] (Numata 1995: 159), and a tendency towards individualism rather than collective action (Matsuoka 2018: 122), all of which are characterised by being based on modern principles. Furthermore, as mentioned above, there is also an acuteness in the insights into contemporary society (in Takahashi's words, materialism, ephemeralism, and selfishness)[44] and the firm view of society (i.e. the reality that we are faced with a fundamental choice between authoritarianism and democracy).

In fact, practical philosophy has been promoted not by publishers or seminar organisers, but by a 'religious organisation' called GLA.[45] The organisation advocates 'the Study of the Soul' as outlined above, 'characterised, above all, by its practical power to solve concrete problems and realise inner wishes. It is a practical philosophy that changes the future' (GLA 2016: 10). It would be unusual for a religious organisation that preaches the human way of life to put forward such a worldly and practical motto rather than the afterlife. In this respect, too, the uniqueness of practical philosophy and its promoting organisation (GLA) is apparent.

9.2.3 Spirituality

A third feature is that this practical philosophy has spirituality (or spiritualism) at its core, which seems to match modern man.

What is the relationship between 'spirituality' and 'religion'? There is a great deal of overlap between the two, but in recent years, they are often discussed with a considerable degree of distinction.[46] Incidentally, the new trend or cultural phenomenon of 'spiritual but not religious' (SBNR) is widely discussed in the USA by the acronym 'SBNR'.[47] [48]

9.2.3.1 Spirituality as a fundamental character of practical philosophy

The debate about the difference between 'Religion' and 'Spirituality' and the relationship between the two is multifaceted.[49] However, the author believes that rather than understanding Takahashi's practical philosophy as a manual of practice, it is more accurate to see it basically as spirituality. This is because Takahashi's early book *Silent Calling* (1991) is described as 'a book with affinity to the New Spirituality[50] movement [spiritualism]' (Numata 1995: 151–152), and the activities led by Takahashi and her organisation are 'more spiritual

than seen as a religious movement'. The activities led by Takahashi and her organisation 'may be easier to understand if we include them in a spiritual movement rather than viewing them as a religious movement' (Shimada 2007: 202).

Incidentally, in the publications of the organisation (GLA) sponsored by Takahashi, 'the distinctive feature [of practical philosophy] is, above all, its practical power to solve concrete problems and realise inner wishes. It is practical philosophy that changes the future' (GLA 2016: 10) and states that 'the GLA accepts [the Study of the Soul or practical philosophy] as a religion beyond religion, a super-religion so to speak.' (GLA 2016: 18), which also advocates an understanding of the above characterisation as valid.

In the above, the practical philosophy dealt with in this book is positioned as spirituality. However, it should be pointed out that practical philosophy can also be seen as a religion, depending on how one looks at it.

For instance, Susumu Shimazono, one of Japan's leading scholars of religion, has argued that 'in the last quarter of the 20th century, the idea of spirituality as something independent of religion has spread' (Shimazono 2012: 5) and that 'religion and spirituality are closely interrelated [and] can be regarded as a difference in the degree to which the same thing is focused on the system or on the individual' (ibid.). So, he concludes that there is a risk of distorting the essence of religion and spirituality if they are seen in opposition to each other. Shimazono mentions incidentally, the 'Serenity Prayer'[51] in Christianity is naturally accepted by many non-Christians, and this part of it can be seen as 'a religion with a low threshold.[52] If we take this view, practical philosophy could be described as a 'modern religion with a wide frontage and a low threshold' rather than a spirituality. We would like to add this point in order to deepen our understanding of the character of practical philosophy.

It is also appropriate to mention the peculiarities of the Japanese attitude towards religion and religious belief. According to a survey by a Japanese government agency,[53] those who say they do not believe in religion have consistently accounted for around 70% of the population throughout the last 50 years (irrespective of age group). On the other hand, the overall response to the question 'Is religious belief important to you?' has reached around 70%, although this figure has been declining somewhat. These facts may suggest that a somewhat different way of life (a guideline) is required in Japan from existing religions or from what has been regarded as the religious mind. The future of practical philosophy will need to be assessed in the context of such a spiritual climate in Japan.[54]

There is a reason why practical philosophy has been discussed in this book. It is because if people develop themselves, they can improve their personalities and realise that they each have a unique mission, and by fulfilling this mission, they can become a factor in building a better society. The author believes that this is precisely what economics should ultimately aim for, i.e. the construction of a better society as well as the happiness of individuals.

9.2.4 Predictions by researchers

In fact, practical philosophy, or the organisation that promotes it (GLA), has been studied from a relatively early stage, mainly by researchers of the science of religion, and its characteristics and potential have been evaluated.

Numata (1995: 172–177), the earliest of these exhaustive studies, had already offered the following judgments at the time. The research concluded: (1) although it is a small religious organisation, it already has a considerable number of top-level political, business, and media figures as its sympathisers, (2) the readership of Takahashi's books is so large that it cannot be compared to the number of GLA members [which is small], and (3) its doctrines and forms of activity are not simply modern but rather 'future-oriented' with an eye to the 21st century.

Also, Shimada (2007: 202) assessed that 'the GLA has transformed itself into a large-scale spiritual movement rather than a religious organisation' and was of the opinion that 'its current activities show the way forward for new religions in the future'.

Looking at the subsequent development of this practical philosophy, it is 'steadily spreading beyond age, gender and occupation' (Takahashi 2017b: 21). Therefore, this practical philosophy, which is universal, contemporary, and social as well as bringing about human development, may be said to have great potential in the future.

Notes

1 Regarding the detail of the soul, see the earlier footnote 25.
2 Karma is immaturity (weakness, fragility, distortion) of the soul that prevents it from living according to its wishes (Takahashi 2010: 191).
3 See footnote 25 for the concept of 'soul'.
4 There is an idea that people are motivated to act in order to maximise and realise their abilities. American psychologist Maslow (1908–1970) proposed 'five-stage needs theory'. For more information, see Okabe (2017a: chapter 7, section 4).
5 Austrian-born psychiatrist and psychologist (1870–1937). Founder of individual psychology (Adlerian psychology), which holds that human beings act in a purposeful way using the necessary functions, etc., of the individual. The International Society of Personal Psychology (International Society of Adlerian Psychology, http://www.iaipwebsite.org/) has been organised to promote the study and dissemination of such psychology.
6 The 'style of life' acquired unknowingly, as called by Adler (1932: 48), corresponds roughly to Takahashi's 'three streams of influence' (see footnote 14 of this chapter).
7 An ideal for each individual (Adler 1984: 8). This is one fictional but valid hypothesis for psychologists to understand individual behaviour (Adler 1984: translator's commentary 335). It can be understood as corresponding to the 'true heart' or 'soul' in Takahashi's case.
8 See earlier footnote 20.

9 See earlier footnote 14.
10 The 'style of life' and 'automatic circuits' are also clearly the same as Warren's 'autopilot within ourselves' (Warren 2002: 181–182) referred to in the book B of Table 8.1 of this chapter.
11 Indian-born economist, professor at Harvard University, USA, awarded the Nobel Prize in Economics in 1998.
12 This means the idea that people have a motive for action to maximise and realise their abilities and potential. A good example is Maslow's theory of hierarchy of needs (five-stage needs theory) which states that human needs have stages from lower to higher (self-actualisation is the fifth and last stage). For more information, see Okabe (2017a: chapter 7, section 4).
13 Wikipedia 'Capability approach'.
14 See Figure 8.2.
15 The idea of classifying personality into four types has already been explained in Section 2 of this chapter. This diagnostic chart 'has been improved since 1955 by repeated research and verification based on data collected from about a hundred thousand people' (Takahashi 2019: 82; 2021a: 77). The results of the author's (Okabe's) self-diagnosis by applying this to himself are shown in Figures 9.1, 9.2 and 9.3.
16 See Figure 8.2 for the theoretical framework, and applied results for Figures 9.1, 9.2 and 9.3.
17 https://bk.jsindan.net (At present, only the Japanese version is available.)
18 In addition, statistical factor analyses have been conducted and released for each of the four personality constructs (e.g. Takahashi 2019: 92, 292–293; 2021a: 84, 238–239).
19 For example, a pre-wisdom worksheet called the Wisdom Sheet. This is a method to ensure the contour and focus of one's mental energy and action by clarifying the wishes and objectives to be aimed for (Takahashi 2021b: chapter 5; 2022a: chapter 5).
20 For example, the four types of personality described above are referred to as 'vexations' maps. Vexation is the workings of the mind that disturb and trouble the body and mind and interfere with wisdom (Buddhist terminology). Similarly, she calls the inner voice 'bodaishin' (see earlier footnote 24).
21 For a contrast of various expression of 'happiness', see Sachs (2013) and Okabe (2017a: chapter 7).
22 This corresponds to Maslow's five-stage need theory in terms of content, as discussed above (see footnote 43).
23 For more information on this, see Okabe (2017a: 406–408).
24 See footnote 13 above.
25 See footnotes 20 and 21 above.
26 In addition to Table 9.1 (listing seven examples), the author has provided two more similar tabular format, thus listing total of 21 examples (Mr H - Mr N, and Mr O - Mr U). See Okabe (2022b: tables 2 and 3).
27 A system of understanding personality in four categories. See Figure 8.2 above.
28 https://bk.jsindan.net (same as footnote 48)
29 Permission to include these figures in this publication has been obtained from the system provider.
30 The four personality patterns and the three circuits of each personality have been validated by statistical analysis (factor analysis) (Takahashi 2019: 292–293;

2021a: 238–239). It should be noted that, although many general self-help books (especially business-related books) suggest that 'pleasure-reckless' are desirable, this is not necessarily the right direction (Takahashi 2019: 227; 2021a:187). It is because it has strong negative side effects (id. at 229–231; id. at 188–189) and lacks sustainability (id. at 261; id. at 211).

31 Following the outbreak of the Covid-19 in Japan in early spring 2020, the Japanese government requested to refrain from various rallies. So that, since March 2020, most of these rallies (including weekly seminars) organised by the GLA (the organisation providing the practical philosophy) have been switched to a new system of live online participation from the participants' homes in Japan and overseas ('*G.*' Magazine, April 2020, 79–81; May 2020, 46–51).

32 This point is evident from the overview of the five self-development methods summarised in Table 8.1.

33 See footnote 2 to Table 9.1.

34 These factors can be said to be the components of happiness or eudaimonia (Okabe 2017a: pp. 235–238), and by practising this practical philosophy they have each achieved happiness.

35 Incidentally, in order to spread her practical philosophy to the general public, Takahashi not only publishes books and actively holds lectures and seminars for the general public, but also organises special seminars for people involved in leading professional fields in society (management, medicine, education, art, music, legal affairs, sciences, etc.). These seminars are organised on an ongoing basis.

36 There are conscientious opinions (Suzuki 2013: 7; 2016: 152) that strongly call for the correction of the 'only now, only money, only me' tendency (three-only-ism) that dominates Japanese society today, as it distorts public policy by the government. The prevalence of this 'three-only-ism' is exactly in line with Takahashi's perception of the current situation as the 'three poisons of the times'.

37 There are various ways of describing Takahashi, but in the profile page of her book, she is described as a 'general consultant for life and work' rather than a 'Practical Philosopher'.

38 Wikipedia 'Semilattice'. This structure is adopted in the organisational working as well as in the studying and serving program called "project". The organisation with semilattice feature may be characterised alternatively as a 'green- or teal organisation', a soulful and fulfilling organisation. See Wikipedia "Semilattice".

39 An unprecedented outbreak of Covid-19 spread across the world, including Japan, from the beginning of the year to spring 2020. In response to this situation, the GLA expanded its internet-based online studies, resulting in a significant increase in the number of practical philosophy learners. See also footnote 62.

40 This statement was made in her lecture to the parents-and-children seminar on 31 July–1 August 2021.

41 See footnote 69 above.

42 For an analysis of the historical development of organisations, see Laloux (2014). As discussed already, NPOs may be said to have a character of 'teal (next generation) organisations' in contrast to 'red (typical business) organisations' (see Chapter 6, Section 4-3).

43 In addition to various means of individual study methods, a unique system that integrates study and contribution to organisational management, known as 'project activity', is also widely used. The project activity aims not only at assisting

various activities of GLA but at learning the practical philosophy on hand. The adopted motto there is 'everybody is a member and everybody is a leader'.

44 See Section 8.3.

45 GLA (God Light Association). https://www.gla.or.jp/en/about-en/

46 Further details on spirituality and religion are discussed in Okabe (2022a: chapter 14).

47 Mercandante (2014: 1–19), Wikipedia 'Spiritual but not religious'. Shimazono (2012: 20), a leading Japanese scholar of religion, refers to this as 'new spirituality movements', 'new spirituality culture', or 'new spirituality'.

48 Incidentally, examples of 'Spiritual but not religious' (SBNR) as a book title in English include Erlandson (2000), Fuller (2001), Sacchi (2013), Mercadante (2014), Daniel (2014), Mee-Chapman (2016), and Bartunek (2019). For an overview of those books and details of the debate surrounding the SBNR, see Okabe (2022a: table 14-1 and chapter 14).

49 For a detailed discussion, see Okabe (2022a: chapter 14).

50 Spirituality is often described as 'rei' (soul; spirit; ghost) in Japanese, but there is a considerable gap between the two terms. For a discussion of spirituality, including this point, see Okabe (2022a: chapter 14).

51 'God, grant me the serenity to accept the things I cannot change, the courage to change the things I can, and the wisdom to know the difference'. This is widely known as the Serenity Prayer, a prayer written by the American theologian Reinhold Niebuhr in 1943 (Sifton 2003: 10; Okabe 2013a: 144–153).

52 Presentation by Shimazono as keynote speaker at the first conference of the Association of Solidarity of Medical People with Faith, 28 October 2018, at Keio University, Tokyo.

53 *Survey of Japanese National Character* (13th round survey, conducted in 2013) by the National Institute of Statistical Mathematics.

54 See Okabe (2022a: 14–3) for details.

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