

**Welfare, Marx and Japan: William J. Baumol and Martin Bronfenbrenner in
the History of Economic Thought**

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William J. Baumol, *Welfare Economics and Externalities*: 1946 – 1965

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Abstract

Baumol's contributions in welfare economics mark the beginning of his eclectic career. His involvement in the new welfare economics debate was driven by both the cultural environment at the London School of Economics, where he obtained his Ph.D, and his dissatisfaction for the status of the discipline. Baumol's book *Welfare Economics and The Theory of the State* can be considered an example of crossing tradition works in public economics and an attempt to draw attention to the then neglected problem of externalities in the economic theory.

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The Beginning of an Eclectic Career

William J. Baumol is one of those economists that everyone remembers, but no one really knows. Eclectic scholar, he was professor at Princeton and New York University, president of the American Economic Association in 1981, candidate to Nobel Prize and many generations of students have grown with his textbooks. Despite his notoriety, there are very few papers about him. The only aspect that has been studied is his contributions to the theory of entrepreneur in the economy, but beside this, Baumol still remains a famous yet mysterious economist. One reason could be that his production is enormous, thus it extremely difficult to have an overall idea of the importance of his contributions. Baumol obtained a Ph.D. at the London School of Economics. thesis on welfare economics and a good starting point to study his contribution could be to assesses the role in the New Welfare Economics debate during the years from 1946 to 1965. There are two lines of research. First his dissatisfaction with the state of the field which brought him to write about externalities. Second, his welfare economic studies as part of his economic production, the content of his theories and the relationship with the existing literature. The time interval corresponds to his arrival at the London School of Economics after the Second World War and the publication of the second edition of his *Welfare Economics and the Theory of the State*¹.

1- A Glimpse of Baumol's Life

William J. Baumol was born in New York City in 1922, son of Jewish Polish-Lithuanian immigrants. His parents were both self-educated intellectuals and convinced Marxists, so they introduced him to economics and he became very passionate about the subject:

¹ The analysis of published material is integrated with documents from the Baumol's archives at Duke University. Although the documents on his welfare economics production are very few, they can provide some interesting insides.

But I did a lot of reading. And a lot of reading particularly of Karl Marx, because both my wife and I grew up in very left wing households. Even though we were both, from very early days, suspicious of things like what Stalin was doing, the fact was that we still believed in things like nondiscrimination, elimination of poverty, etc., etc., as prime social issues. I can claim that we've never deviated from those views. [Krueger 2001: 212]

Baumol enrolled in the College of the City of New York (CCNY) in 1938 and graduated in 1942. Baumol recollected that at that time, the department of economics was mediocre, so some students of economics decided to study economics by themselves and to discuss together what they learned in self-taught classes. Baumol was assigned to microeconomics and that is how he became so passionate and familiar with this discipline. This is also how he learned how to debate fiercely, an attitude that later on will shape his fortune at the London School of Economics. Baumol graduated with two majors, one in economics and the other in visual arts, painting and lithography. His two sides, economist and artist, continued through all his life. His graduation coincided with the moment for the US to enter in the Second World War. Before the war he married Hilda Missel, who later coauthored with him many papers on the economic history of the arts.

During the war, after a brief time in the Department of Agriculture, he was sent to Europe as a soldier. He took graduate correspondence courses in mathematics from the University of Wisconsin while he was stationed in Rouen. He also learned wood sculpture from some German prisoners just after the end of the war, a subject that some years later he would teach at Princeton. When the war ended, Baumol worked for a short period of time again at the Department of Agriculture. He was assigned to the division responsible for the allocation of grain among allied countries. “But this time the task was very different: the allocation of the US grain resources among the countries of a hungry world. Two prime lessons emerged from this experience – the high cost of the negotiation process and the complexities of the calculation of fairness” (Baumol 1984a: 313).

After this brief stint at the Department of Agriculture, Baumol enrolled in the London School of Economics in 1946. His first application was rejected, probably because the CCNY was not known in the United Kingdom. He then wrote back asking if he could make another application the next year. At that time, Lionel Robbins was senior professor of economics at the LSE. Robbins was impressed by Baumol's will to come to the LSE and decided to admit him as a master student. After some time, Baumol proved to be a clever and prepared scholar and he was promoted to Ph.D. candidate and he became also member of the faculty. Baumol and Robbins became close friends and their friendship lasted even when Baumol went back to the US, as proven by many letters between them.

Robbins ran a graduate seminar together with Jacob Viner in 1946 and Baumol was “the most argumentative participant” (Howson 2011: 654), a role that was Nicolas Kaldor's in the 1930s, a trait that impressed the LSE board of professors². Thanks to Robbins' prestige and to the great bustle of scholars, he made to know many other important economists like Kaldor, Friedrich Hayek and Arthur Lewis (Baumol 1984a: 312). According to him, a Ph.D. was not necessary to become a professor in the United Kingdom and “At that time, Ph.D.'s were things that were given only to crazy Americans” (Krueger 2001: 214). This particular situation gave him the opportunity to work while writing his dissertation, “because few English faculty members had anything like a Ph.D. and did not take the degree seriously” (Baumol 1984a: 314).

Baumol taught two courses at the LSE, one on economic dynamics and the other one on American economy. “Economic dynamics is the study of economic phenomena in relation to preceding and succeeding events” (Baumol 1951: 4). The materials for the first course will become his first book, *Economic Dynamics* (1951). He discussed his Ph.D. dissertation in 1949 and his discussion lasted five hours. Some of the faculty still considered a Ph.D. an “American aberration”, so the discussion was much more like an exchange of ideas. Baumol recalls in particular that the idea for a dissertation was a group product:

² Nicolas Kaldor (1908 – 1986), was a famous Cambridge Post-Keynesian economist.

In the hotbed of discussion that constituted the LSE the dissertation's ideas were very much a group product. We had made an effort to revive the famous Cambridge, LSE, Oxford seminar of the 1930s, and these subjects were discussed at the joint sessions, bringing in ideas from outside LSE: Jan de v. Graaff played a leading part, he and I spending large amounts of time discussing one another's work on welfare economics.

[Baumol 1984a: 315]

Baumol and his wife were determined to go back to the United States. Robbins offered him a position at the LSE, but when Baumol refused, he recommended him to Friedrich Lutz, a professor at Princeton who was visiting the LSE. He received and accepted an offer of an assistant professorship after some weeks. He taught there until his retirement in 1992, but, starting from 1970, he divided his academic activity between Princeton and the New York University, where he was an associate of the C.V. Starr center. He made many friends among graduate students at Princeton: Martin Shubik, Harvey Liebenstein and, after a while, Richard Quandt, Otto Eckstein and Gary Becker. Many of them would become coauthors of Baumol some years later. Beside his career as professor, Baumol carried out some important jobs as a consultant for firms and for the U.S. government starting from 1953. Particularly famous were his consultant activities for regulatory cases. "It was a very valuable experience, teaching me how theoretical instruments can be applied flexibly to the complex and messy problems of reality" (Baumol 1984a: 320). The experiences and knowledge gained during those activities were the basis for many of his researches on the firm and the market structures.

2- Welfare Economics as a Tool, Not an End

2.1 Welfare Economics and Externalities

Baumol started to write about welfare economics in a period of great turbulence. The welfare economics field was subject to two main transformations during its troubled life. The first one was the rise of the New Welfare Economics after the publication of Robbins's book *An Essay on the Nature and Significance of Economic Science* in 1932. Some economists accepted Robbin's critique, while others tried to avoid it and build new welfare economics instruments. The New Welfare Economics was not an organized and systematic movement, but it is possible to retrace two different approaches to welfare economics. The British approach was built on the roots of the "Old" welfare economics of Pigou and Marshall, and tried to bypass the problem of comparison of utilities by proposing a "Pareto efficiency criterion". It consists in a system of hypothetical compensations to be evaluated after the introduction of an innovation or a policy measure. The main exponents were Nicholas Kaldor (1939), John Hicks (1941) and Tibor Scitovsky (1941). The American school, on the other hand, was based on the social welfare definition formulated by Bergson in 1938 and crystallized in the social welfare function by Samuelson in 1947. Each individual derives this function from the social state and its shape captures some value judgements.

A second important wave of debate in welfare economics started after the publication of Kenneth Arrow's *Social Choice and Individual Values* in 1951. Despite the fact that many economists considered this result a disaster for welfare economics, for Baumol Arrow's results won't have a small impact on welfare economics and the book "need not be viewed as cause for alarm (Baumol 1952: 110), because it is licit to relax some of Arrow's assumptions in welfare analysis without incurring in logical errors. This was an unpopular opinion, since the majority of economists saw in Arrow's book the end of welfare economics.

Arrow's book is considered one of the causes of the diversification of normative economics into social choice theory and public economics. (Edwards, Pellè 2011; 336). We can retrace two different routes that welfare economics took after the 1950s. The first one is the end of the

compensation principle; and the second is the discovery of the drawbacks of the first fundamental theorem and the glimpse of the second fundamental theorem. This caused a gradual shift from pure theoretical debate to the applied side of economics and also of welfare economics.

The literature on welfare economics was accompanied by the studies on the problem of externalities. A broad notion of externalities was already present in Smith, although he never called them externalities. However, after the theories of Marshall and Pigou, the systematic study of externalities was put aside from the economic discourse. Externalities did not disappear completely, but if they were mentioned at all it was only to show that they were an impediment to the attainment of the optimum allocation of resources. Baumol wrote his thesis in this period of considerable debate within welfare economics, but relatively little debate over externalities theory. There were several economists who wrote their Ph.D. thesis on welfare economics, but very few of them mentioned externalities. In 1943 Hla Myint obtained his Ph.D. at the LSE with a thesis “Postulates of Welfare Economics” which became *Theories of Welfare Economics* in 1948³. Myint pointed out what was a common belief at the time, the fact that embed externalities in the analysis would mine the elegance of the theories, without going much further in the analysis. M. W. Reder’s *Studies in the Theory of Welfare Economics* (1947), a book derived from his Columbia University Ph. D. dissertation, summarized the available theories, making only small mention of external effects. However, he ruled out the analysis of external effects. In another Ph.D. dissertation (Oxford) published as *A Critique of Welfare Economics* (1950), Ian M. D. Little mentioned externalities just to say that they are an impediment to reaching welfare optimality, without providing further analysis. Both Reder and Little believed that externalities would not restrict the validity of their analysis and that the inclusion will destroy the precision of the findings (Medema 2017; 25).

This lacuna in externality studies was not ignored. For example, James Meade at LSE noted that it was very strange that Abba Lerner, in his important book *The Economics of Control: Principles of*

³ Hla Myint (1920 –2017) was a Burmese economist famous for his pioneering contributions in development economics and for his contributions to welfare economics.

Welfare Economics (1944), omitted the discussion in externalities (Medema 2017). Baumol, again at the LSE, agreed with Meade, recognizing that external economies were a neglected subject. He was surprised by the absence of externalities in the book by Lerner and by the fact that externalities are treated by economist like “freakish exceptions” (Baumol 1952: 63). Externalities became again the object of theorizing in 1950s, when economists started to study them again as an independent object and not as part of other frameworks. Moving to the end of 1950s, under the pressure of evident social problems, externalities were applied to some policy relevant issues. This bought authors to slowly focus on several other aspects related to externalities, such as their remedies.

2.2 The Paradox of the State

Baumol, being at the LSE, was immersed in the British approach to welfare economics, as his first papers on the community indifference curves show. However, he showed signs of dissatisfaction with the current status of research both on welfare economics and externalities. For example, in the review of Samuelson’s *Foundations of Economic Analysis* he criticized the fact that Samuelson did not consider the external economies of consumption in constructing his social welfare function. This leads him not to consider some problems that are defined by Baumol the most interesting of welfare economics. His personal response to this lack of interest for externalities is contained in his Ph.D. thesis, published as a book with the title *Welfare Economics and The Theory of the State*.

Together with *Economic Dynamics* (1951), *Welfare Economics and The Theory of the State* is Baumol’s second main book and it was published in 1952. Baumol never talked much about his thesis, but it is reasonable to argue that the dissatisfaction with the current state of studies and the cultural environment at the LSE, awakened Baumol’s interest for the subject. Baumol reacted to the debates on welfare economics and its usefulness with a simple intuition: by connecting welfare economics with externalities, it is possible to apply welfare economics to concrete cases and formulate policy

recommendations. In an article of 1984 there is a rare description of his intention in writing that thesis:

The thesis, later published as *Welfare Economics and The Theory of The State*, took off from Marshall-Pigou theory of externalities, then a neglected subject widely considered to be of minor importance. It sought to generalize the idea to as diverse a set of subjects as the behaviour of competitors, the difficulty of cartel formation and the theory of inflation (all of which we were already characterizing as a prisoners' dilemma problems in the new fangled theory of games). More than that, I hoped to derive from the logic of externalities the rationale for all government intervention in the workings of the economy – notions later echoed in works of Buchanan and Tulloch and the writings of Mancur Olson.

[Baumol 1984a: 315]

Although the general framework can be called Pigouvian, there are two differences with respect to Pigou. The first one is that Baumol is taking into consideration the non-cooperative behavior of individuals. He clearly stated in the preface to the second edition: “The book undertook to explore systematically the relevance of the externalities argument for the relationship between the interest of the individuals and the interests of the group” (Baumol 1965; IX). The second and most relevant one, is that he wanted to use the externalities argument in a non-cooperative setting as the rationale to determine if the government intervention in the economy is good from a welfare point of view.

Richard Sturn (2016) put Baumol's book in the tradition of British public economics. The British tradition of public economics built up from the notion of market failures: in case of market failures, the British tradition developed the basis to justify the government intervention in the economy. This brings to the analysis of price systems where interdependences are not corrected by prices. “The paradigmatic conceptualization of such coordination gaps was originally developed within the Marshallian partial equilibrium framework: an interdependence not properly mediated by a “correct

price” is called an externality, conceptually pre- supposing the existence of a price system properly mediating all other interdependences.” (Sturm 2016: 490). However, as we have seen, externalities remained out of the research agenda for a long time, or a “freakish exception” for mainstream economics. Baumol’s book was then not only an attempt to shed light on the problem of externalities, but also on the policy recommendations in absence of a “correct price” solution.

Public economics is an interdisciplinary subject, which studies the government policies using the tools of welfare economics, but also philosophical reasoning on the nature of the State. In the tradition of public economics there are many authors who wrote on specific problems, like taxation, practices of public economics, relationship between public institutions and property rights. Baumol belongs to a category of economists who contributed in different ways, integrating different fields: conceptual framework, normative reasoning, technical innovations. Welfare economics is in fact an important strand of public economics and it offers many tools to the discipline.

The Anglo- Saxon tradition, with its attention of externalities, inaugurated a normative approach to public economics and it was important for the development of the discipline. It considered government intervention on a case-by-case basis, with the application of theoretical tools and empirical methods, allowing also the promotion of the professional role for the university-trained expert economists, especially in the Pigouvian tradition (Sturm 2016: 491).

Baumol tried to use the welfare economics framework and the theory of externalities to construct a valid rationale for state intervention in the economy: “This theory should explain why, with rational citizens (and particularly in a democracy), governmental interference in the operation of the economy is tolerated at all.” (Baumol 1952: 12). The central theme of Baumol’s book is to explain why some people living in a democracy choose voluntarily to be subjected to the state coercion. The paradox is that this voluntary acceptance of coercion may be perfectly reasonable. There are two types of cases in which people accept the coercion of the state: ones in which the individuals know that without the coercion, they will make decisions that will harm themselves and ones in which the acceptance by the individuals of rules that limit their conduct is necessary to justify others accepting

desirable limits on their conduct, as well. “The inquiry examines the rationale of the coercive functions of government. The problem can be put in the form of a paradox. If the public approves of an extension of government interference, people must in some sense feel themselves better off as a result of being forced to change their behavior. People must want to be prevented from doing what they do!” (Baumol 1954: 275). The key to his economic theory of the state is the existence of economies and diseconomies of production and consumption and Baumol tried to extend the externalities analysis to fields that are not commonly associated with externalities, such as inflation, recession, unemployment and defense. The problem here is when the self-interested act of the individuals affects the lives and choices of others at a point where there is a reduction in the product of the economy, with the possibility that every individual will be worse-off. In presence of externalities, the perfectly competitive equilibrium is not a sufficient condition for an optimum production and even different market structures such as monopoly became more difficult to evaluate with respect to the traditional analysis. In the presence of externalities, the singular desire for profit does not assure the realization of the necessary conditions for the social optimum. His actual starting point is the long-lasting battle between the advocates of *laissez-fair* and the one of government regulation of economic activity. It is worth to quote the whole passage:

There is a considerable difference between anarchism and the classical *laissez-faire*. Government was a highly desirable institution to the advocates of the latter provided, of course, that its activities were severely circumscribed. [...]

It is clear that any yardstick which pretends to indicate the proper sphere of government must itself be arbitrarily based on some peculiar set of ethical preconceptions. But there is an alternative approach to the problem which is adopted in this essay and can be considered equivalent either to cutting the knot or evading the issue, depending on one’s point of view. It is an attempt to determine which, if any, are the circumstances in which the people composing an economy will find that a particular extension of the authority of

their government is requisite for the most efficient pursuit of their own economic interest.

[Baumol 1952: 11]

The first lines of *Welfare Economics and the Theory of the State* contain two fundamental elements: the first is the avoidance of a political theory of the state in favour of an economic one. Baumol considered two cases only apparently similar: *laissez-faire* and anarchism. The difference between them lies in this distinction: the former allows the presence of government, while the latter refuses it *in toto*. Baumol's goal is not to justify the whole presence of the state, but just its intervention in the economy. He wanted to eliminate the arbitrary element in the selection of a government's task by using the available instruments of the welfare economics.

The second one is that the ultimate goal of Baumol's analysis is to show that the presence of government can be an efficient way to be left free of pursue individual economic interest. From the point of view of an opposer to government intervention, the situation in which the latter is the condition that assures the most efficient pursuit of individual economic interest seems at least paradoxical. However, it is precisely here that Baumol's argument is subtler: his theory of the state is not an ideological apology of the stare intervention for the greater good, but is a reasoned analysis on how the state can help people to achieve their individual economic interest. Baumol is challenging the view that the maximum welfare is always achieved in a competitive capitalism. For him, it is a claim that should be proven, rather than a self-evident truth. He proceeded on two lines: first, he challenged the view that the pursuit of the self-interest by individuals led to an increase of the welfare for the society and second, that the perfect competition should not be treated as the base case for economic analysis.

Thus justification of any assertion that the common welfare is in some sense necessarily served in the working of a competitive capitalism would appear not to be trivial. To us, of course, this question is of the essence in formulating a theory of the state, for by the criterion here adopted, to the extent that the social welfare is served automatically by the

economy as well as is possible, governmental activity becomes redundant. [Baumol 1952; 18]

Baumol's reasoning is simple. He started from the definition of the normative setting that the society should aim to attain. Then he shows a series of pitfalls that can affect this ideal situation and how those pitfalls depend both on externalities and inability of people to coordinate themselves. He starts from the definition of the ideal output as the situation where "no alternative output which could be obtained by means of reallocation among the various industries of the economy's resources would leave the community better off than before" (Baumol 1952: 26), which is in fact Pareto optimality. The ideal output is a notion borrowed from Richard Kahn and it is useful because it sets the main problem of welfare economics, i.e. the optimal allocation of resources among individuals. Baumol then show how this ideal situation is literally ideal, in the sense that it is very difficult to reach in the real world. Through a series of pitfalls in the standard theory, Baumol shows in his work how externalities are in fact a common phenomenon that can affect different areas conventionally not associated with externalities. Among those cases we can find some topics that will return in Baumol's production.

The most interesting example is the discussion on the monopoly output from the point of view of the entrepreneur. For Baumol, the study of all the actions that an entrepreneur can actively do, from vertical integration to the formation of a cartel, are what reserves the most interesting challenges for welfare economics. All those alternative occupations can produce a waste of resources, from the point of view of society. This topic is particularly important if we consider Baumol's subsequent academic production. His papers on the role of the entrepreneur in the economy were considered pioneering in the field. He did not continue immediately with this line of research, his papers on the figure of entrepreneur will appear only in 1968, but the seeds are evident in this chapter⁴. He did not consider an

⁴ "Entrepreneurship in Economic Theory", *The American Economic Review*, Vol. 58, which begins with evokes the lines in ...: "The entrepreneur is at the same time one of the most intriguing and one of the most elusive characters in the cast that constitutes the subject of economic analysis. He has long been recognized as the apex of the hierarchy that determines the behavior of the firm and thereby bears a heavy responsibility for the vitality of the free enterprise society. In

abstract entrepreneur immersed in a context of perfect competition, but an actual strategist that may be moved by different objectives. The contrast between the common image of the entrepreneur as a man of power and the abstractness of the theories of the firm, where the entrepreneur is rarely mentioned or pictured as a “creature very intimidated by the circumstance” (Baumol 1965; 114), is present both in welfare economics and the theory of the state and in “Entrepreneurship in Economic Theory”: “The theoretical firm is entrepreneurless-the Prince of Denmark has been expunged from the discussion of Hamlet.” (Baumol 1968; 66).

. The application of the externality argument and the lack of cooperation is then extended to a set of various problems, such as involuntary unemployment and international relations. The originality of Baumol’s exposition is that the intervention of the state is advocated because the lack of coordination brings a loss in welfare in terms of inability of fully pursuing private economic interest. In fact, the reasoning is analogous to the famous prisoner dilemma, a concept that was becoming more and more pervasive in the 1950s.

2.3 The Economic Foundations of the Theory of the State

To fully develop an economic theory of the state, Baumol had to confront with the long-standing problem of interpersonal comparisons of utility. In fact, to establish that there have been a loss of welfare, it is first necessary to determine how this welfare is measured and confronted among individuals.

Baumol made a review of the principal criteria to compare utilities available. He reviewed four different criteria: Kaldor’s: Pareto optimality, Bergson’s social welfare function, Kaldor’s criterion and Scitovsky’s double criterion. The Pareto optimum is a state of allocation of resources from which it is impossible to reallocate so as to make any one individual or preference criterion better off without making at least one individual or preference criterion worse off. The Bergson’s

the writings of the classical economist his appearance was frequent, though he remained a shadowy entity without clearly defined form and function.” (Baumol 1968; 64),

social welfare function was another way to approach welfare economic analysis. It is a function containing all the utilities of individuals with regards to specific goods and services. As for the Scitovsky's double criterion, it was an attempt to overcome the contradiction of the Kaldor criterion that we have seen. Since it may happen that both the introduction of the invention and its elimination can be desirable for the Kaldor's criterion, Scitovsky proposed that, to be acceptable, the introduction of the innovation should be Kaldor-acceptable, but not its elimination.

He analysed with particular attention the criterion proposed by Kaldor in 1939. The reason is that he already made a comment on this criterion in 1946 with the paper "Community Indifference", a comment that was in fact a sharp critique. He reprises this critique in the book, republishing entire parts of his 1946 article. Kaldor tried to construct a criterion to evaluate if a change in production, for example with the introduction of a new invention, is desirable in the sense that it enhances welfare without interpersonal comparison of utilities.

Baumol's main criticism is that the Kaldor's criterion can provide sufficient conditions, but not foundations, for an economic optimum. The main weak point is that in Kaldor's theory there is no need for the compensation between parts to be actually performed. Being the compensation totally abstract, it has no real impact on the situation and it is a sterile measure of welfare. Moreover, Kaldor is implicitly "subjected utility of the measuring rod of money, a measuring rod which bends and stretches, and ultimately falls to pieces in our hands" (Baumol 1952: 124). Scitovsky had already shown in 1941 that the Kaldor's criterion can lead to contradictory results, for both the innovation and its removal can be "permitted reorganizations", as the gain of innovations can be so huge that the gaining group can always compensate the other one. Kaldor replied in the same number of the *Review of Economic Studies*⁵. Since welfare depends on both production and distribution, it necessary to establish where political postulates come into play during welfare evaluations. The political postulates are involved only in questions concerning the distribution of income and not the production. If the production of welfare goes up, there is a certain distribution

5 Kaldor, N. (1946-47). [Community Indifference] A Comment. *Review of Economic Studies*, Vol. IX, No. I: 87

where every agent is better-off, but this does not imply that this distribution would be the most desirable. To make this statement, some “political postulates” are necessary, but those postulates and the policy can be separated by economics. Baumol recognized that the compensation criterion did not eliminate the interpersonal comparisons, since it used money and money can have different marginal utility for different individuals. Moreover, he understood that those compensations are not understandable outside an utilitarian framework. (Baujard 2011; 33). The validity of Baumol’s critique was confirmed also in recent studies. Ian M.D. Little stated in an interview in 2005: “No, I don’t think that the contemporary debates about the compensation criterion added very much to the original Bill Baumol’s note. He was the first person I know of who said that hypothetical compensation was no criterion.” (Pattanaik et al.; 2005). The problem is that the task to find a criterion to compare utilities, or individuals, or to make welfare judgement is far more problematic than it seems.

The difficulty stems from the fact that we have not discovered what may not be discoverable – an ‘objective’ criterion for an optimum distribution of income, and in any problems in the field of welfare economics we are therefore forced to take the distribution of income as a datum. [Baumol 1952: 125]

Baumol recognized that there may be some unsolvable problems in economics, like the definition of a universal criterion for the distribution of income. The economic analysis sometimes has to deal with something that cannot be axiomatized or defined in a univocal way. Baumol’s solution is then to accept an imperfect criterion.

It is important to highlight that those four criteria are quite similar, but Baumol stressed more the differences rather than the similarities. The Pareto optimum is a state of allocation of resources from which it is impossible to reallocate so as to make any one individual or preference criterion better off without making at least one individual or preference criterion worse off. The

Bergson's social welfare function was another way to approach welfare economic analysis. It is a function containing all the utilities of individuals with regards to specific goods and services. As for the Scitovsky's double criterion, it was an attempt to overcome the contradiction of the Kaldor criterion that we have seen. Since it may happen that both the introduction of the invention and its elimination can be desirable for the Kaldor's criterion, Scitovsky proposed that, to be acceptable, the introduction of the innovation should be Kaldor-acceptable, but not its elimination. The limit of this criterion lie in the fact that in presence of intersecting utility possibility curves: in such situation, it is impossible to judge certain kind of changes in income distribution, so the criterion can not be used

Which criterion shall we choose then? We have seen that Kaldor provided us with a necessary condition for a permitted reorganization, namely the necessity for a compensation, but this is not a sufficient condition.

The best that can be done is to say that the problem is a political one and that it can be solved only by some sort of collective decision by the group. This answer obviously leaves much to be desired, but I can see no alternatives. [...] In terms of the analysis at the end of the last section, I have just suggested that we must adopt either Pareto's or Bergson's criterion. [...] For most of our arguments we have employed and shall employ no more than Pareto's criterion. [Baumol 1952: 131]

In sum, the problem is not solvable by the sole use of calculus. It is important to note that Baumol never refused the political dimension of welfare evaluation. The problem is ultimately a political one and it can not be reduced to pure calculations. This statement is interesting because Baumol is outlining the moment for the political reasoning. The economist should then consciously choose the criterion that is optimal for his analysis, with the assumptions and ethical postulates made clear.

2.4 The Historical Argument

Baumol's theory is in line with a stream of literature that relates with the relationship between economics and the government. The historical excursus includes authors like Petty, Smith, Storch and the German historical school. Baumol's goal is to reforge the link between political economy, welfare analysis and the normative discourse on the theory of the state. A link that, in Baumol's opinion, was lost with the Jevonsian revolution:

With the Jevonsian revolution, French, Italian and English speaking authors were led, under the influence of positivist philosophy, to shy away from ethically normative discussion. [...] Discussions on the functions of the state disappeared from writings on public finance which became confined to inquiries on how the costs involved in performance of these functions could be covered. Welfare economics has to some extent taken over the analysis of the economic functions of the government. Yet the approach of welfare economics is primarily a piecemeal one, and as a result the methods more than the conclusions of the theory of welfare have proved relevant for our present discussion. [Baumol 1952: 154-155]

With the marginal revolution the economists were driven to use more mathematics into their analysis and that brought welfare economics to replace the thought on the economic functions of the government. However, welfare economics is a tool useful to analyze certain problems and not an end in itself. Welfare economics is not the conclusion, it is a method. This is also the link with the epilogue of the book, entitled "The Wreck of Welfare Economics?" and it contains Baumol's opinions on welfare economics and its methodology. First, Baumol clarifies that the book does not give definitive answers, but the reader should not be discouraged. On the contrary, it was necessary to understand the limits of welfare economics in order to make it survive.

Nor must we be deceived into believing that we have found a meaningful conclusion if that conclusion is in the form: such and such is the case unless there are present important economies or diseconomies. This tells us merely that we have still not begun to investigate what they may be the most significant part of our problem. We have merely chosen to give our ignorance a local habitation and a name. [Baumol 1952; 165-166]

The awareness of a limit is useful because it helps us to trace the status of our knowledge and in doing so, it highlights future lines of research. In this case it is the recognition that taking in consideration the role of externalities is the key to further developments of welfare economics. Baumol's position on this matter is clear: welfare economics real function is to provide instruments useful for other fields.

I sincerely believe that welfare theory even as it stands has an important contribution to make; for it can be most useful in rejecting shoddy arguments and easy fallacies, a role where help should always be welcome. As Professor Pigou once pointed out, abstract arguments, if they only construct empty boxes, cannot show what is (empirically) right, but can often (by demonstrating contradiction) indicate what is wrong and, perhaps, even more often, what is unproved. There can be little doubt that such service has proved invaluable in the past. Indeed, this possibility provides the main *raison d'être* for this book. [Baumol 1952: 167]

The “empty boxes” refers to a quarrel between Clapham and Pigou on *The Economic Journal* in 1922 regarding the practical utility of certain axioms of analytical economics⁶. The problem was the relationship between economic theory and its application to real cases. If welfare economics is a set

⁶ John Clapham (1873 – 1946) was a British economic historian.

of “empty economics boxes”, this means that we can not apply it as it stands. Baumol’s answer to this problem is to recognize that welfare economics is not an end in itself, but it can be a meaningful tool for the applied analysis. This idea of welfare economics as a tool can be better appreciated if we consider Baumol’s book as part of the broader public economics field. In this sense it is clear that Baumol was compiling a case-by-case study founded on philosophical base and analyzed through the tools of welfare economics.

3- An Offspring of the Welfare Economics Boom

Welfare Economics and the Theory of the State received mixed reviews. The general opinion was that it was an important book for the welfare economics analysis, but since the field evolved very quickly, some of the contents were already old when it appeared on the shelves. Another recurring comment is the fact that the book contains very interesting topics, but they are treated with insufficient means to be fully appreciable and in general the thesis is not developed to its full potential. Especially in the second part of *the book* the reader has the feeling that he stopped, leaving the reader with the curiosity to know more. Another common comment is that the book can serve to be a great textbook for the richness of contents and the mastery of exposition.

K.E. Boulding (1953) highlighted three elements: “and the book suffers because the rapid development of welfare economics makes the writing of even three or four years ago seem a little out of date.” (Boulding 1953: 210) and that the book seemed a little bit outdated and that “It suffers also from a common defect of published theses-it is too much of a text book for a treatise and too much of a treatise to be a text” (Boulding 1953: 210). The second one is that some solutions are not entirely original or new “Baumol comes to the not wholly surprising solution that the only remedy for this situation is government, a conclusion which, if I remember rightly, Mr. Hobbes came to quite sometimes ago” (Boulding 1953: 210). The third is the lack of use of mathematics. In his

opinion the introduction of mathematics could have saved welfare economics from the “wreck” described in the last chapter.

Ian M.D. Little (1953) shared much of the Boulding’s opinions. In particular, Little stressed the weakness of the second part of the book: Baumol had made a great effort to integrate economics, politics and sociology in one theory, but he did not go far enough, he did not make the best out of it. “I wish he had written a larger book on the main theme [...] If he does not do so himself, someone else should, with suitable acknowledgments” (Little 1953: 80).

M. W. Reder (1953) is even more critical. The book is full of interesting arguments, but they seemed outdated when the book appeared, since welfare economics was “subject to rapid obsolescence” (Reder 1953: 538). However, the book contains some interesting suggestions, like the part on monopolies and the interrelation between individual and group maximization in Chapter ten. The most disappointing part is again the last part of the book. While the discussion on the various criteria to compare utilities is quite appreciated, Chapter twelve is considered unsatisfying for two reasons. First, for the absence of reference to Arrow’s link between welfare economics and the state. Second, for his methodology: instead of using new tools, he simply exposed a set of quotation from other authors. “In my opinion, this approach does not go to the heart of the matter- the constraints imposed by political considerations upon the (presumed) desire of political authorities to optimize the utilization of productive resources.” (Reder 1953: 539). The final criticism is that Baumol did not include in his analysis organized groups of individuals, but only individuals as singles. This brings to an overestimation of the role of the state and it is not clear which kind of optima is possible to attain.

R. W. Pfouts (1953) contended the use of the community indifference curves as a tool for welfare analysis⁷. The various analyses of the set of particular cases when the self-interest actions of the individuals affect the group welfare are too brief and sometimes the reasoning is not carried out in a plain way. However, he appreciated the fact that Baumol quoted many classical writers who

⁷ Ralph William Pfouts (1920 – 2014) was an American economist, professor at University of North Carolina.

have made theories on the same subject. “There seems to be no question that present-day writers, including Baumol, see more deeply into the problems of political economy economics than did the classical writers. It is pleasant to encounter writer who cheerfully admits that he gains his increased vision the shoulders of the classical giants” (Pfouts 189: 1953). Robert H. Strotz (1954) had a more positive view of Baumol book⁸. The book has the quality to bring together many different discourses that are often seen as disconnected. However, Strotz lamented the lack of mathematical content and the fact that some reasoning that should have been supported by empirical arguments are carried out only at the theoretical level. Strotz suggested to use the book as a textbook, since Baumol has a great expository ability and the book is a good sum of the welfare economics theory.

Frank Hahn (1954) saw in Baumol’s interest for welfare economics an “offspring” of the welfare economics boom of “a few years ago”⁹. The delay in publication of the Ph.D. thesis had caused the book to seem outdated. However, Baumol’s book contains some “substantial contributions” to the late 1940s to the welfare debate. Before publishing his review, he sent his impressions to Baumol:

The reason for writing so short a note is to crave your indulgence. The E.J. has asked me to review your Welfare book. I foolishly said yes. The point now is, that while I think that you have a number of good points, I cannot get myself to really like the book. I think this is due to the fact that it contains so much of what we thought important in 1947-48, which is no longer the same as what we find important today. In any case while the review I have written is by no means nasty it is lukewarm. I hope that you will not regard this as a dirty trick or lack of friendship. Having said yes to reviewing it (before I had read it) I don’t see

⁸ Robert Henry Strotz (1922 –1994) was an American economist. He obtained his Ph.D. from the University of Chicago in 1951 with a thesis on welfare economics.

⁹ Frank Horace Hahn (1925 – 2013) was a British economist. He took a doctoral degree in 1951 from the LSE, where presumably he met Baumol.

how I can now get out of it. All I can do now is to assure you my continuing love and respect.¹⁰ [Hahn 1953]

Hahn did not lighten his critique because he was Baumol's friend, in fact in the official review there are all the critiques that he anticipated in the letter. Unfortunately, we do not have Baumol's reply to Hahn.

4- Interlude

Given Baumol's inclination for the applied economics and the rapid transformations of welfare economics field, it is not by chance, then, that after the 1950s he started to diversify his production in a consistent way. However, the idea that the only way for make welfare economics to survive is to apply its theories to concrete cases is evident in many papers. In a letter to Jan Tinbergen in 1953 he wrote: "Thank you very much for the draft of your paper, 'More realism in Welfare Economics.' I certainly agree that more definition on our ethical preconceptions and more empirical work (and particularly the latter) is necessary if we are to get out of the impasse which now faces us in this field" (Baumol 1953)¹¹. It is important to remember that the field of welfare economics was in deep trouble during the 1950s. Baumol seemed aware of the troubles of the field, but he always maintained a positive view of this field and the positivity derived directly from his personal view of welfare economics.

Baumol explains what was the difference between the debate of the 1940s and the recent developments in welfare economics: scholars of the previous decade were engaged in a "profound methodological soul-searching rather than a quest of directly applicable results." (Baumol 1965; 2). However, this search was not successful, and "As the failure to establish a methodology which was

¹⁰ Letter from Hahn to Baumol, September 22nd 1953, Box 83

¹¹ Letter to Tinbergen March 31, 1953

both fruitful and logic tight became increasingly obvious, gloom descended upon the writers of the forties. There soon appeared statements about the significance of welfare economics which bore an ill-concealed resemblance to obituary notices” (Baumol 1959: 317). However, Baumol’s opinion is that welfare economics is not dead, but its role is different from what the writers of the 1940s have thought:

Happily, reports of the death of welfare economics turned out to be exaggerated. Perhaps surprisingly, the discipline is now a vigorous contributor to a type of investigation which is, however, totally different in spirit. Welfare economics has come to play a role in the intensely practical and applied field of operations research which may be described roughly as the application of mathematical methods to business, governmental and military problems. [Baumol 1959: 317-318]

This is the same position of the 1952 book. Baumol was well aware of the problems of welfare economics after the 1950s. However, he did not consider the field as dead, because welfare economics can be used as a tool and be integrated in other economic disciplines. This has implications also for the role of the welfare economist. It is useful to compare two quotations from different papers. First, Baumol’s paper “Monopolistic Competition and Welfare Economics” (1964) begins with a polemical remark about the role of the welfare economist:

For in recent years it has become unfashionable for the welfare economist to speak about anything so substantive. Rather, he has grown exceedingly introspective and has been spending much of his time determining the circumstances under which he has any right to speak at all. [Baumol 1964: 44]

The second statement comes from Baumol's paper, "Informed Judgment, Rigorous Theory and Public Policy" (1965), in which he analyzed the relationship between the applied economist and the theoretical economist. The paper analyses some theoretical results that have some important consequences for public policies, confuting the common belief that only the applied economist can provide useful insight for the policy maker. He writes: "The welfare theorist is and should be by nature a trouble maker who disturbs calm waters. His constitution requires him to question what is accepted and to cast doubt on the standard operating procedures" (Baumol 1965: 138). Those two quotes remind of the epilogue of his book, in which Baumol said that the role of welfare economics is to prove what is wrong. Despite the transformations of welfare economics, the welfare economist still has an important role to play in the policy-making.

Those papers show how Baumol's idea of welfare economics as an applied tool remained unaltered in the years between the two editions of *Welfare Economics and the Theory of the State*. This is coherent with the transformations that the entire discipline of economics was undergoing in those years, and also with Baumol's view of economics as an intrinsic applied subject. Not that theory should be disregarded, but the theory should always find its application to the concrete world.

5- The Second Edition and Its Disappearance

5.1 New Developments

The idea of the application of welfare economics tools to concrete cases is fully articulated in the second edition of *Welfare Economics and the Theory of the State*, published in 1965. In the preface Baumol explained that it was almost impossible to find a copy of the book, so it was the right moment for a reprint. However, he did not want to revise the previous book and that is why he added the new introduction without making modifications to the 1952 text. However, Baumol recognized that he changed during the fifteen years that separates the first edition from the second: "In short, I feel that I am a different person from the author of the original edition of this book and

that my right to tamper with my predecessor's work is questionable" (Baumol 1965: IX). He stressed that the introduction will focus on what he considers the most significant developments in welfare economics, namely its effective application to several problems of policy making:

From there it turns to the most significant subject-matter of the interim period, the *application* of welfare economics to a variety of concrete problems of public policy. This work showed that the abstractions of welfare economist could serve some function outside the ivory tower and that they could offer significant assistance to the policy maker, the practical man of action. [Baumol 1965: 1]

The goal of the introduction is to show the major developments in literature that are somehow linked with the core themes of the 1952 book and to prove that the most significant developments of welfare economics were in the applied field. He reprised the review of *Theoretical Welfare Economics* by J. de V. Graaff (1957) to show the difference between the methodological debate of the 1940s and the applied developments that he will explain. The introduction is interesting also to understand how Baumol's book was situated in the debate and if some new contributions explicitly referred to Baumol's analysis.

One of the first examples of those effective applications is the cost-benefit analysis. The "benefit-cost" analysis is immediately opposed to the "rules of thumb" of the Chicago school. The former, in fact, can bring a rigorous method not only to the management of firms, but also in all those situations where it is necessary to make long-run decisions. Baumol did not go into detail. Baumol praised cost-benefit analysis because, in the face of the difficulties of applying the abstract concepts of welfare economics to concrete cases, it "breathed life into many of our welfare constructs" (Baumol 1965, 23). The metaphor underlines Baumol's view that theoretical welfare economics had been on the brink of death.

Baumol included a discussion of the meaning of externality only in the second edition, justified by the fact that “the entire subject was re-examined from his very foundations” (Baumol 1965: 24). His definition combined various elements. In the first place there must be the interdependence between economic activities, with the lack of compensation for the effects of someone’s activity on others. Since here it is nothing more than the notion of externality proposed by Pigou, but the problem with this definition is that it is too broad. So Baumol added a second element: we are in presence of externality if an activity’s marginal social net benefit is greater than its marginal private return. This implies the necessity to know with a considerable precision how the utilities of different individuals are affected by the activities of others and vice versa. Only in this way it is possible to determine if an external effect is in effect an externality. The lack of a mathematical tool that could serve this job is fulfilled by Buchanan and Stubblebine and their “Pareto-relevant externality”, an algebraic tool that defined the externality in terms of differences in derivatives¹².

There is again no discussion about Arrow’s Social Choices and Individual Values. This time Baumol could not avoid the confrontation with Arrow’s work, but his view remained almost unchanged, because the reason he gave are that the content of the book can not be summarized briefly and that Arrow’s conclusions do not affect his discourse, a statement that we have seen above in his review to Arrow’s book.

5.2 Liberals vs Conservatives

The tension between the advocates of the state intervention in the economy and those who oppose it is a common feature of democracy. Baumol showed this contraposition between those who sought the State intervention and those who did not based on the role of externalities. On the

¹² Buchanan, J. and Stubblebine, W C. (1962). Externality. *Economica*, vol. 29.

James McGill Buchanan Jr. (1919 –2013) was an American economist, he received the Nobel Memorial Prize in Economic Sciences in 1986.

William Craig Stubblebine (1936 -) is an American economist, he works in the field of public policy.

side of the liberals there is Ronald Coase and his paper “The Problem of Social Cost” (1960)¹³. Coase confronted with the problem of externalities in a different way with respect to his predecessors. The intervention of the state may reduce the utility of who is producing the externalities, moving in fact to another non-optimal situation in Paretian terms. Thus, the government intervention is “overstated” and “oversold”. On the other side, among the conservatives, there is Scitovsky with “On the Principle of Consumer Sovereignty” (1962). The relation between them lies on the role of the state that those two papers advocates, although for different reasons. Scitovsky did not approve the concept of consumer sovereignty, because, in his opinion, it leads to vulgare tastes and bad decisions. The government should be the guard of the good tastes against the vulgarity. The government intervention should aim at limit the vulgar derives of the consumer sovereignty. Baumol’s preferred “to take the unexciting middle position between these two extremes” (Baumol 1965: 29). He disagreed with Scitovsky, since his method could be a dangerous vehicle for impositions: a small élite could easily impose its rules or tastes. On the other hand, he agreed with Coase, but he also thought that “he exaggerates greatly both the seriousness of the drawbacks of governmental activity and the extent of the naïveté of economists on this subject” (Baumol 1965: 29).

The critique of Scitovsky’s position raised some criticism. Karl de Schweiniz, professor of Economics at the Northwestern University, wrote a letter to Baumol with a series of comments, mainly on the section on the general policy implications of externalities. His thesis is that in comparing Coase and Scitovsky Baumol is no longer talking about externalities, but “whose preferences ought to be maximized.” Scitovsky is arguing on the fact that consumer sovereignty leads to the proliferation of bad tastes, that has nothing to do with externalities: “But surely the hypothetical existence of a superior product does not mean that the existing output generates externalities”.

¹³ Ronald Harry Coase (1910 – 2013) was a British economist, Professor of Economics at the University of Chicago Law School.

In sum, the problem posed by Scitovsky is separable from the externalities. De Schweiniz also suggested that, while he is in accordance with Baumol's view, he did not think that his position is 'unexciting middle position' ", but he is openly against Scitovsky. Baumol replied on March 18th, 1966. He agreed with the remarks of de Schweiniz, that he had little sympathy for Scitovsky's position, but for different reasons:

I certainly agree that bad movies do not involve any externalities, at least do not necessarily do so. And that is precisely why I have relatively little sympathy for Scitovsky's position. I am arguing then that there is no obvious ground for intervention to eliminate the production of bad movies, whereas in the case of externalities, one should consider intervening precisely because their presence prevents true consumer sovereignty from taking effect. For the present I think that one cannot really separate out the argument for intervention in the presence of externalities and the issue of consumer sovereignty. It seems to me that to the economist one cannot argue that externalities are bad per se. They are bad because they lead consumers to act in a manner which frustrates one another's desire. [Baumol 1966]

This is an important clarification. He did not like Scitovsky's position because not only it has nothing to do with externalities and it is extremely dangerous. Bad tastes may become an issue when they influence in a bad way someone else's life, or when they prevent someone to pursue his own interests. Here the two arguments coincide: externalities are a problem because they prevent consumer sovereignty to fully apply.

5.3 Other Theories of The State

There are two contributions that explicitly refer to Baumol's theory of the State. One is the book by Anthony Downs¹⁴. In *An Economic Theory of Democracy* (1957) Downs formulated a behavioral theory of government activity. In particular, Downs criticized Baumol's approach to the state, since it is not true that the government undertakes only those activities with indivisible benefits. Downs put himself in contrast with Baumol and Samuelson on the role of government intervention. For Baumol this quarrel does not make sense, since he and Samuelson are concerned with the normative aspect of the analysis, while Down with a more positive analysis (Baumol 1965; 41, note).

The second one is the contribution by Buchanan and Tullock (1962)¹⁵. In their book *The Calculus of Consent* they referred to Baumol's book of 1952 as a rare example of someone who discussed carefully the question on the emergence of democratic political institutions: "The relatively recent work of William J. Baumol represents almost the only attempt to develop a theory of collective activity from the economic calculus of the individual citizen." (Buchanan and Tullock 1962: 321, 322). They explicitly consider their work as an extension of Baumol's book: they apply the externality argument to the problem of choosing the decision-making rules and they studied the economic approach contained in the alternatives open for choice. Baumol recognized that their work was indeed an extension of his own argument, but he did not agree on a set of arguments. He did not agree, for example, on the fact that only a rule which requires unanimous consent for any governmental action can lead to optimal results (Baumol 1965; 43).

For Buchanan and Tullock, the collective decision-making can always present external costs if the process is not unanimous, because the controlling group is always able to approve legislations with deleterious effects on others. Baumol thought, on the contrary, that unanimity is an ideal instrument to preserve externalities (Baumol 1965; 44). Every voting rules specifies the ratio

¹⁴ Anthony Downs (1930 -) is an American economist, expert in public policy and public administration.

¹⁵ Gordon Tullock (1922 – 2014) was an American economist known for his work on public choice theory.

necessary to approve the change, but also the groups that can prevent the changes. The line between imposing costs on others and preventing costs on others is very thin. More directly related with Baumol's discourse is Mancur Olson's *The Logic of Collective Action* (1965), whom he quoted also in the 1984 article. Olson's starting point is basically the same of Baumol's: without regulatory intervention, the un-coordinated activity of individual may fail to achieve the goals of the members of the group. The other argument is that even if there's coordination, the costs of this coordinating activity may rise substantially. This is a natural complement to Baumol's main argument in the 1952 edition.

In sum, the introduction of the second edition is not only a dense and articulate literature review of the relevant contributions to welfare economics in the years between the two editions, but it enforces Baumol's view of welfare economics as a tool to be employed in various economic fields. "The overall conclusion which we can draw is that there is a great vitality in the field of welfare economics, which despite fluctuations in the activity of its investigators, occasional reductions in the rate of progress and isolated periods of pessimism, remains an area of continuing interest and applicability" (Baumol 1965, 45). This optimism is a characteristic of Baumol's thought. Baumol saw the end of a period, the methodological and theoretical debate of the 1940s, and the beginning to another one, the applied side of welfare economics of the 1950s. He never rejected welfare economics as "dead". His faith in the progress of economics as a science made him to remain positive on the fate of the discipline.

5.4 The Last Edition

Welfare economics and the theory of the State is a book that aged faster than expected¹⁶. The reasons are threefold. First, there is the rapid transformation that welfare economics underwent

¹⁶ Robert Solo in a letter to Baumol about the first edition wrote: "It is destined to become, I am sure, increasingly important as time goes on" (Solo 1953).

since the 1950s and after the 1970s, that made the content of the book outdated. Second, the publication delay between the thesis and the book overlapped with the storm caused by Arrow's 1951 book. The fact that Baumol did not discuss Arrow's contribution must have given the impression that the author was not updated with the new developments of the field. Third, Baumol used some tools that were already obsolete at the time of the first edition, like the community indifference map, i.e a map of indifference curves for the collectivity. Baumol had already analyzed this tool in an article of 1949, "Community Indifference Map: A Construction", so he was familiar with it and that is probably why he used such a device¹⁷. However, the book was considered very useful for didactic purposes, since it presents a great sum of the relevant debates in welfare economics of the 1940s. Atkinson listed Baumol's book as one of the must-read for students in the 1960s: "In the 1960, welfare economics was an integral part of the discipline. Students were expected to study books such Little (1957), Baumol (1965), or Graaff (1957)." (Atkinson 2001, 194)¹⁸.

There are several correspondence exchanges with publication officers and editors about the rights of the book and the possibility of a reprint. In a letter of 1981, Mr. P.D.C. Davis, Publication Officer at LSE, informed Baumol of the impossibility to keep selling *Welfare Economics and the Theory of the State*. The book sold "less than 20 copies per year" and the remaining copies were thus moved to the Economist's Bookshop, owned by the LSE. In the response, Baumol wrote: "[...] Obviously, as it must to all things, the end of this book has finally come." (Baumol 1981). He seemed to recognize that the cultural environment around him had definitively changed and that his book belonged to a different period. In 1986, a letter from Margaret Hivnor¹⁹, Paperback Editor at the University of Chicago Press, informed Baumol that *Welfare Economics and the Theory of the State* would

¹⁷ The community indifference curve is constructed considering the various set of compensations payed between the agents of the economy and aggregating the preferences of the individuals. The difference with respect to Kaldor is that Baumol considered an essential part of the construction of those curves the specification of the mean for actual compensations between agents.

¹⁸ Sir Anthony Barnes Atkinson (1944 – 2017) was a British economist.

¹⁹ Letter April 4th 1986, Baumol's Collection Box 8

not have been reprinted anymore. The rights were returned to Baumol in January, when Davis, the Publication Officer at LSE, told him that the microfilm of the book was no longer available, probably because it was destroyed.

When I first wrote to you, I did think we would decide to reprint: Geoffrey Huck, our Economics Editor, was enthusiastic at the idea of adding a book by yourself to our list, and Professor Russell Hardin of the Political Science Department here had urged to make WELFARE ECONOMICS available to students.

The book appealed to us, too, as a classic study with a point of view different from that of so many of our economics books.

For the past two months, however, I've received the same advice from every scholar in economics and political science I've gone to. WELFARE ECONOMICS is universally praised and considered important from in historical point of view, but would not sell in a new edition. One professor told me he thought students should want to read it, but didn't think they would. [Hivnor, 1986]

After the publication of the second edition, Baumol did not comment again on his book, nor he returned directly on the topics. One of the last letters he received concerning *Welfare Economics and the Theory of the State* was from a French scholar, J. M. Boisson in 1970. The question was about the third paragraph of Chapter four, where Baumol discussed the system of taxes and subsidies necessary to solve the problem of misallocation of resources. Baumol wrote that the ideal output can be reached in three ways: by a system of taxes alone, by a system of subsidies alone and by a mix of taxes and subsidies where taxes and subsidies are of the same amount. In other words, tax and subsidies can be interchangeable measures for correcting a misallocation of resources. Boisson asked why Baumol thought that taxes and subsidies are interchangeable tools to solve the problem of misallocation of resources. Baumol replied on March 24th 1970: "I think I know [sic] longer agree

with what I said there. It is no longer clear to me that the same general equilibrium resources allocation results can be achieved by the two methods, and that my comment is simply a consequence of sloppy thinking.” This is one of the rare letters where not only he commented his book, but he disagreed with what he wrote. Baumol wrote to Boisson that he drafted a paper that touches this problem and the result from this new analysis is that it is not possible to have a choice between the two methods. Baumol said that the paper was not yet typed and he did not provide the title. This is the last letter in the archives that concerns *Welfare Economics and the Theory of the State* and it shows how Baumol continued to work on some topics related to the 1952 book, but with a new awareness.

Forking Paths

Welfare Economics and the Theory of the State was an attempt to provide an original contribution to the welfare economic field and to shed light on the externalities problem. However, what remains of Baumol’s welfare economics production from 1940s to 1960s is a view of the field rather than a complete theory. In considering welfare economics as a tool, Baumol seemed to anticipate the empirical turn described by Backhouse and Cherrier (2017). They describe “The 1950s and 1960s could be described as the age of the economic theorist” (Backhouse 2017; 35), with a gradual shift toward more empirical research, boosted by the development of new econometric and computational technique. Baumol intended “applied” as a mix of theory and practice and the public economics field was the right one to implement this vision. “Applied work was perceived to need a theoretical basis, with econometrics being used to test formally specified theoretical hypotheses. Several fields, such as development and public economics, were reshaped around the neoclassical theoretical core.” (Backhouse 2017; 35).

It is important to remark that welfare economics did not completely disappear from Baumol’s writing. In 2001 he edited together with Charles Wilson a three volumes collection of the

major writing in welfare economics. Some papers by Baumol are reprinted in those volumes, but they are all very technical papers written after the 1970s. They reprise some topics of the 1950s' writings, but their style is very different.

Baumol's contributions in welfare economics can be better appreciated if we broaden our perspective and consider them with respect of the whole field of public economics. *Welfare Economics and the Theory of the State* was one of those "crossing traditions" text that built up from the British tradition of public economics and mixed different backgrounds in order to assess problems that were ignored by the mainstream literature. His use of case-by-case scenarios and history is in line with the British tradition, but his book was very important for the development of public economics and its internationalization.

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So, What Marx Really Meant?: Baumol, Samuelson and Morishima on Marx

Anna Noci

Abstract

The *Journal of Economic Literature* hosted a debate on the transformation problem between William Baumol, Paul Samuelson and Morishima Michio in 1974. The papers published in the *colloquium* are actually the result of an intense exchange of letters that started in 1973 and involved many other economists, like Martin Bronfenbrenner and Robert Dorfman. This research reconstructs the formation of the JEL papers using the unpublished letters between the actors involved with particular focus on Baumol and Samuelson. What emerges is that their correspondence was a clash between two different approaches to the history of economic thought: while Samuelson applied his “Whig” interpretation of history of economics, for Baumol it was a matter of understanding what an author tried to accomplish. This determines a different reading of Marx’s theories and a different understanding of his role in the history of economic thought.

I would like to thank Jonathan Cogliano who first convinced me to write this paper with his sentence “They’re speaking of a Marx who didn’t exist”. I would like also to thank Ivan Moscati for his patience and always helpful comments. My deep gratitude goes also to the staff of the Rubenstein Library at Duke University for their help, kindness and infinite patience; and to the members of the HOPE Center, for their renewed friendship, knowledge sharing and warm welcome.

1. The Transformation Problem Strikes Back

The transformation problem is a long-standing problem of economic theory. Many pages have been written about it, but its resolution is more a matter of faith than an objective reality. In the *Journal of Economic Literature* in 1974 there have been a curious exchange of papers between William J. Baumol, Paul Samuelson and Morishima Michio. The object of dispute was “what Marx really meant” by the transformation problem. In particular, Baumol claimed to have discovered Marx’s true intentions, i.e. that Marx wanted to transform values into profits, interest and rents, and not into prices. Samuelson and Morishima responded to Baumol’s paper with their own original contributions, in what came to be an animated back and forth. What is less known is that those four papers were the result of an intense exchange of letter that lasted almost a year and that involved many other economists. This paper reconstructs the unpublished debates behind the published papers and gives also an account of the debates that it generated after the publication. The main source are the unpublished letters between the economists involved, collected at the Economists’ Papers Archive at Duke University between four different collections.

The debate on the JEL and the correspondence behind the published papers are also a clash between two different approaches to the history of economic thought. Baumol and Samuelson demonstrated to have opposite visions of the history of ideas: Samuelson showed the prelude of his “Whig” history of economics, i.e. that the new economic ideas encompass and improve better ones. For Baumol, on the other hand, it is important to evaluate an author’s thought by considering his whole intentions, production and historical circumstances. Baumol’s paper, and the debate that generated, raises the problem of the correct interpretation of Marx and, implicitly, of his correct place in the history of ideas. The two different approaches to the history of economic thought determined two completely different images of Marx.

1.1 A Brief History of the Transformation Problem

The transformation problem, or the transformation of values into prices, is the problem of finding a general rule by which to transform the values of commodities into the competitive prices of the market. In a capitalistic economy, commodities are just a part of a generic richness, since the richness itself is made of objectified labor and commodities are objectivation of the abstract labor. If it were possible to demonstrate that the production prices, if they do not coincide with values, can nevertheless be deduced by them and only by them, then it would have been possible to demonstrate that the elements that are characteristic of the economic theory, i.e. the prices, confirm all the theories of exploitation and alienation.

In Volume I of *Capital*, Marx developed the analysis of the market as if the law of value was linked to the prices of commodities. However, this is true if the organic composition of capital is the same in all industries, which is an unrealistic hypothesis. For Marx's critics this fact was used as the first argument to demonstrate that the theory of value was false, because it could not be linked to any real phenomenon of production. Problems arise also because competition should imply a uniform rate of exploitation, since workers can move from one occupation to another. However, this does not imply that competition will equal organic composition of capital, the assumption necessary for the transformation algorithm to be performed.

The labor theory of value implies that commodities exchanged in proportion to their embodied labor and since Marx arrived at the equation $r = s/v/(1 + c/v)$, there will be no tendency to equalize the rate of profit. It is necessary, then, to explain the deviation of the competitive prices from the values of commodities. It is well known and recognized that Marx failed in reconcile those two aspects. Moreover, in his price scheme, the constant capital and the variable capital used in production are expressed in value terms. Outputs, on the other hand, are expressed in price terms. From the basic notions of mathematics, in order to make calculations with different variables, they must be expressed in the same unit terms. In this case, both the capital and the output should be expressed in price terms.

Since Marx's solution was wrong, it remained the question of the solvability of the transformation problem and a number of economists along the decades have tried to solve it. However, there were two tendencies among economists with regard to this problem. The first one was to try to mathematically solve it. The second one was to prove that it was not possible to coherently solve it, hence to demonstrate that Marx's value theory was a wrong theory.

Bortkiewicz used the same model of Marx, but with three sectors and he used this scheme the simple reproduction. Winternitz then noticed an error, i.e. that the transformation process must hold no matter what the conditions for reproduction are. He reformulated the problem starting from the balance equations of each sector. Seton (1957) noticed that Winternitz's method was still incomplete. He then rewrote the problem in terms of the single commodity and not in aggregated terms. In doing so, he reprised Marx's original setting of the problem and he gave in fact, a solution. However, it is worth noting that Seton's solution is very similar to Sraffa's 1960 solution, contained in the book *Production of Commodity by means of Commodity*. Dobb recognized that Sraffa provided a valid solution of the transformation problem, but in Sraffa's solution, the values of commodities disappear from the calculus. So even after Sraffa, the exact meaning of the transformation problem remained something still debated.

1.2 Samuelson's Eraser

In order to better understand the 1974 debate, it is useful to look back at another specific debate on the same problem, which can be legitimately considered the prodrome of this story. It started with two papers by Paul Samuelson: the first one is "The 'Transformation' from Marxian 'Values' to Competitive 'Prices': A Process of Rejection and Replacement" published in the *Proceedings of the National Academy of Sciences of the United States of America* in 1970. In this short paper, Samuelson showed how the transformation problem is mathematically inconsistent. The core argument is that values and prices are mutually exclusive, therefore it is not possible to go from values to competitive prices. In

other words, it is not necessary to analyze the surplus-values in order to analyze profits in a competitive economy. He crystallized this concept with the famous eraser metaphor:

In summary, ‘transforming’ from values to prices can be described logically as the following procedure: "(1) Write down the value relations; (2) take an eraser and rub them out; (3) finally write down the price relations-thus completing the so-called transformation process. [Samuelson 1970; 425]

The second and most famous paper was “Understanding the Marxian Notion of Exploitation: A Summary of the So-Called Transformation Problem Between Marxian Values and Competitive Prices” published in the *Journal of Economic Literature* in the June 1971 issue. This paper explored the history of the transformation problem, the many attempts made by economists to solve it and provides Samuelson’s solution to the problem, in order to give the last word on this issue. It raised a number of replies and critiques. Many economists either accused Samuelson of misinterpretation of Marxism (like Martin Bronfenbrenner) or to have been too kind with Marx’s theory (for example, Abba Lerner).

Despite the numerous critiques, Samuelson’s papers were still an important reference for Marxian discussions in the years immediately after their publication. It is in this conceptual context that Baumol entered in the debate with his personal contribution.

2. Baumol’s Discovery

Baumol’s interest for Marxian issues had a long history. He was not a first-time reader of Marx: both his parents were Marxist and he read Marx during his adolescence. In a letter dated February 18th, 1951 he stated: “[...] I know Marx too well. I have read more on Marx of any member of the staff at either London or Princeton (and I include Viner), including the three volumes.” (Baumol 1951)²⁰. However, Baumol said that the idea for the paper on the transformation problem came from the

²⁰ Letter from Baumol to Raymond and Sophie, February 18th, 1951. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 56.

questions he had from the students during a lesson. He taught history of economic thought at Princeton after the Seventies and Eighties, and Marx was part of the program.

While Samuelson's approach to the history of economic thought has been analyzed and commented by many authors (for example Boettke et al. 2014, Medema and Waterman 2015, Weintraub 2015), there is no literature about Baumol as an historian of economic thought. Beside teaching it, Baumol wrote extensively on the history of economics ideas during his career, spacing from Classical authors to modern economics. What emerges from this correspondence (which is not the sole they had on the history of ideas) is that Baumol and Samuelson had two opposite visions of the history of economic ideas.

Samuelson occupies a controversial place among historians of economics. Because of his vision of the conceptual unity of all economic analysis, his historiographic method when reaching deep into the past was to formalize the analysis of his predecessors (and he saw them as such) using modern mathematical tools and theoretical constructs. Contextual elements such as historical background, influences, and ideology – important to most other historians – were ruthlessly ignored. (Medema and Waterman 2015; 5).

Baumol's approach can be considered the exact opposite of Samuelson's vision of "conceptual unity". Baumol never formalized his approach to the history of economic thought, but through the letters is clear that for him the "historical background, influences, and ideology" can not be ignored, but are an important part of the historical narrative. Despite he considered the interest for the history of economic thought as a "idle curiosity" (quoting Viner) and he stated that he did research in economic thought because his "early concerns with the writings of Karl Marx and Engels" (Baumol 2001; 224), he showed to have at least two more reason to keep doing research in that field. First, "fields that are constantly coming up with new ideas, such as physics, pay very little attention to their own history. It's only in fields where progress is slow and difficult that you spend much time worrying about predecessors." (in Krueger 2001; 224). Second, for him the history of economic ideas is pervaded

by ambiguity and “the persistence of discussions about what Ricardo or Marx really meant shows how imperfect is the economist’s ability to preclude diversity of interpretation of what they have written.” (Baumol 1983; 9). It is the task of the economic historian to try to explain those ambiguities, but without forgetting the whole historical context.

In the paper draft of 1973, Baumol claimed to have discovered “What Marx Really Meant” as he titled the paper, a reference to those ambiguities that for him surrounded the Classical economists. Baumol’s argument was that Marx never intended to transform values into prices, but instead he wanted to transform values into profits, interests and rents. The transformation problem becomes then a sequel of Marx’s value theory and it is intended to explain how non-wage incomes are produced. This interpretation has an important consequence for those, like Samuelson, who considered Marx a failed economist.

The first letter between Baumol and Samuelson on this topic is dated March 5th, 1973: “Since I am quibbling with you may I ask for any comments?” (Baumol 1973)²¹. From this line it seems that Samuelson already knew Baumol’s paper and that they already had some form of disagreement on the content. The subject also started to attract the attention of other people: Samuelson travelled to Japan during March and there he met Martin Bronfenbrenner, who was visiting professor at Tokyo’s Wesleyan University. Samuelson told him about Baumol’s work and Bronfenbrenner sent a letter to Baumol asking to read the paper. Baumol’s reply to him showed how he was very confident of his findings: “The rumors you heard are right. I am virtually the only one who understands what Karl Marx really meant! However, I am indeed willing to share a revelation.”. (Baumol, 1973)²².

In the same period, Baumol wrote to Mark Perlman, editor of the JEL, revealing that he was working on a paper on Marx and that he had discovered a hidden truth. Baumol highlighted that his

²¹ Letter from Baumol to Samuelson, March 5th 1973. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

²² Letter from Baumol to Bronfenbrenner April 5 6 (?), 1973. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62

work had nothing to do with the Samuelson's 1971 paper, but it indeed would help to clarify some aspects of Marx's true intentions²³.

2.1 Baumol and Samuelson on Marx's True Intentions

The first round of letters shows how different visions of the history of ideas can lead to completely different interpretations of the same author.

The main cause for disagreement between Baumol and Samuelson was Marx's true intentions in formulating the transformation problem. For Samuelson, Baumol's argument on Marx's intentions was the same of Ronald Meek: Meek believed that the analysis of surplus value explained the macroeconomic total of surplus. This surplus then is divided among industries according to a uniform rate of profit allocations. For Samuelson, this procedure is wrong, because the surplus value cannot explain the rate of profit.

The analysis of the various composition of capital is irrelevant for the purpose of explaining the prices and profits, "but that, being smart enough to know how to use your eraser, you will succeed in coming back to the home port of conventional analysis from which you should never have strayed. [...] In the meantime, in the spirit of the pathetic challenges that Engels and Marx put forth, show me that I am wrong." (Samuelson 1973)²⁴.

Baumol accepted the challenge, but he did not withdraw from his main idea that Marx has to be attacked "for the useless detours he actually did take (if indeed they were useless) rather than for the detours many writers thought he had taken though in fact he had not." (Baumol 1973)²⁵.

It is true that Vol. I uses a complex "machinery" to show the loss of worker in the process production, and the fact that the landholder, on the other hand, does not lose anything. However, "our Marxist might well ask whether we vulgar economists are not also occasionally guilty of erecting

²³ Letter from Baumol to Perlman, April 16th, 1973. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62

²⁴ Letter from Samuelson to Baumol, April 21st, 1973. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62

²⁵ Letter from Baumol to Samuelson, May 1st, 1973. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62

enormously elaborate superstructures to derive results which are equally obvious, much more banal and much less significant socially.” (Baumol 1973).

The quarrel between Baumol and Samuelson continued in the middle of May, after Baumol read Samuelson’s draft of “Marx as a Mathematical Economist”, a paper prepared for the Metzler Festschrift to be held in 1974. The paper analyzes the mathematical contributions of Marx: for Samuelson, Marx was a pioneer in theorizing the steady state and balanced growth equilibrium, but he failed in his theory of value because the surplus values have no role in determining profits. This is a clear example of Samuelson’s methodology: “to write about past economic thought, one had to present those ideas in modern dress, and to appraise past work, one had to judge it on its merits as good economic analysis as we today know it.” (Weintraub 2015; 3). Baumol, in the other hand, thought that Samuelson’s paper was misleading toward Marx’s real purpose. “You interpret me to argue that the value analysis somehow gives one a better theory of distribution, or pricing, that somehow it “contributes” to our general equilibrium theory. I never intended to imply this. [...] In this process you have not only misled others, but you have also misled yourself.” (Baumol 1973)²⁶.

The second cause of disagreement is the contradiction between the model in Volume I and Volume III. For Baumol, Volume I is not really necessary to arrive at the conclusions of Volume III, because Marx was well aware that he arrived at the same value theory of Smith and Ricardo. Therefore, Samuelson is not wrong in the substance of his issue with Marx, because Marx actually did not solve the transformation problem, but he is wrong in the conclusion that Marx was not aware of the difficulties. Samuelson, on the other hand, still maintained that Volume I was an unnecessary detour and that remained Samuelson’s position on what he called the “Number one issue” of the Marxian economics debate²⁷.

“[...] he [Marx] knew long before he wrote Volume I what he was going to say in Volume III. If retreat was the issue he had plenty of time to do so without putting his Volume I position into

²⁶ Letter from Baumol to Samuelson May 22nd, 1973. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

²⁷ *Ibidem*

print.” (Baumol 1973). That is also why Baumol refuted the argument that the analysis of Volume I could have been ad “an admitted first approximation” (Baumol 1973) of Volume III²⁸.

“In sum, my complaint is that you are interspersing your invariably first rate analysis with misleading and inaccurate doctrinal history. Marx may be as vulnerable to your attack as you believe, but not for views which he never held.” (Baumol 1973)²⁹.

“You are a good man” Begins Samuelson in replying to Baumol, thanking him for his accurate comments on the Metzler’s paper³⁰. For Samuelson Marx was wrong in thinking that only from prior analysis of surplus value could anyone get a proper understanding of actual profit. Moreover, if Marx had the solution prior to the publication of Volume I, he would have not delayed the publication for so long. For him, Vol. III was a conscious retreat from the model of Vol. I and it was the proof that it was indeed a detour, “for the relief of Marx’s opponents like Böhm-Bawerk, and Pareto” (Samuelson 1973)³¹.

This brings me to what I regard as an important matter. You sometimes speak of us as being general equilibrium economists, and say that what may interest us needn’t be of any interest to someone in another paradigm, namely K. Marx. I divorce [myself from] you as an equilibrium economist and don’t want to be considered as belonging to your club of general equilibrium economists. I want to belong to Marx's club and be interested in one thing and that one thing only, namely the distribution of actual-incomes in society and the determination of the profit rate, not Walras’s profit rate; not Debreu’s profit rate-- but the competitive profit rate. [Samuelson 1973]³².

²⁸ Letter from Baumol to Samuelson May 22nd, 1973. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

²⁹ *Ibidem*

³⁰ Letter from Samuelson to Baumol May 25th,1973. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

³¹ *Ibidem*

³² *Ibidem*

This is exactly the reason of Baumol's disagreement: Marx was not interested solely in the competitive equilibrium. Samuelson, in the process of simplification, did not see that Marx wanted to study not only the equilibrium, but also what the formation of profits means for society.

For Samuelson, Volume I was a detour because Marx could not reconcile the analysis of Volume III and the actual reality of the world. Samuelson portrayed Marx as an unorganized man, who had great ideas, but was poor in translating them into complete works. "So he dithered" (Samuelson 1973)³³. and in doing so, for Samuelson, he was lucky that there was ("poor") Engels who just used part of the Economic and Philosophical manuscripts to complete the missing part of Capital.

The two problems converged into one: if Volume I was a detour, the reason was that Marx was wrong in his analysis, as Samuelson claimed, and he got stuck with the reasoning on surplus value. The discussion continued in the middle of June, with a long letter by Baumol dated June 12th, 1973³⁴. For Baumol:

Marx is making two basic points all tying into the value-transformation-distribution discussion: i) that just because values are distributed among wages, profits (interest) and rent, it does not mean that values are produced correspondingly, by labor, capital, and land; and ii) That Smith is wrong in implying that constant capital can yield surplus value -- it merely transmits its own value to the final product. [Baumol 1973]³⁵

To prove his statement, Baumol provided a quotation from Marx criticizing Smith for having committed a crucial mistake: not only did Smith not grasp the correct determination of the parts of the value commodity, but he proceeded making the revenues the "primary sources of all exchange-value" instead of "component parts", thereby throwing the doors wide open to vulgar economy." (Baumol

³³ Letter from Samuelson to Baumol May 25th,1973. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

³⁴ Letter from Baumol to Samuelson June 12th, 1973. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

³⁵ *Ibidem*

1973)³⁶. According to Baumol, there is a deep difference between Marx's theory and the Classical one, which is the true novelty of Marx's theory:

My contention is, that Marx' second major objection to Smith is that "Adam Smith tries to spirit away the constant portion of the value of commodities." (p.430) [...] But why is it of such importance to Marx? -- because he is determined to show that waiting or abstinence itself creates no value even though it involves delay in the consumption of past values themselves created by labor. Capital gets a share of surplus value, but Marx wants no one to get away with the notion that capital creates or produces that surplus value. He is incensed by the notion that "the capital converted into labor produces a value greater than its own (because)...the laborers ... impregnate, during the process of production, the things on which they work with a value which forms not only an equivalent for their own purchase price, but also a surplus-value ..." (p.432). On the contrary, says Marx, "Nothing is altered in the character of the value of a commodity by the function of this value as capital" (p.447)." [Baumol 1973]³⁷

Here Baumol is raising two important topics. First, Marx contested that capital and land can produce surplus value because, in his theory, the only factor capable of producing surplus value is labor. Why then a part of the value produced by workers does not return to them? Because the value produced by the workers is higher than the value that they consume. This difference is the surplus-value. The capitalist is the owner of the means of production, so he can pay the labor force at its value and take the surplus value. This is the origin of profit for Marx.

Second, the problem of the productiveness of capital. This is a crucial point in Marx's theory: for Marx, the productivity is a specific characteristic of labor, and of labor only. The capital per se is

³⁶ Letter from Baumol to Samuelson June 12th, 1973. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

³⁷ *Ibidem*

not productive, in the sense that it cannot generate a surplus-value. Therefore, capital is not a productive factor. Marx took the idea of productive labor from Smith, but he modified Smith's definition: productive labor is the labor that produces surplus-value. Only this definition is coherent with capitalist society, since the specific product of the capitalist system is surplus-value. Marx discards the other definition proposed by Smith, i.e. that the productive labor is the one that produces material objects. Capital is productive in a real sense and not only as a surface manifestation. This assertion is not in contrast with the proposition that only labor can produce value. The productive force belongs to labor in every historical circumstance. However, in the capitalistic system, the productive force of labor is transferred to the capital. Without this transfer, the capital in the capitalistic system could not produce anything and, in fact, it could not even exist. So the capital is productive, but this productivity is derived from labor, that is always transferred to it and annihilated in it. Therefore, the fact that capital is productive is a real fact and not just a surface manifestation. Since capital is productive, there are difficulties in linking values to labor quantities. In the capitalistic production the value incorporates the rate of profit because the phenomenon of value is at the level of capital.

Despite their different visions of Marx, Samuelson took seriously what Baumol wrote him about Marx and Smith. In a letter dated June 15th 1973, he said that he wanted to make "careful changes" in his Metzler paper in order to not magnify their divergences³⁸. Samuelson wrote that he really wanted to clarify a fundamental issue both for "Marxists and non-Marxists": the relationship between Volume I and Volume III of *Capital*. For him, the problem of content of those two volumes is related to the history of its completion.

He was great at starting things; poor at finishing them. Great at outlining out grandiose publishing projects; poor at estimating how long it would take him to finishing them. Great at writing out his thoughts or book notes on any subject at book length (and being a great man, every last laundry list of him gets published eventually. [...]) His health

³⁸ Letter from Samuelson to Baumol June 15th, 1973. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

went bad long before 1883. The lack of splash of Vol I certainly wouldn't have goaded him into instant completion of Vols II&III. None the less, when we see from Engels' 1883-94 editing as best he could of Marx MSS how weak was Marx's evidences and argumentations for what—as you assert and I am willing to go along with you in supporting for the sake of the present point – was Marx's principal purpose and contention (namely that profit can only be understood by Marx's novel $s_j/v_j = s_i/v_i$) then...we can congratulate him on never having finished Capital. That tactic was a stroke of genius or of inadvertant good luck! (By the way, Engels' challenge is absurd: there was no 1830's crisis of the Ricardian system; there was no contradiction in it, for as you remind people, when Ricardo is not assuming the labor theory of value he is not assuming it and there is no reason why such cases should not disagree with the latter-theory-of-value cases. [Samuelson 1973]³⁹.

Both in this letter and in the letter of May 25th 1973, Samuelson is using historical facts to prove that Marx basically reached an impasse in his economic analysis, a deviation from his usual methodology. The result is a merciless portrait of Marx.

Three days after this letter, came a curious letter from Baumol⁴⁰. The letter explains how Baumol came to his idea that Marx never wanted to transform values into prices and it can be considered the revelation of the true origin of all this debate. The anecdote could have been hilarious if Baumol did not write it with a serious tone.

I have decided to confess to you the advantage under which I am carrying out my side of the argument. The point is that I have evidence that Marx has chosen to have another try at getting his message across and has chosen me as he medium for his purpose.

³⁹ Letter from Samuelson to Baumol June 15th, 1973. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

⁴⁰ Letter from Baumol to Samuelson June 18th, 1973. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

If this suggests to you that Baumol has gone completely off his rocker, let me recount he tale and tell me whether you're unwilling to reject the null hypothesis. [Baumol 1973]⁴¹

When Baumol finished writing the first draft of the paper, his secretary found some books in a trash can and took some of them home. Among them there was a book on Marx that contained some letters that Baumol have never seen before. One of the letters contained what for Baumol was the explanation of this dilemma, i.e. that Marx was setting traps for the vulgar burgeois economists. It is difficult to know how much Baumol believed in this story, or just reported it for fun. He was aware of the eccentricity of this revelation, but nevertheless he seemed to believe that this had some sort of meaning. This is evident from the first line, where he stated that he wanted to confess the “advantage”, as he was chosen by Marx to clarify his thought. Unfortunately, there is no Samuelson’s direct reaction to this confession, but he mentioned Baumol’s revelation in the final version of his paper, responding with another “serendipity” finding.

The correspondence between Samuelson and Baumol started in March and as of June there is no mention of an official reply (in the form of a paper) to Baumol by Samuelson. There is a letter to Samuelson from Perlman dated August 21st, 1973 where Perlman refereed to a reply to Baumol by Samuelson. This means that a reply intended for publication was in the making, driven by the letters exchanged in more than four months.

Overall, this first round of debate ended in a stalemate. Baumol and Samuelson did not mention their different view of history of ideas, but it was like they were speaking different languages. As Weintraub wrote: “Samuelson was not doing Whig history. Samuelson was performing economic analysis” (Weintraub 2015; 7). Baumol, on the other hand, was doing history before economic analysis, i.e. that he was searching what Marx thought before judging what Marx accomplished. It is interesting to note that the two visions of Marx are not completely incompatible, as Baumol realized later.

⁴¹ Letter from Baumol to Samuelson June 18th, 1973. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

2.2 Samuelson and Morishima on Marx's Mathematics

During May 1973, Baumol received a letter by Morishima Michio, professor of Economics at the London School of Economics, who read the draft of Baumol's paper on Marx. Morishima did not explain how he got the draft of the paper. He stated that he liked the paper and that their views were "very close" (Morishima 1973)⁴². Baumol's paper renewed his interest for the transformation problem, so he started to work again on it with a "purely mathematical work" (Morishima 1973)⁴³. The entrance of Morishima in this discussion is again not casual. His book *Marx's Economics: A Dual Theory of Value and Growth* just appeared in 1973. In fact, Baumol read Morishima's book and used it as a reference for his "What Marx Really Meant" paper. Morishima's debate was not with Baumol, but with Samuelson.

The first letter between them on this topic is dated June 22nd, 1973: it was a small message from Morishima to Samuelson to thank him for the comments on his book and to tell him that he was working on a paper on the transformation problem. The paper would be centered on an "iteration process proposed by Marx" (Morishima 1973) and that the paper will be a further generalization of Samuelson's equal internal composition of capital⁴⁴.

Samuelson replied to Morishima in an undated letter, but it is reasonable to presume that was sent between the end of June and the beginning of July⁴⁵. In his opinion, there were no substantive differences between their visions of the problem and he explained why he decided to join the debate on Marx:

The debate among American and English Marxists of my adult years has been over this issue: "What, if any, is the advantage in a system capable of surplus, of departing from equal-positive-profit rates to a novel model involving equal-positive-surplus-value rates?"

⁴² Letter from Morishima to Baumol, May 2nd, 1973. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

⁴³ *Ibidem*

⁴⁴ Letter from Morishima to Samuelson, June 22nd, 1973. Paul A. Samuelson Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 54.

⁴⁵ Letter from Samuelson to Morishima, Undated. Paul A. Samuelson Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 54.

There has been no serious debate on the proposition that “competitive price ratios deviate from (a) embodied labor contents and from (b) values (the magnitudes in (a) marked up by equal positive rates of surplus-value).

Before and after 1957 I have been concerned to give an objective answer to this question. In my JEL 1971 paper (and, again, in a forthcoming reply to Lerner who accuses me of being ‘soft’ on Marx), I make clear that the Vol.I approximations are a bit easier to handle for people poor at algebra. [...] but I doubt that any mathematician who came to the subject fresh, never having heard of either Marx or Walras, would agree that this is a natural way of approaching these theorems. [Samuelson 1973]⁴⁶

Samuelson was responding to what he considered a missing in the debate about Marx. While the debate focused mainly on the possibility of shifting from a system with surplus, not with equal positive profit rates but with positive surplus-values rates. This is nonsense in Samuelson’s mind: he wanted to research how competitive price ratios deviate from the embodied labor contents and from values. That was the reason behind his 1970 and 1971 papers.

Morishima sent him a quite algebraically detailed letter to Samuelson in the mid of July. The central paragraphs contain the core of Morishima’s approach to this issue:

2. The ultimate purpose of Das Kapital seems to show the productiveness of the capitalist system; that is to say, the positiveness of the von Neumann balanced growth rate. [...] At that time, you remember that Frobenious, Perron and Markov had either not been born or were merely babies so that Marx couldn’t use their theorems and therefore he had to find his own way. For this purpose he used labour value (as a purely technical accounting unit) and developed the theory of exploitation (explaining the social

⁴⁶ Letter from Samuelson to Morishima, Undated. Paul A. Samuelson Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 54

relationship between capitalists and workers). [...] It is a pity that such excellent social science devices have been replaced by abstract mathematical theorems. [...]

4. There are at least 3 transformation problems: one between π^* and e^* , the second between prices and values, and the third between the rate of accumulation in the reproduction system in terms of value and capitalists' propensity to save. Marx was never concerned with the last and very such emphasised the importance of the first, while followers and critics have been concerned mainly with the second. [Morishima 1973]⁴⁷

Morishima's argument show how Baumol's and Samuelson's divergence is not necessarily a matter of tools, but a matter of different visions of economic thought. He used modern mathematics to analyze Marx's theories, but he also put Marx's theories in the right historical context. The fact that Marx was not able to carry out his analysis fully due to insufficient mathematical instruments available at his time is reprised and fully articulated in another paper by Morishima, "Marx in the Light of Modern Economic Theory" published in *Econometrica* in July 1974, the paper that Morishima announced in the letters to Baumol and Samuelson.

For Morishima, there are two types of mathematical economists: one which applies existing mathematics to economic problems (like Cournot) and the other who anticipates new mathematical problems within economics. Marx belongs to the second type and he was able to anticipate, any problems that require advanced mathematics and that is why Marx did not solve them. The source of discrepancies between Samuelson and Baumol is that the former saw in Marx's writings the imperfect continuation of ideas that other developed, while the latter considered revolutionary Marx's use of those ideas.

The correspondence between them ended in October. Morishima wrote an official reply to Samuelson in September 1973 and Perlman delayed the deadline in order to also include Morishima's

⁴⁷ Letter from Morishima to Samuelson, July 19st, 1973. Paul A. Samuelson Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 54.

contribution. Morishima then wrote a “Rejoinder” to be included in the JEL *colloquium*, but he withdrew it before publication⁴⁸.

As the deadline approached, it was time to close the papers. Baumol sent to Morishima his official reply to Samuelson in October, and Morishima found it in line with his own reply⁴⁹. The last letter between them is dated November 7th, 1973, where Baumol seemed satisfied with both their contributions, as they clarify the substance of their quarrel with Samuelson.

Samuelson sent the final version of his reply to Baumol to Perlman, Baumol and Morishima on November 19th, 1973. The letter also contained the draft of another reply to be included in the same issue. He was not satisfied with both Baumol’s and Morishima’s replies and he wanted to have the last word as he did in the 1971 discussion.

On November 27th, Morishima sent a letter to Perlman containing a “Rejoinder” to be published after Samuelson’s final comment. However, this rejoinder does not appear in the issue. The reason must be that Morishima read the final version of Samuelson’s reply and decided that their divergences were somehow settled⁵⁰: “I am happy with Samuelson’s elections so there is now no reason to publish my one-page rejoinder.” (Morishima 1973)⁵¹.

This marks the end of the first part of the discussion. Like a rock tossed in the water, Baumol’s paper generated waves of debates that expanded well beyond the initial quarrel with Samuelson. As we will see, the publication did not mark the end of the discussion.

⁴⁸ Letter from Morishima to Perlman, September 7st, 1973. Mark Perlman Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 27. Also Letter from Morishima to Perlman, November 27st, 1973. Mark Perlman Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 27

⁴⁹ Letter from Morishima to Baumol October 15th, 1973. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62

⁵⁰ Letter from Morishima to Perlman cc Samuelson November 27st, 1973. Mark Perlman Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 27.

⁵¹ Letter from Morishima to Perlman December 10th, 1973. Mark Perlman Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 27.

3. The Final Colloquium

In the Editor's note to "On Marx, the Transformation Problem and Opacity", Perlman wrote that few articles generated a debate like Samuelson's 1971 did, but Baumol found a new history of the same subject that deserved attention. Here is the debate that this new discovery generated. "In the course of Samuelson's reply, he "took on" Professor Morishima, who quite naturally wanted to add a few words of further explanation. [...] We have finally allowed Professors Baumol and Samuelson to share in what we hope are the "last words." (Perlman 1974; 51).

The *colloquium* opens with Baumol's paper, "The Transformation of Values: What Marx Really Meant (An Interpretation)". The argument is the one seen before, i.e. that Marx's real intention was to derive non-wage incomes from values and not to derive competitive prices from values.

For Baumol, Marx described the formation of surplus values in Volume I and explained its distribution among non-wage incomes in Volume III. Therefore, there is no contradiction between the two volumes. The fact that many economists considered Volume I a detour "is merely a reflection of our own prejudices as bourgeois (shall I say, 'vulgar?') economists." (Baumol 1973, 24). Moreover, prices being a superficial manifestation of the bourgeois economy (Baumol 1974; 54) Marx was not really interested in them. It was more important to explain the process of "extraction of surplus value in various sectors of the economy." (Baumol 1974; 54). The value theory was meant to explain the contribution of every activity to the formation of surplus values and Marx' confrontation with price formation served only to reveal to the eyes of bourgeois economists the truth of the profit formation, beyond its surface manifestation. The phenomenon of pricing must be explained to take it out of the scene in order to highlight what is really important. The real purpose of the transformation problem was then to show that labor is the true source of value and that the competitive process "is merely a distributive phenomenon and conceals the fact that labor is the only socially relevant source of output. This is the significance of the value theory and the transformation analysis to Marx." (Baumol 1974; 59).

In the final form of his reply, “Insight and Detour in the Theory of Exploitation: A Reply to Baumol”, Samuelson judgement on Baumol’s work is quite harsh: “Baumol believes in homeopathic remedies.” (Samuelson 1974; 63). Samuelson reprised his argument that the surplus value is not the source of any profit and that neither Marx or Morishima gave reason to believe that it is possible to determine profits if someone know the surplus value. Whatever the intention of Marx was, he did not succeed in demonstrating anything and that Volume I is an useless detour from the price theory of Volume III. There is then the return of the eraser to replace the useless detour of the surplus value and replace it with the equations of equalized profit behavior. Second, Marx’s theory of the capitalist economy is harmed rather helped by the surplus-value theory.

“I am enormously puzzled by Professor Samuelson's reply. It is, of course, the brilliant sort of comment one expects of him-but it seems to be a reply to an article which I never wrote.” (Baumol 1974; 74). This is the incipit of Baumol’s reply to Samuelson, “The Fundamental Marxian Theorem: A Reply to Samuelson: Comment”. The various critiques that Baumol made in his reply to Samuelson can be summed up in two major points. The first one is that he never wanted to discuss Marx’s arithmetic, or to determine if Marx was right or wrong in his calculations (and he repeatedly said that Marx was wrong). His purpose was before the algebra: he simply wanted to demonstrate what Marx’s real intentions were, whether he succeeded or not in achieve them. The second one is that he can concede, and in fact he did in the letters, that Marx did take a detour in *Capital’s* Volume I, but that was because Marx knew that prices, wages and rent were already explicable with the Classical mechanism. Baumol stated that in order to end the disagreement between them, Samuelson had to admit that Marx himself was not interested in those magnitudes *per se*, but because they were the key to discover underlying social production relationships.

In his “The Fundamental Marxian Theorem: A Reply to Samuelson”, Morishima arrived at a result that is way more intriguing than the “eraser” of Samuelson. “I finally decide to discard the value theory, but I find, at the end of the book, that the concept of "exploitation" may survive. This conclusion has stronger effects than Samuelson's "erase and replace" conclusion; it should be a serious

attack on Marx.” (Morishima 1974; 73). This confutes at least one of Samuelson’s claims, i.e. the irrelevance of surplus values for the exploitation. Morishima’s conclusion is that the long-run equilibrium rate of profit R^* is positive if and only if the rate of exploitation is positive and this is a finding completely independent from the concept of value. The point of contact with Baumol’s argument is that, for Morishima, “Marx’s theory of value should not be considered as a primitive or obsolete price theory. There is no point in comparing translation of the price accounting in the value accounting or vice versa [...]” (Morishima 1974; 71, note 3).

The last paper in order of publication is the final reply by Samuelson, “Rejoinder: Merlin Unclothed, A Final Word”. The title is evocative: it is a combination of Merlin, the wizard who reveals the secrets of what lies beneath the surface, and the child in Hans Christian Andersen’s tale of the Emperor’s Clothes. It takes the expertise of a wizard to see beyond the surface, but the ingenuity of a child to see the truth.

The truth that Samuelson wanted to show is that what Marx actually wanted to do was wrong in an algebraic and economic sense. Samuelson mirrored, or mocked, Baumol’s incidental finding of Marx’s letter in a trash can by reporting that he also came by chance to find an interesting contribution by Veblen in a book by Dorfman about the “Number One Problem” (Samuelson 1974;76), i.e. the transformation problem. The core of the quotation is that Veblen stated that “The rate of surplus-value bears no tangible relation to the rate of profits. The two vary quite independently of one another. Nor does the aggregate profits in any concrete case, in any given industry or enterprise, depend on or coincide in magnitude with the aggregate surplus-value produced in that industry or enterprise. For all useful purposes the entire surplus-value theory is virtually avowed to be meaningless lumber” (Dorfman 1973: 263-264, quoted in Samuelson 1974, 77). If Samuelson’s serendipity finding revealed that the transformation problem just does not hold, what is the truth then? “But, alas, apparently the challenge must still stand.” (Samuelson 1974;76).

4. Not the Final Words

The challenge remained. In Perlman's correspondence there is a letter sent to Bronfenbrenner on May 1974 where he stated that "the Marxian world is fracturing more, rather than less. Morishima considers himself to be no Marxian (this is in marked contrast to Baumol, who, I am told, now refers to himself as a Marxist). Without a score card it is almost impossible to keep the players straight." (Perlman 1974)⁵². Those were not the final words, despite Perlman's hopes.

4.1 Baumol and Dorfman on Wages and Subsistence

Baumol's correspondence on his paper reprised in June 1974, this time with Robert Dorfman. Dorfman was also not new to Marxian problems, notably thanks to his book, *Linear Programming and Economic Analysis* (1958) written with Samuelson and Solow. He showed less rigidity in his vision of Marx, but nevertheless he shared Samuelson's methodology: the problem should be simplified and modelled in order to analyze what were the important issues for the economist.

Dorfman was very dissatisfied with the debate on the JEL and he wrote a letter to Baumol with a series of critiques⁵³. He began his letter with a sharp statement about the debate:

Your exchange with Samuelson et al. in the JEL (about Marxist economics) rather distressed me because you fellows seemed to be misunderstanding each other unaccountably (and maybe even perversely) and thereby spreading a virulently contagious confusion among your readers. As far as I can see, the argument is not semantic and mushy, but substantive and decidable, and none of the participants has misinterpreted Marx, as you seem to feel. [Dorfman 1974]⁵⁴

⁵² Letter from Perlman to Bronfenbrenner, May 21st, 1974. Mark Perlman Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 28.

⁵³ Letter from Dorfman to Baumol, June, 7th, 1974. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

⁵⁴ *Ibidem*

In a capitalist economy, he explained, the total of surplus value is equivalent to the total amount of capitalist profits, or non-wage incomes. Samuelson was aware of this and he engaged in the transformation problem to demonstrate this theorem. Dorfman highlighted that he used the word “equivalent to” rather than “equal to” because there is a problem of unit of measure between surplus values and profits: the former is measured in labor time (hours), while the latter is measured in dollars. He proposed to measure profits in wage-units, so the scaling problem is solved and the theorem can be stated as follows: total amount of surplus value generated in an economy is equal to the total amount of capitalists’ profits. (Dorfman 1974)⁵⁵.

Dorfman started to illustrate the algebra to demonstrate the theorem⁵⁶. He found two equations that depend on R, the rate of profit: 1) $Ra_0[I - (1+R)a]^{-1}(I - a)^{-1}y = (1-v_0)a_0(I-a)^{-1}y$ and 2) $(1+R)a_0[I - (1+R)a]^{-1}m = 1$.

The first equation equals the total amount of surplus to the money value of gross output, while the second one equals the total of the labor time expressed in wage bills and the total subsistence cost of the labor force. The second equation is given by assuming that the value of R is determined in the marketplace, so that all the prices are determined, together with the money-cost of the subsistence vector. Dorfman noted that the second one is the equation that worries Samuelson: if workers are paid the money equivalence of their labor time, the two equations will not have the same value of R, so the total profits will not be equal to surplus value. So, if workers are paid the monetary equivalent of the value of their labor time, the total surplus value will not be equal to total profits, “and the Marxist theorem is false” (Dorfman 1974). The two magnitudes can be equal only by coincidence.

The difficulty is caused by the fact that the workers buy their wage-goods for money prices which are the results of the transformation of Marxist values into monetary

⁵⁵ Letter from Dorfman to Baumol, June, 7th, 1974. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

⁵⁶ The notation is Samuelson’s: a is the input-output matrix, a_0 is the vector of direct labor requirements per unit of output, m is the vector of the subsistence bundle for laborers, and y any vector final products including consumption goods for the workers and luxury goods for the capitalist. The total amount of value generated (= socially necessary labor time) is $a_0(I - a)^{-1}y$. The value of a unit of labor time is $v_0 = a_0(I - a)^{-1}m$. The row vector of profits per unit is $p - pa - a_0$.

values. As far as I can perceive, this is what makes it impossible to simultaneously (1) pay workers a subsistence wage, or the monetary equivalent of the Marxist value of labor time, and (2) maintain the equality between profits and the monetary equivalent of surplus value.

[Dorfman 1974]⁵⁷

Baumol replied on July 3rd, 1974.⁵⁸ He was puzzled by Dorfman's letter and he did not agree with the irrelevance of the textual level of analysis. For him, Samuelson's and Dorfman's concerns relate to the consistency of the price theory derived from Marx's analysis. Marx said first that the money value of total output must equal its labor value and, second, that total surplus value must equal total profit. Other writers, in particular Mark Blaug, have argued that those two are incompatible, while Samuelson has shown that even the equivalence between surplus values and profits can cause problems with the requirement that workers receive only enough to purchase their subsistence wages.

The problem with this reasoning is that "it really does put Marx in the position of "a minor post Ricardian" who simply was doing a mediocre job of getting at price theory." (Baumol 1974)⁵⁹, while Marx's intentions were well beyond the simple formulation of a price theory⁶⁰, "whether Marx was a good or a poor economist, this is a complete misinterpretation of his purposes as he described them again and again." (Baumol 1974)⁶¹.

Baumol explained that the primary scope of the value theory is to show that the surplus value originates from labor and only from labor. Which portion of the surplus value goes to the workers and which goes to the capitalists is decided by the class struggle and this is precisely the "underlying reality" that Marx wanted to reveal. The link with the transformation problem is that the latter was meant to show how the surface manifestations (i.e. prices and profits) distort the true reality of exploitation.

⁵⁷ Letter from Dorfman to Baumol, June, 7th, 1974. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

⁵⁸ Letter from Baumol to Dorfman July, 3rd, 1974. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

⁵⁹ *Ibidem*

⁶⁰ Samuelson defined Marx a "minor post-Ricardian" in the paper "Wages and Interest: A Modern Dissection of Marxian Economic Models" published on *The American Economic Review* in 1957.

⁶¹ Letter from Baumol to Dorfman July, 3rd, 1974. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

Baumol admitted that Marx did a “bad attempt”, he did fail in his transformation calculation. That was evident well before Samuelson, but this is not in contradiction with Marx’s true intentions:

In sum, my position is that there are two important issues: Marx’s purpose, which is misunderstood, and the consistency with which he carried out his calculations. Paul addresses himself to the latter and I to the former, and there is no reason why either enterprise must detract from the importance or the validity of the other. It is Paul's failure to see this, and not the logic of his argument about Marx, that still leaves me utterly puzzled. [Baumol 1974]⁶²

The discussion could have ended here, but instead it continued for the first half of 1975. The second part of the discussion doesn’t add much to the story. It was mostly about the meaning of Dorfman’s equations in the light of Marxian theory. However, there is a specific statement by Baumol that is important to report. It is contained in the last documented letter between them, dated August 15th, 1975⁶³. Baumol agreed that Marx did equate total profit to total surplus, but he said that they already agreed that was just a matter of selecting the right monetary unit, “an inessential choice of constant”.

The issue isn’t whether he carried out the transformation correctly (he certainly did not) but whether there is no way to carry it out consistently. Specifically, is it inconsistent to have a model in which total product is divided between workers and capitalists as Marx says in volume I, and then prices are determined so that the capitalists share is divided among capitalists in a way that gives all investors the same rate of return? My suspicion is that the insights provided by this way of looking at the matter are far less than Marx

⁶² Letter from Baumol to Dorfman July, 3rd, 1974. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

⁶³ Letter from Baumol to Dorfman, August 15st, 1975. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

claimed, but that there is no necessary contradiction in the story. However, that is still only a suspicion. [Baumol 1975]⁶⁴

Baumol's paper aimed only at clarifying those intentions, whatever comes next is still matter for inquiry. What is important is to address the problem in the right way and Dorfman's (and Samuelson's before him) in Baumol's opinion is not the right way. A collateral effect of Baumol's correspondence with Dorfman is that is ignited again the debate with Samuelson.

4.2 Baumol and Samuelson: Reprise

During the first stages of the debate between Baumol and Dorfman, Dorfman sent Baumol's reply to Samuelson, probably in search for advice. Samuelson's reply arrived quickly:

"I am always in need of instruction, and since Will's position is puzzling to me (and to everyone I've discussed it with), I can only benefit from every reformulation and expansion of it." (Samuelson 1974)⁶⁵. Samuelson could not understand why Baumol did not, or refused to, recognize Marx's failure. Baumol's interpretation of Marx sounded so strange to Samuelson that he referred to it with the name of "Baumolism"⁶⁶: "It is important to understand what an author thought he was doing and proving, without regard to the cogency of his efforts. Many people have not identified correctly what Marx really thought he was doing. I, Baumol, perceive just what Marx's purpose was and provide the following quotations to back up my contention." (Samuelson 1974)⁶⁷. Then follows a long sum of Samuelson's vision of Baumol's position: Marx thought that in order to understand the total profit share can be best understood by the analysis of surplus values. This "novel Vol I analysis" would enable Marx to explain the total surplus value at a macroeconomic level, but Volume III would show that this total of surplus, "which can only be understood by the transcendental analytical innovations of a more-than-minor-post

⁶⁴ Letter from Baumol to Dorfman, July 31st, 1975. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

⁶⁵ Letter from Samuelson to Dorfman, July 17th, 1974. Paul A. Samuelson Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 26.

⁶⁶ "The puzzle would disappear if he were to agree to the following version of Baumolism". *Ibidem*

⁶⁷ *Ibidem*

Ricardian, would establish that the total of profits in the actual capitalist world is precisely this now-understood total of surpluses” (Samuelson 1974)⁶⁸. If this is true, then the problem becomes how this surplus gets parceled in the different industries. For Samuelson this is simply wrong and “only through my parable of equated totals can one really understand capitalism, its laws of motion, and its workings”. (Samuelson 1974)⁶⁹.

Baumol should have admitted that Marx just committed logical errors in thinking that the total of surplus values is equal to the total pf profits, and even in the single case pointed out by Samuelson, the whole issue can be solved with the tools of equal profit rates by industries already developed by the Classical economists before Marx. For Samuelson Marx should be judged by what he did accomplish. Whatever his purpose was, Marx failed.

Samuelson wrote again to Baumol after some months because he was requested to translate his JEL paper on Marx, and he had also to provide a brief summary of the discussion. Since their positions continued to diverge, he tried to fix some points to be reported in the summary.

Samuelson noted that, in the letter to Dorfman, Baumol clearly stated that he dis not believe that the total surplus values equal total profit. This is really important, because it was the core of Samuelson’s argument. However, he said that from Baumol’s JEL paper it really seemed that Baumol believed in the “false theorem” that the total surplus equals the total of profits. “Do you agree that, whatever Marx's intention, the parable misfires?’ My last purpose is to let political opinions about Marxism interfere with a fair statement (*sic*) of the analytics of Marx.” (Samuelson 1974)⁷⁰.

Baumol was asked to pronounce himself on two points: the validity of the equivalence between surplus values and total profits and the fact that Marx did not accomplish his purposes, whatever they were. On the first point, he conceded that Samuelson was right and that “this Marxian assertion is

⁶⁸ Letter from Samuelson to Dorfman, July 17th, 1974. Paul A. Samuelson Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 26.

⁶⁹ *Ibidem*

⁷⁰ Letter from Samuelson to Baumol, September 17th, 1975. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62

simply unacceptable, as is the requirement that the sum of prices is equal to the sum of values, whose unacceptability seems more obvious.” (Baumol 1973)⁷¹

However, Baumol knew that in the theory of value there was more than simple pricing. While Samuelson was ruling out the possibility that the labor theory of value could have an economic meaning, for Baumol this is something that has to be investigated. What Baumol wanted to obtain from Samuelson was the agreement on the fact that Marx did not want to construct a theory of prices, therefore it was wrong to accuse him of having failed in doing so. It is true, argues Baumol, that it is a tautology to say that all goods and services produced by labor but consumed by capitalists or rentiers are goods and services not consumed by workers. This is true whether the unit of measure it is used for those goods.

But it seems to me that this tautology which is what much of the value discussion amounts to and not the alleged equality of surplus value and total profit, is the heart of the Marxian parable. [...]

The part that is important to Marx, on this view, is not wrong but is pure tautology. Why is it important? [...] For one, it was important to Marx because it enabled him to ascribe profits to exploitation. It was important to him because it served as a basis for his (fallacious) model of the declining rate of profit and its implications for the future of capitalism. Finally, it may be conjectured that it was most important to Marx as a step in his historical model of capitalist development in which the capitalist’s accumulation of labor’s surplus product reenters the economic process in the form of increasingly valuable capital goods without which labor power cannot be used, and on which labor becomes increasingly dependent. It is this historical process that I think Marx had in mind in his

⁷¹ Letter from Baumol to Samuelson, September 30th, 1974. William J. Baumol Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 62.

discussion of alienation rather than the sentimental slosh that some of his self-appointed followers often attribute to him. [Baumol 1974]⁷²

The progressive dependence of labor from capital goods, that on the contrary do not need labor, will lead to the progressive increase of exploitation and alienation. In the post scriptum, Baumol took the occasion to remark that political opinions do not have any role in his understanding of Marx. On the contrary, he thought that he and Samuelson shared quite similar political view. He did not state that their divergence can be explained in their different approach to the history of economic thought.

In the End, What Did Marx Really Meant?

There is evidence that Baumol did not reject his interpretation of Marx. For example, in his lectures in the History of Economic Thought at Princeton, dated 1977 and 1978, he reported clearly his thesis about the relationship between values and prices in Marx, using even the same words of the paper in some passages (along with the copies of Dorfman's letters). There is also a long note on Marx dated 1975 where Baumol summed up all the history and economic theory behind the transformation problem and he used the same arguments and sources cited in the papers. Baumol returned also on the problem of the interpretation of Marx' theories: in "The Folklore of Marxism" (1979) he debunked the common approach to the "iron law of wages", showing that this interpretation was not what Marx intended. In fact Baumol never stopped writing about history of ideas, despite his statements on the history of economic thought. There is also an unpublished paper named "Dr. Marx, Dr. Frankenstein and Mr. Ricardo" dated 1999 where Baumol returned on the problem of the correct interpretation of the value theory in Ricardo and Marx.

There is also evidence that Baumol and Samuelson kept arguing about history of economic thought, albeit always in friendly terms. In 1977 they discussed a paper by Samuelson about Ricardo,

⁷² *Ibidem*

but it ended in a quick agreement. In the early 2000s they had a quarrel over an interpretation of David Ricardo, that involved also Samuel Hollander, but the main reasons of their disagreement could be identified again in their different approach to the history of economic thought.

Baumol and Samuelson divergence can be explained regarding the different approach to the history of economic ideas and their authors. Baumol wanted to correct what he perceived to be a mistake in the literature about Marx, a misunderstanding that made Marx appear just a “minor post-Ricardian”. Baumol wanted to put in context Marx’s ideas. He thought that the Classical authors’ writing have ambiguities that economists should try to explain, but there may not be a definitive explanation.

Samuelson’s argument shows that many problems of the Marxian analysis can be solved, at least in their quantitative side, without the labor value theory. However, beneath his analysis, there is the conviction that the history of economics is additive, so the ideas of the past are to be judged in the light of the present conquests of economics. This is coherent with his methodology, i.e. to simplifying the problems, take out the unnecessary details and analyzing smaller models.

Through their quarrel, Baumol and Samuelson took on board other economists who helped to define their own views. In the case of Dorfman, his exchange with Baumol helped him to define many important concepts that are not clearly expressed in the paper, but also reinforced the “Whig” interpretation of history of economics. Morishima is an interesting case of mixed approach. While he used the same tools of Samuelson, he never forgot to put Marx in the right historical context. His paper and letters show how it is possible to reflect on Marx using modern tools without consider him a “minor post-Ricardian”.

It is worth noting that Baumol’s paper ultimately envisioned a different structure of the economy, focused on the surplus produced and the way to distribute it. The capital controversy is never explicitly mentioned in the letters, but Baumol’s arguments reminds of the different structure of the economy that emerged from that debate. “Robinson argued—citing Veblen (1908) and raising the specter of Marx—that the meaning of capital lay in the property owned by the capitalist class, which

confers on capitalists the legal right and economic authority to take a share of the surplus created by the production process.” (Cohen and Harcourt 2003; 208). Despite being both neoclassical economists, Samuelson and Baumol show two different vision of the economy. Samuelson had a plain neoclassical vision, where agents maximize the lifetime utility in a world of scarce resources with alternative uses. In this light, it is no surprise that Marx was a “minor post-Ricardian”. Baumol understood that Marx’s vision of economics was different: he acknowledged the differences of power and social classes in explaining the different distribution of surplus. The re-discovery of Marx could be an offspring of this fading debate.

In his first official reply to Baumol, Samuelson wrote: “In the history of thought, we realize that detour may serve useful purposes.” (Samuelson 1974; 69). This was indeed the story of a useful detour. Useful because it shows two different ways to approach the history of economics and how the methodology can affect the conclusions. Another reason is that “If you only know the economic part of Marx, there is not much to be saved of his theory.” (Napoleoni 1992, 166)⁷³. What remains to explain is the implications of the invalidity of labor theory of value for the economic theory, but this is another story.

⁷³ My translation.

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William J. Baumol Papers:

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Box 15, 26, 54, 136

Bronfenbrenner on Japan and Japanese Economic Thought

Anna Noci

Abstract

This paper explores Martin Bronfenbrenner's views of Japanese economic thought after the Second World War. He analyzed the evolution of the Japanese economic thought as he personally witnessed Japan's social and economic changes. He also met many Japanese economists, which gave him a privileged perspective on the economic thought in Japan. Although with some imprecisions derived from cultural differences, his papers are an accurate account of the problems and tensions of the Japanese assimilation of Western economics and the reaction of Japanese economists to the profound changes of the society.

I would like to thank Roy Weintraub for sharing personal memories about Martin Bronfenbrenner. I would also like to thank Ornella Civardi for her precious help in translating materials in Japanese and helpful teaching about Japan. Many thanks also to the staff of the Rubenstein Library at Duke University for their kindness, professional attitude and infinite patience.

1 A Window to the East

Martin Bronfenbrenner (1914 – 1997) first met Japan just after the end of Second World War, in one of the most complex periods of its history. However, he was already a man of two worlds when he arrived in Japan during the American occupation in the fall of 1945. He was an American economist whose family emigrated from Germany. He graduated at the Washington University in Political Science and Economics and he then enrolled in the Graduate School of the University of Chicago. Surrounded by economic prodigies⁷⁴, he discovered many sides of economics, from policy formulation to the important realization “that economics was neither ‘cut and dried’ nor ‘all in Marshall’ (or anyone else). That it was evolving and developing, especially in the empirical direction. That it was a worthy enterprise to join the procession (Henry Schultz and Paul Douglas), even when it leads to alternatives for ‘free enterprise’ (Oskar Lange).” (Bronfenbrenner 1988; 4). This statement shows how Bronfenbrenner was curious about the development of the discipline and a careful observer. After graduation, his employment opportunities were uncertain. In 1941 he decided to volunteer for the Pacific Campaign of WWII and enrolled as language officer, with Japanese as the only option still available. His experience in the Naval School of Language was terrible, as he recalled it, but it allowed him to gain some competence in Japanese. During his first visit in Japan he stationed in Sasebo, in the isle of Kyushu (the second largest island of the Japanese archipelago), a quite remote position with respect to the central cities like Tokyo or Kyoto. “It could hardly have been more than two weeks that I spent in Sasebo. Two weeks was enough for the Japan bug to bite, and I am yet to be completely cured.” (Bronfenbrenner 1997; 13-5)⁷⁵. The bite of the Japan bug is for life: as many people before him, he became fascinated by its complex culture and remained linked with Japan for the rest of his life.

⁷⁴ “My principal traumas at Chicago were not its big guns - not even Professor Viner - but my fellow students. There were four (4!) future Nobel Prize economists roaming the halls of the Social Science Building in those years (1934-1938).” (Bronfenbrenner 1988; 4),

⁷⁵ Bronfenbrenner’s unpublished autobiography, *Marginalist Economist* (1997). Martin Bronfenbrenner Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 2. Each chapter of the autobiography is numbered per se, so 13-5 means chapter 13, page 5.

Bronfenbrenner had the right personality to react at the bite of the Japan bug. Eclectic scholar, he was one of the general economists who wrote on many different topics: aggregate economics, income distribution, international economics, and Japanese economy. He was interested also in heterodox theories: his curiosity brought him to study and write on Marx, which resulted in a trial for suspected communist affiliation during the McCarthy era.

After that first encounter, Bronfenbrenner returned to Japan more than 18 times and he even attempted to permanently transfer there after his retirement. He saw how Japan changed quickly during the economic recovery and how it bloomed again in the economic boom of the 1960s and 1970s. He also had “a box seat to the economic miracle” (Bronfenbrenner 1988; 6), since he witnessed the rapid transformation that Japan undertook from the ruins of the war to the economic development of the 1960s. The combination of being a spectator of Japan’s economic changes and his encounter with Japanese economists with different backgrounds should have made him interested in how economics was debated and researched in Japan. During those years, his expertise as economist and interest for Japan became known in the academic environment and he started to produce several papers about Japanese economics. “I am a self-appointed member of the Lafcadio Hearn chapter of this great fraternity, meaning that I feel as nearly at home in Japan as in my native land. But ‘I am not fond of everything one sees, that’s Japanese,’ and economic thought has not been Japan’s outstanding contribution to world culture.” (Bronfenbrenner 1956; 389)⁷⁶. He was fascinated by Japanese culture, but he was never blinded by his fascination. Bronfenbrenner’s writings about Japan were an important source of knowledge about the Japanese economics for Western readers. His main contributions in the “economic Japanology”, as he named it, included the analysis of the Japanese economic growth, taxation, the Japanese education system and Japanese economic thought. Moreover, he was active in promoting the study of Eastern economics and culture: in the Duke Archives there are many letters

⁷⁶ Lafcadio Hearn (1850 - 1904) was a Greek-Irish writer and journalist, naturalized Japanese. He is known for his books about Japanese culture, in particular for his collections of legends and folklore.

about scholarships for students from Asia and he worked to expand the program of Japanese studies at Duke University.

The literature on Martin Bronfenbrenner is scarce. His role in the Japanese reconstruction has already been explored by Ikeo (2014), who reconstructed the biographical events of his first travels in Japan. This paper takes a different approach by reconstructing Bronfenbrenner's understanding of the Japanese economic thought through his three main papers and unpublished materials from the Duke University's Economists' Papers Archives. His positions are considered in a critical way and analyzed in the light of in Japanese history.

Japanese economic thought was a curious topic for the time, because it was not a subject of research for Western scholars. He stated that he became interested in Japanese economic thought at the age of 35 and his first paper on the topic was "The State of Japanese Economics" in 1956. After that, he wrote a sort of update of his first paper in 1967, "The State of Japanese Economics: Revisited" for a Japanese economic journal. The last paper of the trilogy was his presidential speech for the History of Economic Society of 1983, a period of considerable debate about Japanese economic strategies and when Japan was seen as an economic enemy in the US. Those paper on Japanese economic thought were accompanied by papers and book chapters on Japanese economy, like "Four Positions in Japanese Finance" (1950) and "Economic Miracle and Japan's Income-Doubling Plan" (1965), which were a consistent part of Bronfenbrenner's academic writings. Bronfenbrenner kept writing about Japan during all his career and his opinions were particularly important in times of great debate about Japan, like the Seventies and Eighties.

Before Bronfenbrenner, the only source for Western to investigate how economics developed in Japan scholars were the rare papers written in English by Japanese scholars. Bronfenbrenner's papers on Japanese economic thought provides a significant sum of the history of Japanese economic thought and of its evolution from the import of the first Western notions to the development of indigenous theories.

His analyses were and still are a point of reference in the literature about Japanese economic thought: Tessa Morris-Suzuki in her important “History of Japanese Economic Thought” (1989) commented on Bronfenbrenner’s treatment of Japanese Marxism, while Mawatari Shohken in 1988 commented on Bronfenbrenner’s first paper and updated it to Japan’s mutate context. Ikeo Aiko in her book *Japanese Economics and Economists since 1945* (2000) quoted Bronfenbrenner’s cynical statement of economic professors in Japan, who teach something in class and say the opposite outside academia.

Bronfenbrenner’s strong personality and sense of humor, always present in his letters, speeches and papers, were well known in Japan. In fact, he sometimes was addressed by his Japanese colleagues with the surname *dokusetsuka* which means “wicked tongue”, and some scholars referred to him in letters as *dokusetsuka-sensei*, “professor wicked-tongue”. His opinions on Japanese economic thought were requested and valued by scholars also because of his sharp personality, very different from the typical Japanese quietness, who found in them a new voice in the history of economics environment.

2 Economics in Japan: History and Peculiarities

Japanese economic thought was not an immediate research subject, especially for a Western scholar. However, Bronfenbrenner had the right circumstances to be interested in it. He was already interested in the history of economic doctrines, as he repeatedly stated in papers and interviews. Moreover, he was an eclectic scholar, who studied subjects from various field of economics.

Japan had its own tradition of economic thinking that dates back to at least the Edo period. It was not an independent discipline, but the economic thinking was part of what have been called “Science of the State”, a comprehensive reflection on the role of the State derived from Confucian tradition. Western economics remained unknown in Japan until it was imported in the second half of the 19th Century. It is wrong to consider the Japanese economic thought only as the assimilation of Western ideas, but it is true that the introduction of the Western economics triggered a sort of revolution.

The introduction of Western culture, and economics, in Japan is deeply linked with the history of the country and present some peculiarities that are a *unicum* in the history of thought, that captured Bronfenbrenner's attention.

After the unification of the country in the first years of the 1600 by the *shogun* Tokugawa Ieyasu (1543 – 1616)⁷⁷, Tokugawa Iemitsu (1604 - 1651) closed the country to the rest of the world, the so called *sakoku* (“closed country”) policy, in 1641. Japan remained then isolated to the rest of the world until 1868, the year of the Meiji restoration. However, the isolation was not perfect. Dutch ships were allowed to visit the port of Dejima, in the isle of Kyushu, once a year and recent studies emphasize how the Western knowledge started to circulate well before 1868, even in a very small portion. In 1853 the black ships of the Commodore Perry arrived at the Tokyo Bay. It was the end of Japan isolation and the start of a process that will lead to the end of the *bakufu* (“government under the tent”), the government of the Tokugawa family. Japan was not ready to deal with the new Western visitors and the discontent for the government started to rise, together with the fear that the visitors would soon become conquerors. In 1868 a coalition of *samurai* guided by the clans of Satsuma (a remote province in Kyushu), hostile to the *bakufu*, guided a revolt against the government: it was the beginning of the Meiji Restoration. The authority of the Emperor was restored as the top of the society, with the samurai that guided the revolt as the new political oligarchy. When Japan started to open to the rest of the world, it became immediately clear how it was behind the West in terms of knowledge and technology. Moreover, Japanese statesmen quickly realized what could have been the price for this knowledge gap by looking at the fate of India and China and they did everything they could to avoid that same fate. Japan then entered in the first period of great and traumatic change of its history: the country faced a forced industrialization and knowledge in every field from the West was massively imported. It is in this context that Western economics entered in Japan and started to be translated and assimilated. It started with secondary literature, mostly commentaries, translated by scholars, and the primary literature

⁷⁷ In this paper I follow the standard convention of giving Japanese names in Japanese order, with the family name followed by the given name.

Romanization of Japanese terms follows the Hepburn system.

started to be imported and translated around 1880s. It is important to notice that the Japanese language lacked most of the words to translate the economic concepts from the Western languages. The Japanese intellectuals had to invent a whole new set of words to convey economic concepts that were alien to Japanese society. The introduction of Western economic thought was not then a simple matter of translation and teaching, it was the discovering of a new discipline and the creation of a whole new lexicon for it.

Bronfenbrenner was well aware of this “derivative” character of the Japanese economic thought, i.e. that the Japanese studies on economics were based on the imported Western theories and schools. However, he thought that this state of things could be temporary: once that the transmission of ideas from the West was settled and economists sufficiently trained, Japan could start to produce its own economic literature. The essential condition for Japanese economics to be recognized internationally is to produce economic literature in some widespread European languages, such as English, French or German (Bronfenbrenner 1956). However, the process of assimilation of Western economic thought was not simple. Bronfenbrenner recognized that Japan presented some peculiarities that make it different from other countries where there has been an import of ideas from the West. The peculiarities of Japan were efficiently illustrated by Bronfenbrenner in the speech for the 1983 meeting of the History of Economics Society. The core of the presidential speech aimed to address the differences between the development of economic studies in Japan and in the other developing countries, showing that Japan presents three characteristics peculiar to its own case.

First, Japan was not tied to a single mother country, so no country had a distinctive influence on it. Japan had commercial ties with Netherlands and Portugal, but after the policy of isolation, the privileged ties were almost all cut. This means that, in importing economic knowledge, Japan did not privilege a specific country or school. It is important to note that this was the initial tendency, because as economic literature started to be translated and assimilated, Japanese scholars started to have their own preferences. For example, the German Historical School had a huge influence in Japan, because of the economic and political similarities between the two countries at the end of the 19th Century, since both

countries had governments that actively promoted industrial expansion. Marxism, on the other hand, was as a reaction to the deep changes of the society from the Meiji Era (1868-1912).

Second, Bronfenbrenner recognized how the Meiji Statesmen, the oligarchy that took power after the fall of the shogunate wanted to avoid the fate of India and China. In order to avoid the destiny of a colony, Japan was forced into industrialization and the various ways and problems derived by this forced step were economists' concern. The rapid industrialization of the Meiji and Taisho (1912-1926) Eras was a traumatic process. It caused a profound cultural shock on Japanese people, who perceived the old values disrupted by the logic of profit. Many intellectuals struggled to understand the new era that was developing under their eyes: the economic thought was an essential key to understand the new Japan.

Third, Japan quickly specialized in export commodities which provided foreign exchange to send students abroad, hire foreign teachers and at the same time modernize both military and industrial facilities. Bronfenbrenner was the first one who explicitly linked those two aspects. This process actually started well before the 1950s. In the Meiji Era there were already many scholars of various disciplines sent abroad to study. This practice provided a channel to introduce new economic theories and to boost the development of indigenous ones.

Overall, Japan presented some peculiarities with respect other Eastern countries that shaped the development of the economic thought. Bronfenbrenner was one of the first Western economists to openly point out those peculiarities and to relate them to the Japanese economic thought in order to understand its developments.

3 The Duality of Japanese Economic Thought: Marxists vs Modernists

The most iconic sentence of Bronfenbrenner's first paper on Japanese economic thought is that "Japanese economic thought is as advanced as any in the Orient - perhaps even more so. Yet it seems to suffer from three besetting ailments: sectarianism, inbreeding, and schizophrenia." (Bronfenbrenner

1956; 390). This statement became relatively famous among the scholars of the history of Japanese economic thought and for many years it was the reference point for Western scholars of economic thought, whether they agreed or not.

The sectarianism refers to the division of Japanese economists in approximately two factions: the Marxist tradition and the so called “modern economics” (*kindai keizai-gaku*) (Morris-Suzuki 1989). Despite an economic discourse different from Marxism already existed in Japan well before the American occupation, it was after the Second World War that the contraposition between the two factions became well-defined. Even the name of the field “economics” changed between the factions:

Professor Nakajima has pointed out in correspondence how ridiculously unscientific it seems, to Japanese scholars outside of the social sciences, for separate and rival learned societies to operate in general economic analysis -- with the name Keizai-Riron or economic theory appropriated by the Marxian group and the name Riron-Keizaigaku or theoretical economics reserved for the modern economists. The situation looks like theological sectarianism. [Bronfenbrenner 1967; 8].

The differences between Marxist and non-Marxist economists shaped the Japanese economic discourse for more than four decades.

3.1 The Marxist Tradition

The introduction of Marxism in Japan dates back to 1900, but the peak of its diffusion was between the two World Wars and the immediate post World War II. The reason is that many economists and intellectuals saw in the Marxian writings a response to the social and economic crisis of the Taisho period. The forced industrialization of the Meiji period caused social problems that Japan never experienced before in that form. The capitalist development was unequal, causing a distorted distribution of wealth. Many people were forced to move to big cities like Tokyo, disrupting the

traditional family bonds. Moreover, an agrarian crisis marked the early Taisho period, with the rice production that could not keep the pace of the increasing in population. The 1920s were difficult years for the entire Japanese economy and were seen as a “deadlock” in Japan’s development (Hoston 1986; 10).

Before the Second World War, the central problem for the Marxist economists was the so-called debate on capitalism, i.e. to put Japan in the correct stage of economic development. Marx theorized the passage to socialism after a long period of capitalism. This posed a serious question for Japanese Marxists: should they wait for the capitalist society to be fully developed, or they should act whatever the status of the development of capitalism is? (Morris-Suzuki 1989; 81). Apart from the theoretical issues, this controversy was also an attempt to adapt Marxism to the Japanese context. It caused also a reflection on many aspects of the Japanese reality, like the emperor system (*tennosei*), the Constitution of 1889 and the voting system. The debate on capitalism caused the division of Marxist economists into two schools: the Kōza-ha (lecture school) and the Rōnō -ha (labor-farmer school).

The Kōza-ha derived its name from the multivolume collection of *Lectures on the Historical Development of Japanese Capitalism* (Nihon Shihonshugi Hattatsu Shi Kōza, 1932–3) and its interpretation was that Japan was not a fully developed capitalistic society, because the semi-feudal links between landlords and peasants did not disappear, but were incorporated into the capitalist economic system. The reason was that Japanese industrial entrepreneurs did not emerge as an independent political force, but they remained dependent on the support of the imperial bureaucracy.

The Rōnō-ha was named after the *Journal Worker and Farmer* (Rōnō) and the members of this school were in fact economists and historians who had separated from the Communist Party during the years 1924-5. The Rōnō-ha was critical towards the Kōza-ha interpretation of Japanese capitalism, since it considered Japan as a full-developed capitalistic society, without remains of its feudal past. Many members of the Rōnō-ha did not have many connections with the Journal, but they disliked the rigidity and dogmatism that in their view characterized the Kōza-ha school. The importance of determine which historical stage corresponded to Japan’s situation lied in the prospects for revolution. According

to Marxian economists, if the Kōza-ha were right, revolutionists should form a united front with Left liberals as the first stage of the socialist revolution. If the Rōnō-ha were correct, the liberals should be treated as enemies, without possibilities of allegiances.

There were two phases of the Kōza - Rōnō debate (Hoston 1986; 35). The first phase goes from 1927 to 1931 and began with the dissidents of the Rōnō-ha leaving the Japanese Communist Party, following Yamakawa Hitoshi, former leader of the Party. The departure was triggered by the adoption by the Japanese Communist Party of the Comintern's July 1927 Theses on Japan, which highlighted the persistence of feudal aspects in Japanese economy and society and advocated a two-stage revolution. This first period was then characterized by the advocacy of one-stage revolution by the Rōnō-ha dissidents.

The second phases started in 1932, with the pressures derived from the increasing repression by the government. The repression started in the 1920s and increased with the Peace Preservation Law in 1925, which allowed the police to conduct massive arrests of political dissidents. This forced the debate to move underground. The effort by Japanese Marxists to conduct their own analysis resulted in the publication of *Nihon shihon-shugi hattatsu shi kōza* and the re-name of the faction loyal to the Comintern in Kōza-ha. The emergence of this second faction marked the beginning of a series of theoretical and abstract contributions.

The influence of Marxism between the two wars was stopped by the raising of the military regime: starting from 1923 with the purge of several members of the Japanese Communist Party and for all the 1930s and 1940s, Marxist, socialist but also liberal intellectuals were arrested or forced to retire from the public life. The controversy was then abruptly put to an end, unresolved. The repression started with the Kōza-ha affiliates, which had close connections with the Japanese Communist Party, but by the end of 1930s it involved also the members of the Rōnō-ha, who always highlighted their independence from the Japanese Communist Party.

After the war, the professors who were purged were restored to their previous positions. They were seen under a new light, mostly thanks to their opposition to militarism. At the same time, the

leading figures of the right in the war period were removed from their positions and some politicians were taken on trial. The situation of deprivation and misery of the post-war period made socialism intellectually and politically appealing.

During the American occupation, many eminent figures of the pre-war Marxist debates returned as prominent figures of the new debates. However, the post-war debates could not simply resume the pre-war ones, for the Japanese economy and society was deeply changed. As Bronfenbrenner summed up in his 1983 speech, the interwar Marxism was concerned to fix the failure of development that did not alleviate Japan's poverty and to apply the Marxist interpretation of history to the Japanese case.

The rapid economic growth that started in the late 1950s created new analytical problems for the Marxist economists, who were forced to find theories able to explain a country in which increasing real incomes were promoting the rapid rise of consumer materialism. Moreover, Marxist economists found themselves relatively isolated from the international community, since Marxist economics entered in a period of recession in the English-speaking academic world. This had the positive effect that their theories developed in a number of distinctive directions.

3.2 Bronfenbrenner's Analysis of Japanese Marxism

Bronfenbrenner did not have a high opinion of Japanese Marxists and it is evident from the very first lines of his 1956 paper, but with an important *caveat*:

Since my appraisal of Japanese Marxism in particular is not high, I want to take this opportunity to dissociate myself from the near-suppression of Marxian economics in America, which contributes rather largely to our unpopularity in Japanese intellectual circles. The greater freedom existing in Japanese universities in this respect seems to me almost completely laudable although occasionally abused. [Bronfenbrenner 1956; 390].

The fact that he did not have a high opinion of Japanese Marxists did not mean that he was against the study of Marx. The presence of a different vision within the universities was a positive sign, even with the shortcomings that he listed below.

Marxism in Japan was still widespread even after the end of the American occupation. As Bronfenbrenner explained, the presence of Marxists economists seemed higher because there was a certain reticence toward openly anti-Marxists statements, since it reminded to the purges of the fascist period. Marxists economists were described by Bronfenbrenner as illiterate about everything concerned with modern economics, because of their ideological bias. His perception was that “half the professional economists of Japan are Marxists illiterate in ‘modern economics.’ This is a mere guess and not a statistical estimate”. (Bronfenbrenner 1956; 390) and that a visiting American would remain shocked by this clear division between the two factions. Bronfenbrenner described the “the typical Japanese Kōza -Ha Marxist” as a “a rigid follower of a party line, usually the Communist but occasionally the Left Socialist. Even when his specialty is economics, all he knows is Marx, Engels, Lenin, Stalin and their popularizers. He is proud of his ignorance-everyone else having been refuted either by one of his "Big Four" or by the march of events.” (Bronfenbrenner 1956; 391) This is much in line with the description of Kōza-ha made by their rivals of the Rōnō-ha. In fact, Bronfenbrenner stated that the Rōnō-ha members were the only faction with which it was possible to speak, since they were less dogmatic and more open to the dialogue. However, for Bronfenbrenner, the whole question of the correct development stage of Japan was pointless and the result of the misapplication of the theories of history. His judgement was that “I cannot help interpreting the whole controversy as indicating the difficulty of applying general theories of history ex ante to problems of planning and forecasting, however useful they may be ex post in explicating the past.” (Bronfenbrenner 1983, 12).

The second paper, “Japanese Economics Revisited” is almost entirely focused on modern economics. The only words for Marxists are to describe them as ideologues, frozen in their convictions. Bronfenbrenner fully returned on the topic of Japanese Marxist economics in his 1983 speech to the History of Economics Society, but his opinions remained substantially the same. He went a little bit

deeper on the history of Marxism in Japan, mainly because he had to face an audience not familiar with the topic, but the final judgement remained almost unchanged. Marxists are said to disagree violently among themselves, “like Marxists elsewhere” (Bronfenbrenner 1983; 8), and with modern economists. There were three major fields of disputes, as he quoted from Itoh Makoto: first, the famous transformation problem, i.e. is it possible to derive prices from values, as Marx tried to do. In this debate Japan had its own Böhm-Bawerk in the figure of Koizumi Shinzo (1888 - 1966) and the Marxist faction puzzled on the response to give him⁷⁸. Bronfenbrenner also reported the debate on rent theory, with anti-Marxists Hijikata Seibi (1890 – 1975) and Takata Yasuma (1883 – 1972) and again the Marxists were divided on how to respond. The real conflict, however, was the one between the aforementioned Kōza-ha and Rono-ha during the 1930s about the application of the theories of capitalist development to the Japanese context. This was the first time that Bronfenbrenner explicitly wrote about this conflict and the implications for the Marxist side.

During the years of the economic growth, the Marxists economists lost some ground, but still remained in the economic scene. Bronfenbrenner and Ito had different opinions on the reason for the survival of Marxism. Bronfenbrenner argued that the reason lied in the background of the war destruction, “and with their recollection of the Great Depression, the Japanese associate capitalist prosperity with war somewhere in the world and prefer an economic system which (as they see it) avoids any necessity for choice between depression and warfare.” (Bronfenbrenner 1983; 15). Ito was of different opinion. For him, the reason was that Japanese people, thanks to the loss of the Pacific War, knew that a social order could be reversed and changed and Marxism is another way to do the same things, but this time by themselves. However, for Bronfenbrenner there was another explanation, probably the most accurate for this: Marxian economics was simply better taught with respect modern economics at the elementary level. Moreover, it had immediate connection to the problems of everyday life and it relies less on mathematics.

⁷⁸ Itoh Makoto (1936 -) is a Japanese economist and is considered to be one of the most important scholars of Marx's theory of value. He is professor at the Kokugakuin University, Tokyo, and is professor emeritus of the University of Tokyo.

3.3 The Complex Reality of Japanese Marxism

Bronfenbrenner's exposition of the Marxist tradition suffers from some drawbacks. First, the link between the various Marxist schools and their political inspirations is not clear. As a result, the story of Marxism seems oversimplified and too linear. The history of Marxism is connected with the complex intellectual context of Taisho and Showa Japan, which saw many different responses to the social crisis of those years. There was in fact an important momentum of break between the first introduction of Marxism in Japan and the formation of the Kōza-ha dogmatism.

Kawakami Hajime (1879 - 1946) was the first recognized Marxist thinker in Japan. He became Marxist as a response to the intellectual crisis of the post-Russo-Japanese war (1904 – 1905). He tried to create an economic theory that would allow people to be independent as individuals, in contrast to the new political system that considered the family (and not the individual) as the smallest social unit. The thought of Kawakami was expanded and criticized by two main critics within the Marxist economists, Fukumoto Kazuo (1894 - 1983) and Miki Kiyoshi (1897 - 1945). With his “materialistic dialectic method”, Fukumoto criticized Kawakami for his ignorance on the philosophical basis of Marxism. Miki Kiyoshi tried to overcome the gap between the socialism and the personalistic view of man. However, when he tried to enhance his understanding of Marxism in a way that was different from the standard dialectical materialism he incurred in sharp criticism. He leaved Marxist economics after those critiques. After Miki's failure, Japanese Marxist thinkers all accepted the Soviet version as the orthodox Marxist philosophy. Moreover, the Russian revolution of 1917 had a huge impact on Japan and its intellectual life. The revolution strengthened the democratic movement and gave new energy to the socialist movement. The Japanese Communist Party was formed in 1922, although it was disbanded after only one year. This is the reason of the adherence of Japanese Marxists to the Soviet interpretation and the progressive increase of dogmatism between Marxist economists. Bronfenbrenner's analysis did not show the complexity of visions and debates, but instead it was focused only on the most radical aspect of the Kōza-ha Marxism. For example, Bronfenbrenner openly

considered Japanese Marxism as “partisan propaganda” (Bronfenbrenner 1956; 392), although maintaining that it had a practical importance, without really explaining in which sense or how it was important.

Another critique to Bronfenbrenner’s treatment of Marxism is well expressed by Thomas Sekine. He wrote a letter to Bronfenbrenner on September 29th, 1967 about the draft of his paper “Japanese Economics Revisited”⁷⁹. There is a comment on Bronfenbrenner’s approach to Japanese Marxism: “I am a little disappointed that you avoided to comment on Japanese Marxism, except its radical aspect. In fact the Japanese tradition of social science is built on Marxism; it has its creative history, entirely unrecognized by Western observer.” (Sekine 1967). Sekine brought the example of Uno Kozo, whose work “is the highest level of the Japanese economics, because it is strictly Japanese (neither Russian or Chinese) and because it is theoretically firm – i.e. quite different from a casual impressionistic study of Das Kapital by sympathetic outsiders” (Sekine 1967).

A similar opinion is expressed by another economist whose signature is not readable in a letter dated August 29th, 1967. In his opinion Bronfenbrenner’s observations of the Japanese economic thought situation were not “sharp” enough, meaning that in some cases he could not really grasp the true reality of Japanese economics. The problem was, again, his analysis of Marxian economics. The writer stated that Bronfenbrenner failed to explain why the Marxian economic tradition still persisted alongside modern economics. The reason was that, in his opinion, Japanese economy, despite the post-war growth and wealth, still presented particular characteristics that require

the broad sociological approaches and the reform-oriented considerations associated with Marxian ‘economics’ (political economy, to be exact), namely, the traditional "nijyu kozo" (esp. wide wage disparities between large and small enterprises) due to social and occupational immobility, the inadequate social insurance system, exceptionally

⁷⁹ Sekine Tomohiko (1933 -) a.k.a Thomas T. Sekine is a Japanese economist. He is a scholar of Uno Kozo and works in the field of Marx's labor theory of value.

heavy reliance on regressive taxation, the inefficient and unimaginative fiscal-monetary policies for greater equality and stability, the lingering suspicion of 'zaibatsu' and their political influences, the conservative political leaders' affection and loyalty to what the liberals consider an immoral 'American capitalism' [Ken (?);1967]

This is an opinion that comes evidently from the Marxists side, but it was nevertheless widely shared in Japan and it gives an idea of how much the Marxian tradition was rooted in the Japanese economics.

According to Morris-Suzuki (1989), Bronfenbrenner's judgement on Marxian economics was not entirely fair and too rooted in his current times. There was a difference between the Marxists debate before the WWII and the one after the American occupation. This is something that Bronfenbrenner did not mention in his first two papers and sketched only in his 1983 speech. Second, as we will see in the next paragraph, the Marxist influence in the economic debate would gradually fade and become less prominent as the economy kept growing at a sustained rate.

Another important assessment of Bronfenbrenner's opinion about Marxist economists came from Matsuura Tamotsu⁸⁰. He commented that Bronfenbrenner failed in recognizing in the Kōza-ha approach to Marxism some features of Japanese intellectual history:

In his first paper he examined the 'Koza' school (fundamentalist), being essential to the Japanese Marxian economics. The economists of the 'Koza' school considered Marx's *Das Kapital* as a sort of Bible, engaging almost exclusively in its textual exegesis, especially in that of its first volume. Such a learning method was a uniquely Japanese one, based on its traditional academic culture. In the Tokugawa age, such a method was dominant in scholarship about Confucianism. [Matsuura 1999; 506].

⁸⁰ Maatsura Tamotsu (1931 -) is a Japanese economist, Professor at Keio University.

This particular method was not characteristic of all economic school in Japan, but it a good example of how difficult can the comparative study of the history of economic thought.

Bronfenbrenner did not have a good opinion of Japanese Marxists also because he felt himself to be a modern economist and because he considered them to be too stuck in ideology. It is important to highlight that Bronfenbrenner was not against Marxian studies, as he repeatedly stated during the paper: “I am the last man in the world to disparage the intellectual depth and achievement of *Das Kapital*, not to mention the philosophical system in which Marx embedded his economics, but the Japanese *Zengakuren*⁸¹ and the New American Left are something else again!” (Bronfenbrenner 1967; 5).

This quote shows how Bronfenbrenner was against the ideological approach to Marxism and not the study of the contributions of Karl Marx. His antipathy for the Japanese Marxism can be explained with the fact that the *Kōza-ha* were the most active faction and, more important, they were more ideology-oriented. Bronfenbrenner’s opinions about Japanese economic thought reflect his opinions about economics as a discipline. He was a neoclassical economist by education, but he was also interested in the different voices within economics. He wrote papers on Marx (“*Das Kapital*” for the *Modern Man* (1965) or “Radical economics” (*Radical Economics in America: A 1970 Survey* (1970), *A Skeptical View of Radical Economics* (1973)) show, and at the same time he used neoclassical economics as a tool of analysis. However, he disliked the ideological side of Marxism, but also the excessive use of mathematics with respect to economic contents. He criticized both the radical economics for being sometimes blinded by ideology, but also his “ friends and acquaintances of more orthodox, conservative, or Mont-Pelerinian bent” (Bronfenbrenner 1973; 7) for “scrutinizing inscrutable n-sectoral, m-factoral growth models spifflicated in the Lobkowitz sense, computing elasticities of obfuscation on selected Ougadougou postum plantations, or deducing what Adam Smith or Ricardo might have had say about Keynes and Marshall” (Bronfenbrenner 1973; 7). His analysis on

⁸¹ The *Zengakuren* was a league of university student associations, founded in 1948. He is famous for having organized many protests and revolts, especially in the 1960s. The word *Zengakuren* is an abridgement of *Zen Nihon Gakusei Jichikai Sō Rengō* which literally means "All-Japan League of Student Self-Government Associations."

Japanese economic thought and economics display a great coherence with his beliefs on economics as a subject. He criticized Marxist economists for being too ideological and, as we will see, he warned the opposite faction, the modern economists, against the temptation of the excessive mathematization.

In the next section we will see how Bronfenbrenner described the situation of those economists who were closer to his own view of economics, i.e. the so-called modern economists.

3.4 Modern Economists

The term “modern economists” (*kindai keizaigakusha*) originated in the pre-WWII period to differentiate the ideas of those economists who were not Marxian or Marxists. It is not related to a periodization, but rather is used in opposition to Marxism. The term was initially used by non-Marxist European economists in order to differentiate themselves from the “outdated” Marxists economists. However, non-Marxian theories were already present in Japan. During the Meiji period, many schools of thought arrived in Japan, not only in the economic field, but also in politics and philosophy. For example, while the German Historical School was much studied in public universities as the government’s preferred economic theory, the British classical economics was translated and taught in private institutions. During the inter-war Japan, the central concern for economists became the analysis of Japanese economic structure, particularly in terms of Marx’s theory of modes of production, therefore the non-Marxian economics were left behind the main debates.

In the post-WWII era and until 1960s, the majority of economists were still Marxist or Marxian. The remaining part of modern economists were mostly oriented toward development economics instead of neoclassical studies (Ikeo 2000; 221). Among the modern economists there were different waves of debates, shaped by the internal and international context.

During the 30s and 40s the debate was on the so-called pattern of growth or “flying goose” pattern, i.e. which road would Japanese economic growth take, since the economic development was not stable, but there was always some economic crisis to face. By the end of the war, Japan’s production capacity was destroyed, there was a general lack of food. The American occupation with the SCAP started to implement economic and social reforms first in order to transform Japan in a

democracy and eliminate the risk of another war, and second to transform it in an ally against the Communist block during the Cold War. In the 40s-50s, after the signals of economic recovery, the debate shifted toward international trade and its role in the economic development of Japan, together with a debate on which industry to promote to ensure stable imports. Finally, during the 60s and 70s in particular, the main debates on economic growth and economic crisis after the oil shock of 1973. There was also a shift in the importance of modern economists: especially after the 1960s, the ability of Marxian economics to explain reality weakened and the opinion of modern economist was frequently asked. They started to become important also for policy formulation.

When Bronfenbrenner met Japan, there were two major debates. One was the one on pro-trade and pro-development. The debate was started by Nakayama in 1949 that criticized the Dodge plan implemented by the allied forces and argued that Japan needed international trade in order to achieve economic growth. Nakayama studied under Schumpeter and his growth theories emphasized the role of innovation and technology, which are in turn dependent on a country's resources. Ikeo (2000; 156) highlighted that the development economists believed in the role of local government, but also entrepreneurship in the private sector. This is in line with the Schumpeterian-style growth theories that were discussed at the time (Nakayama studied under Schumpeter) .

However, he was also heavily influenced by Keynes. He was criticized by many economists, including Arisawa Hiromi and Tsuru Shigeto. They contested Nakayama's description of Japanese economy and argued that the development of a strong internal economy was more important. Actually, both factions believed that a strong domestic economy was important, but they had different opinions on the role of international trade. Nakayama responded that Japan lacked natural resources and it did not have enough land to provide food for all his citizens. Despite Japan still lacked enough capital, its destiny lied in international trade, as the only source to provide what Japan needed. In the end, the debate turned political, on whether Japan should or should not sign the San Francisco Peace Treaty and being readmitted to the international community, which in the end was signed in 1951.

Bronfenbrenner actively participated in the second debate, the one on which industry to promote, with commentaries on the main arguments provided by Shinohara Miyohei. The problem was to select some industries to promote in order to ensure sufficient exports. The MITI actively promoted the heavy and chemical industries, based on criteria proposed by Shinohara, but the result was that the government was actively subsidizing sectors of the economy.

Those debates showed the increased importance attributed to economists by the government and the different economic education of the modern economists after the Second World War.

3.5 Political Economists and Modern Economists

Bronfenbrenner addressed the issue of the status of modern economists in all his three papers about Japan, with the second one of 1967 almost entirely devoted to this topic.

The world of modern economists should have been less alien to him, also because he actively participated in the academic life and economic debates of Japan. He was one of the first Western economist who met Japanese economists during the American occupation and was able to speak with them. Those exchanges with modern economists increased when he returned in Japan with the Shoup mission in 1949 and became a regular habit in 1952, when he participated in the afternoon seminars at the Hitotsubashi University. In those seminars he met many important Japanese economists active in the aforementioned debates, like Nakayama Ichiro, Tsuru Shigeto and Nakajima Tetsuhito. Bronfenbrenner even participated in some Japanese economic debates, something really rare for the time, like the Shimomura growth theory debate during the 1960s, a controversy that was seen as completely Japanese, or the Shinohara Miyohei arguments on industrial support.

In his 1956 paper, he divided the non-Marxist economists into two categories: political economists and modern economists (Bronfenbrenner 1956; 392). This division is peculiar of Bronfenbrenner's analysis, since it is not found elsewhere in the literature on Japanese economic thought. The political economists were those trained in the period between the world wars, if not before. They conserved the trace of the influence of the German Historical School and could be

considered the institutionalist of Japan. Their interests were public finance, welfare economics and everything related to social policy. The major problem with this group was that it had been too accommodating during the “fascist decades” and after the war they were “under something of a cloud among their fellow intellectuals.” (Bronfenbrenner 1956; 392).

He did not provide names of economists or associations, but considering the description, he was probably referring to the Association for the Study of Social Policy, established in 1896 and modelled after the German *Verein für Sozialpolitik*, the main association of the so called German Social Policy School. The members of the Association conceived economics as deeply linked with moral and political issues. Subject of the economic research should be therefore the concern for the social welfare of the subject. However, rather than revolutionize the system, they sought to stabilize the capitalist system by regulating the potentially dangerous forces of unions and organized labor. Among economists that can be considered political economists, the most famous were Kanai Noburu (1865 - 1933) and Fukuda Tokuzo (1874 – 1930), both members of the Association. Fukuda, in particular, was an eclectic intellectual and imported both the Marxian theories and the British and Austrian neoclassical economics. As the two rival theories began to spread, the Association divided into two factions and eventually crumbled in the early 1920s, leaving the incurable fracture between Marxist and non-Marxist economist that Bronfenbrenner witnessed.

Bronfenbrenner described the modern economists as the group that managed to catch up with England and the United States, “from a position of nearly hopeless inferiority.” (Bronfenbrenner 1956; 393). They were the youngest scholars and they could be considered the Anglo-American tradition’s ambassadors in Japan. Their work was characterized by a high degree of abstraction and a heavy use of mathematics. “Equally at home in micro- and macroeconomics, their attention has tended to concentrate along lines of Walrasian general equilibrium, Keynesian income and employment theory, and Harrodian dynamics, to the neglect of the standard pabulum of partial equilibrium.” (Bronfenbrenner 1956; 392).

As example of prominent modern economists, Bronfenbrenner mentioned the “Japanese Marshall” Takata Yasuma and Nakayama Ichiro (1898 – 1981) in the Schumpeterian tradition, but without explaining the reason of their importance. Takata tried to solve the problem of reconciling neo-classical theory and reality. He tried to incorporate sociology into the framework of neo-classical analysis. Takata is famous for his ‘power theory’ (*seiryoku setsu*), in which he proposed that the utility of a commodity reflects not only its ability to satisfy physical needs, but also its ability to fulfil the natural human desire for power and social esteem. His contemporary and rival Nakayama was a scholar of the aforementioned Fukuda Tokuzo. He studied in Germany and wrote the first the first serious study of Japanese economic development. Nakayama studied Walras and developed an economic theory based on the notion of general equilibrium and helped to introduce the concepts of marginalism and general equilibrium analysis in Japan.

According to Bronfenbrenner, the major drawback of the modern economists of the 19650s in Japan was that their attention was focused mostly on theoretical issues, leaving unfilled the gap between theoretical and applied economics.

The consequences of this bias were analyzed in detail in another paper, “The State of Japanese Economics: revisited”, published in 1967 in a Japanese journal. The occasion to write again about the state of the Japanese economic thought came when he was asked to write a paper for the *Keizai Seminar* (Economic Seminar) in 1967⁸². The request came from Nakajima Tetsuhito, professor of economics at Doshisha University in Kyoto: Nakajima asked for a paper about the persistent dualism in Japanese economic thought from the perspective of a non-Japanese scholar. Bronfenbrenner was appreciated for his sharp criticism and great accuracy in his analysis: Nakajima asked then the *dokusetsuka-sensei* to provide an update of his 1956 paper. Apart for a small section about Marxist economists, this new paper was then focused mainly on the development of modern economics. The economic growth required a new kind of economic theories to be understood and explained and the “modern” economics theories seemed the more appropriate to deal with the new economic environment.

⁸² The text of the paper was written in English and then translated into Japanese.

For Bronfenbrenner, everything was going well in Japanese modern economics at the end of the 1960s, at least on the surface. The number of scholars increased and they started to publish in international journals. Even the influx of Marxian economics seemed to give signs of weakening. However, this was just the surface: the reality was that modern economics was becoming more and more mathematical and it was losing economic meaning. Bronfenbrenner had a declared dislike for the excessive mathematization of economics: in his opinion, it was not good for the discipline to become completely part of the statistical-mathematical science. It is no surprise, then that he saw the hyper specialization of economics as something detrimental for the discipline.

The consequences of this hyper-specialization in mathematical models were twofold: on one hand there was the “widening of the gnostic gap between theory and application” (Bronfenbrenner 1967; 3) and the “temporary abdication of the teaching functions to people ignorant of 20th century developments and viscerally opposed to them.” (Bronfenbrenner 1967; 3). The gap between theory and practice goes to the advantage of Marxist economists, who on the contrary advocated the unity of theory and practice. Moreover, many modern economists spent the most part of their productive academic life abroad, therefore neglecting their teaching activity. The deficits in the economic education at the university level was directly responsible for the survival of Marxists economists.

In Bronfenbrenner’s vision, the affirmation of the modern economics and the progressive abandonment of the Marxian tradition was an essential step to fully develop the production of original Japanese contributions to economics. The persistence of Marxism and the isolation of modern economists were the two main obstacles to the full development of Japanese economics: “Behind the fine facade of greatness, if I am right, the rice-roots level of Japanese economics has advanced disappointingly little in the last ten years -- perhaps even the last 20.” (Bronfenbrenner 1967; 5).

However, there are many other obstacles for modern economists to overcome in order to achieve the favor in the competition of economic ideas in Japan. First, the intuitive fact that the opposition to modern economics would remain strong, since there was the interest to maintain the intellectual monopolies where they were present. The transition to modern economics was a slow

process, helped by the involvement of modern economists in policy recommendations. It is also worth considering the appeal that Marxism had on students with respect to modern economics: modern economics was seen as a tough subject and it is pretty understandable that freshmen just graduated from high school became fascinated with the slogans and emotional arguments of Marxism.

Second, modern economics had the drawback of not having engaged in the debate and resolution of real problems, but instead “is about x and y, inputs and outputs, graphs and equations, money and markets – ‘economic fetishism’ in Marx’ terms” (Bronfenbrenner 1967; 6). Modern economists rarely engaged in addressing problems of the everyday life. Marxism, on the other hand, with its slogan of unity of theory and practice, had taken into consideration all those real-world problems ignored by modern economics, but important to people. The debate on international trade and industries were important to economists, but less understandable by the people. Bronfenbrenner clarified that he was not saying that Japanese economists should abandon mathematical economics, but instead they should find a balance between theory and practice and to strengthen the teaching of economics. But why did modern economics not engage in the analysis of those problems? “because, ever since Kawakami’s day, Japanese Marxism has taken so many of the most pressing of those problems, those involving abject poverty, as its private academic preserve. Also, Japan has not yet had a Franklin Roosevelt or a John F. Kennedy in power to pull modern economists into welfarist preoccupations.” (Bronfenbrenner 1967; 6). There was a sort of vicious circle: modern economists did not engage in real-world problems because it was Marxists’ territory, therefore reinforcing the predominance of Marxists in those fields. This was also related to a problem of Japanese economic development: despite the high rates of savings and economic growth Japan had a low level of public investments and public welfare. This trend continued for all the years of economic boom and it started to be evident during the 1970s, when the first signals of crisis started to appear. The lack of participation in government advisory activities could be linked to this lack of welfare preoccupations.

Third, modern economists tended to rationalize the interests of the power élite composed by bureaucrats, big business and “technocratic planners”. To understand what Bronfenbrenner is talking

about is necessary to look at Japanese history. The allegiance between big business, in the form of the *zaibatsu* (big industrial and financial conglomerates, often owned by one single family), bureaucracy and politics was a characteristic of the early Showa era (1926 – 1989), and in particular of the years before the war. It was one of the characteristics of the economic development of Japan during the Taisho and Showa era. In the post-war era, with the transformation of *zaibatsu* in *keiretsu* and the new democratic environment the links between them started to weaken. However, the cooperation between private enterprises and the government remained. Despite the emergence of new enterprise groups during the 1960s, less tied to the administration, the collaboration between industrial powers and government was still an important feature of the Japanese economic environment. The government's economic plans were always made in accordance with the industrial sector and that is a possible reason for Bronfenbrenner's statement.

Bronfenbrenner's solution to improve Japanese economics was that Japan should have a group of economists not tied with any particular interest group, but unemotionally interested in the policy problems of the Japanese economy. Those economists should try to study them in different ways of the other two groups of economists. In particular, they should ask first what a competitive market would do, and not blaming some "wicked men" or passing bills that strengthen monopolies (he was probably referring to the still powerful *keiretsu*). This is an evident influx of his US economic education.

Professors Ichimura, Kamakura, and Nishiyama come to mind on university campuses, Dr. Kiuchi in a private research agency, and Dr. Shimomura with one foot in government, the other in banking circles. They can, however, hardly be said to form a school, like the contemporary "Chicago school" in the United States or the former "Freiburg school" in Germany. Despite a personal distaste for economic sectarianism as such, I suspect Japanese economics would be improved by the congealing of these and other "classical liberal" elements into a recognized and indigenous *gakuba* [school].

[Bronfenbrenner 1967; 7]

This new generation of Japanese economists did not form a proper school on the model of the US economic schools, mostly because their field of action was very different and differentiated. In Bronfenbrenner's opinion, those economists should combine their "classical liberal" elements and form a school, in order to oppose to Marxist schools.

For Bronfenbrenner the contraposition between Marxian and Modern economics was clearly an obstacle to the full development of Japanese economics:

I found the main obstacles to (2) [the development of the non-Japanese part of the Japanese economics], above, in (a) extreme stress on ideological matters in the Japanese universities, particularly (b) the running battle between Marxian and modern economics, and also (c) the tendency of so many economists of all persuasions to resort to emotionalism and slogans in discussing public issues. Perhaps I should also have mentioned (d) the honyaku-gakumon tradition. [Bronfenbrenner 1968]⁸³

This statement is contained in a letter to Professor Kitano Yukio of Kobe University, where Bronfenbrenner analyzed the problem of modern economic in Japan. In the same letter, he explained how there was a wrong perception of Japanese economics outside Japan:

About 'Japanese economics' as seen outside Japan, I myself tried to say (a) that it is only a small part of true Japanese economics as seen within Japan, and also (b) that, at the same time that it has received international respect, it has become something of an international joke. I think we agree to these two propositions. We differ, perhaps, in that I see a larger role than you for mathematics and statistics in economic theory. [...] I also

⁸³ Letter from Bronfenbrenner to Kitano Yukio February 15th, 1968, Martin Bronfenbrenner Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 13.

doubt that “Japanese economics” represents American cultural imperialism, because our own “Japanese economists” are not, on the whole, favored particularly by the U. S. Government. [Bronfenbrenner 1968]

This passage contains an important assertion. For Bronfenbrenner the Japanese economics of his time was not a product of the American influence, because Japanese economic thought had distinctive and independent developments that were not always appreciated in Japan. He reaffirmed the “international joke” definition, meaning that Japanese economics was recognized internationally, but at the same time it lost its economic component.

He gave also a quite cryptic advice to the Japanese economic students in order to improve the economics in Japan: “My advice to Japanese students, which I had no real right to offer, was that they should work to raise the non-‘Japanese economics’ parts of Japanese economics to the same world level that “Japanese economics” has already reached.” (Bronfenbrenner 1968)⁸⁴. The meaning is that Japanese students should work on the part that are neglected by the average Japanese economist, i.e. the attention to policy problems.

Overall, his opinions about modern economists were more positive than the judgement on Marxist economists. The major drawbacks were the over specialization in mathematics at the expense of economic significance and the poor engagement in teaching at the lower levels of university education.

4. Inbreeding and Schizophrenia

⁸⁴ Letter from Bronfenbrenner to Kitano Yukio. February 15th, 1968. Martin Bronfenbrenner Papers, David M. Rubenstein Rare Book & Manuscript Library, Duke University, Box 13.

The other two characteristics of the Japanese economic thought of the post-WWII period were institutional inbreeding and schizophrenia. The latter in particular became very famous and it is still debated nowadays.

For “institutional inbreeding” Bronfenbrenner meant that the best universities in Japan tend to hire their own graduates as faculty members “and it is a sign of newness or inferiority to recruit widely from outside.” (Bronfenbrenner 1956; 395). Every major universities and many of the minor ones had their own internal journal, where the members of the faculty publish their own papers and which was read by its own audience. However, despite this unusual situation, from an American point of view, many of the feared negative outcome of academic inbreeding were absent. Bronfenbrenner explains that in many departments of economics there were Marxists, political economists and modern economists. “A Japanese economics department may be staffed 100 per cent by people without degrees from anywhere else, but it is still a kind of economic macrocosm in microcosm, never an obscure cult of forgotten local celebrities.” (Bronfenbrenner 1956, 395).

This attachment to the *alma mater* did not cause intellectual isolation either. He reported that there was an active exchange of ideas between universities and for Bronfenbrenner the reason was that Japan is a small country with the major universities concentrated in few big cities. Professors often teach in more than one university in order to supplement their income, so there is a certain degree of exchange of ideas. It is worth adding that Japanese people on average tend to read a lot and this helps the diffusion of theories and ideas.

The last characteristic of the Japanese economics is what Bronfenbrenner called “professional schizophrenia”. He observed that many professors would teach something in classroom and then say quite the opposite in other situations, like interviews. “Many Japanese economists have the same kind of split personality. Outside the classroom, they dabble in anything and everything.” (Bronfenbrenner 1956; 396). For Bronfenbrenner this is due to two causes. First, the low stipends of professors, which forced them to do everything they could to raise money, from “They write for newspapers and low-brow magazines, direct companies and pressure groups, arbitrate labor disputes, and arrange

marriages". (Bronfenbrenner 1956; 396). Second, it was something rooted in the Chinese and Japanese tradition.

It is quite in accordance with Chinese and Japanese tradition. There is a proverb: "Seki no atatamaru itoma nashi," meaning that a great man never stays still long enough to warm the cushion where he sits. Many Japanese professors consider themselves great men, and juggle multitudes of jobs accordingly. Yet when they enter the classroom, they usually purge themselves of all extracurricular sin by becoming as abstract and otherworldly as they can. [Bronfenbrenner 1956; 396].

This schizophrenia seemed to affect mostly the modern economists, since the Marxists were considered more coherent. However, this does not make Bronfenbrenner to chance opinion about them: "They harangue their classes and seminars on the same problems as they harangue their street-corner audiences and the readers of Akahata ("Red Flag"-the Japanese equivalent of the Daily Worker), and sometimes in the same vulgar language. This is another example of the "unity of theory and practice." (Bronfenbrenner 1956; 396).

The negative consequences are nonetheless present. According to Bronfenbrenner, less attention was paid to problems of Japanese economy and to the collection of economic and statistical data at the academic level. There were of course economic data, but they were poor and lacked comparability. The situation was already on the path of getting better at Bronfenbrenner's time, with the production of national statistics, like family-budget studies, production indexes and balances of payments. Another important difference with the United States was the lack of migration between academia and government, especially during the 1950s and 1960s. The result was that Japanese government relied mostly on attorneys for most of the consulting jobs, that in the US are reserved for professional economists. Many modern economists were too theoretical, or did not want to completely leave their academic job.

In terms of the academic work turned out by people whose practical interests are somewhere else, there seem to be three problems. In theoretical work there is excess abstraction; in institutional work, there is excess antiquarianism; in all fields, there is too much concentration on transmission and translation of the works of foreign scholars at the expense of “look and see.” Please do not misunderstand me. The empirical spirit is very much present, but it is exercised in the scholar's outside job, not in his professional connection. [Bronfenbrenner 1956; 397]

When Bronfenbrenner wrote those lines, the situation was already improving, largely thanks to the younger generation of economists and to the creation of specific institutions devoted to economic research, like the one at the Hitotsubashi University in Tokyo and the other at the Osaka National University. He highlighted the importance of the Economic Planning Board for the economic research, which example was followed by other agencies like the famous Ministries of Finance, Agriculture, and Trade and Industry (MITI). He noticed the role that economists played in participating in advisory committee, research bodies and semi-governmental agencies (Morris-Suzuki 1989, 114).

This account of Bronfenbrenner is not completely true. It may have been less back and forth from academia to government, but the role of economists in the post war period was not marginal. The tradition of organizing advisory committees of different kind dates back to the pre-war period, when organizations such as the Shōwa Research Association at times provided political refuge for economists of liberal or left-wing views. (Morris-Suzuki 1989; 134). In post-war Japan politicians and officials sook the help of liberal economists and, in particular, of those who were trained overseas. However, the most important factor of interaction was indeed the economic planning process during the reconstruction. (Morris-Suzuki 1989). There were also many semi-governmental research bodies that received commissions from the government. “What emerges from these observations is not that Japan’s leading non- Marxian economists had great influence over the details of economic

policymaking— nor that they have invariably agreed with the policy directions taken by government— but rather that their theoretical perspectives and empirical research helped to shape the environment in which post-war policy was created. (Morris-Suzuki 1989; 135).

The oddities that characterized Japan in fact were less severe with respect to what emerges from Bronfenbrenner's paper. In particular, his opinion on "professional schizophrenia" left a great impression on the scholars of Japanese economic thought and it is still referred to.

5. The 1983 Speech: Understanding Japan at the Peak of Its Power

Many of the tendencies highlighted by Bronfenbrenner in his 1956 and 1967 papers were confirmed in his 1983 presidential speech for the History of Economics Society, "Western Economics Transplanted to Japan". The importance of Bronfenbrenner's speech can be fully understood if we consider that the attention of the Western countries toward Japan was very different in the 1980s with respect to the 1960s.

The reason for this increased attention was Japan's extraordinary economic performance. The main feature of Japanese economics of the years between the 1960s and 1980s was economic growth, and the Western countries realized with a mix of fear and admiration how economically powerful Japan was. Japanese incomes doubled from 1960 to 1967 and Japan's GNP became the second biggest after the United States in 1968. This race of economic growth was temporarily interrupted by the oil shock of 1973, in 1974 Japan experienced the first negative growth rate since the war. However, Japan recovered faster than other countries. Apart from a small slump following a second and lesser oil shock in 1979, it was to maintain this average well beyond the 1970s. This rapid recovery was another source of respect from the West, and seemed to suggest that Japan, as an economic power, was invincible. Japan's economy, already the second largest in the world, continued to grow at around 4% during the early 1980s and its trade surplus with America, which had started to develop since the late 1970s, became massive.

The prolonged economic growth caused anti-Japanese feeling around the world. They were really acute especially in the 1970s and 1980s, when it seemed that Japan was “buying the world”. The West felt defeated by a nation that was reduced to ashes not too long ago.

If the post-war Japanese economists were interested in development economics and the economists of the economic boom in the causes of economic growth, the economists after the 1970s had to deal with the causes of economic crises. The confidence in the strategies of modern economists began to crumble, as Japan did not experience the rate of growth of the 1960s. The Keynesian policies were particularly criticized. After the yen revaluation of the 1970-1971 the government approved some budget measures that resulted in a severe inflation. Increasing demand for welfare and military spending with declining growth rates led to budget deficits. Despite this situation, the authority of economists of the previous generation was not undermined. It was only in the mid-1970s that the young generation of economists started to attack the growth theories of the 1960s. In particular, monetarist ideas started to appear in books and magazines, both by academics and bureaucrats. Japan was also undergoing a profound intellectual crisis that went well beyond the boundaries of the modern economics. Part of this crisis was related to the gap between academic economics and the problems of everyday life.

The economic debate after the 1970s and particularly in the 1980s was more focused on subjects not related to everyday life of people, like trade surpluses or budget deficits. “Keizai [economics], Takeuchi suggests, has become more and more obsessed with keikoku (administering the nation), and less and less concerned with Saimin (relieving the sufferings of the people).” (Takeuchi 1986:44 quoted in Morris- Suzuki 1989; 170).

Bronfenbrenner delivered his speech to the History of Economics Society in a time of a great debate and public attention about Japan. He had to explain the intellectual economic environment of a nation that was a puzzle for the Western public, even for the most educated scholars. Moreover, in the

1970s and 1980s a certain stereotyped image of Japan developed in the West, mostly because Japan's economic growth colonized the newspapers and people wanted to know more about this country.

In this perspective, Bronfenbrenner's speech acquires a huge importance, because it was not only another window to the East, but it was the explanation of what was going on in the economic environment in a mysterious yet important country.

He started with a short history of the Japanese economic thought, from the first introduction of the Western knowledge in the Meiji era to the post-WWII period, highlighting the peculiarities of the Western economic knowledge transplanted to Japan. He then analyzed the impact that the profound changes in the social and economic context caused by the economic growth had on the Japanese economic thought. In his opinion, those changes made the Japanese economic thought move toward what he called "convergence", i.e. convergence toward American or Western European mainstream. This convergence was already on the way when he first wrote "The State of Japanese Economics", but he admitted that he failed to recognize this phenomenon. The effect of the convergence is that the economic specializations started to be similar to American reality.

Bronfenbrenner presented the Japanese economic thought as characterized by three features that may seem strange for a "Western visitor": first, "the rise and persistence of a complex or syndrome of *honyaku-gakumon* (translation as scholarship), *ikkoku-ichijo* (over-specialization in the works of a single Western authority) and the routine re-testing of standard economic propositions on the Japanese scene. I propose to call this complex or syndrome 'prewar Japanese economics,' although it was never by any means the whole story." (Bronfenbrenner 1983; 6).

Matsuura Tamotsu commented on this point that Bronfenbrenner failed to understand that the translation of Western economic literature was an important part of the academic curriculum and that it was deeply rooted in Japanese intellectual history. For Bronfenbrenner it was just a part of the over-specialization of the Japanese economists, but in fact it was an essential part of the transmission of Western knowledge to Japan. (Matsuura 1999; 507). This view is confirmed by Takenaga (2016; 8), who highlighted how the import of economic literature remained an essential aspect of Japanese economics

until recent times and led also to interesting differences among private and public universities with respect to the kind of literature imported. The literature translated had an important role in determining the kind of research that was carried on by the university and the single researcher.

Second, there was what he called “postwar Japanese economics”, i.e. the overspecialization in ultra-rigorous applied mathematics and complex econometrics, mainly focused in producing disaggregated models of the Japanese economy. This brought to a stagnation in the research, that is in contrast with the dynamism of the economy. This stagnation was confirmed also by Matsuura, who stated that “I think that in Japan there a scientific crisis in the economic field, caused by the difficulty to face reality. We have to find a new system of theories to overcome those difficulties.” (Matsuura 1972; 502)⁸⁵

Third, “The continued flourishing of Marxian economics (in various versions) on a "market for ideas" which is at least as free and competitive as the American.” (Bronfenbrenner 1983; 6). This feature in particular was puzzling for Bronfenbrenner, since a better “market of ideas” should have wiped away the obsolete Marxists positions. However, as we have seen in the previous sections, the Marxian and Marxist tradition was more complex and its survival depended mainly by the fact that it was better taught than modern economics. What was the real impact of the convergence then? The most evident result was that despite the tendency of over-mathematization, the specializations of economists were about to reach the American one and economists started to work on applied issues as well.

Six leaders - and there are many more - in the movement of economics to the applicable but more-than-"journalistic" are Kanamori Hisao, Komiya Ryutaro, Ohkawa Kazushi, Shinohara Miyohai, Tsuru Shigeto, and Yasuba Yasukichi; I have picked these names from Japan's most prestigious universities, and research institutes. [...] They work in a variety of fields of both pure and applied economics. They move in and out of Academe,

⁸⁵ My translation.

and from one university to another, making the university system less inbred and less remote from practical problems. One of them (Dr. Tsuru) defies identification as either a pure Marxist or a pure modern economist, being equally at home in both environments.

[Bronfenbrenner 1983; 16]

Bronfenbrenner remained very skeptical with regard to Japanese Marxism: for him, in Japan “every economist knows elementary Marxism, but many Marxists take pride in knowing nothing more. (Modern economics? Just a set of classroom exercises in mathematics!)” (Bronfenbrenner 1983; 17). The potential to develop Japanese economics was in modern economists, because Marxism had proved to be a sterile and dead faction, at least in Japan.

One of the most important changes, according to Bronfenbrenner, was the role of the economists outside academia. As he pointed out following Komiya Ryutaro and Yamamoto Kozo, the Japanese language did not include a word for the practicing economist and that no major Japanese government post is occupied by an academic economist (*keizai-gakusha*)⁸⁶. There was not a specific career for economists in the government and most of the lawmakers were law graduates. “Lacking an indigenous expression meaning ‘economic practitioner,’ the Japanese use the English word, written as *ekonomisuto* and, as in Britain, the title of an economic periodical.” (Bronfenbrenner 1983; 17). Graduates who begin a career in the government would receive only an intensive course in theoretical economics, taught by university professors. Those employees were not professional economists, “but the best ones combine gifted-amateur or semi-pro status in economics with equal or even superior competence in some other field. They are not professional economists; neither was Smith or Ricardo or even Mill.” (Bronfenbrenner 1983; 17-18).

This paper is an adequate conclusion to the Japanese trilogy, since it concluded and enriched the analysis of the previous papers. The picture of Japanese economic thought that the audience

⁸⁶ Komiya Ryutaro (1928) is a Japanese economist, professor at the University of Tokyo.

Yamamoto Kozo (1948) is a Japanese economist and politician. He is one of the fathers of the Abenomics, the economic policy of launched by the former Prime Minister of Japan Abe Shinzo.

received was one of a nation that learned a lot from the West, but struggled to find its own voice in the economic environment. He challenged the image of the “invincible Japan”, showing the achievements of Japanese economics, but also the crisis.

A Necessary Attempt

“The economic thought of every country is necessarily rooted in its intellectual history, so we had to learn about that as well. This requires a great deal of effort for a foreign scholar facing language and conceptual barriers.” (Matsuura 1999; 506). The task undertaken by Bronfenbrenner was not easy: Japanese economic thought, not being an immediate subject of interest by scholars, was already an odd subject to write about, not to mention the difficulties of understanding a different culture. Bronfenbrenner in this sense was a pioneer in introducing the Japanese economic thought to the Western readers. He gave a dense but accurate account of the development of the Japanese economic thought after the Second World War and his papers were one of the few windows to the development of economics in Japan. More important, they still remain a point of reference in the literature. It is always difficult to study another country, especially when its culture is completely different from our mother country. Bronfenbrenner, with his manifold personality and curiosity, succeeded in giving an account of Japanese economic reality that was fair and with only few drawbacks. He treasured his exceptional experience as an economist proficient in Japanese to observe and study not only the development of economics in Japan, but how economics changed following the Japanese economic boom.

Matsuura Tamotsu, who met Bronfenbrenner and worked with him, recognized Bronfenbrenner’s love and interest for Japan, but he also recognized that he could not overcome some cultural differences that prevented him from fully grasping the reality of the Japanese economic thought. (Matsuura 1999; 506). One of the best examples is the *bonyaku-gakumon* tradition: it was vital for Japanese scholars, but Bronfenbrenner considered it just a waste of time. His major bias was toward

Marxism in Japan, which was indeed more complex than Bronfenbrenner described in his papers. He described only a part of the Marxian tradition and neglected all the nuances that were indeed present. Moreover, some practices which Bronfenbrenner considered strange or outdated were in fact part of the Japanese cultural tradition and fundamental for the diffusion of economic knowledge. Despite those shortcomings, his papers remain an important source of knowledge of Japanese economic thought for the Western readers and a great testimony of how economic ideas circulate and evolve.

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