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# Economic Thought During Japan's Meiji Era

Working Paper No. 24

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Prepared for Professor John Hall

**Abstract:** This inquiry seeks to establish that it was Fukuzawa Yukichi who played a key role in developing ideas that assisted the modernization of Japan, leading up to and especially after the Meiji Reformation of 1868. In *An Outline of a Theory of Civilization* [1875], Fukuzawa advances a clear understanding that Japan should make the shift from a *producer nation* to a *manufacturer nation*, and without having to bear the costs of importing vast sums of foreign capital. Under suspicion that the 250 year rule of the *Bakufu* left the Japanese economy stagnant and weak, Fukuzawa asserted that the only means for securing national independence against pressures of western colonization was the rapid dissemination of western knowledge. In understanding the consequences of the separation of the *productive* and *unproductive classes* and the subsequent split in the accumulation and expenditure of wealth, Fukuzawa argues in favor of a more liberal Japanese society and economy, but while also remaining wary of predatory, western colonial trade practices.

**Journal of Economic Literature Classification Codes:** B12, B31, N25, P11

**Key Words:** Fukuzawa Yukichi, imbalance of power, Japan,  
Meiji Restoration, national independence

This inquiry seeks to establish the importance of the contributions of Fukuzawa Yukichi in the economic history of Japan in the decades leading up to and after the Meiji Reformation that started in 1868. It was Fukuzawa who located, translated, and disseminated key economic concepts that would play a role in assisting Japan in achieving economic parity with western nations. It was at the age of twenty that Fukuzawa began the journey that would lead him to become Japan's primary interpreter of the Western ideas. Upon leaving his birthplace of Nakatsu under the guise of studying gunnery, Fukuzawa travelled to Nagasaki to begin his study of *Ran-gaku*, "Dutch learning." Making gains primarily through translating imported literature, Fukuzawa became fluent in Dutch while also becoming familiar with a wide array of foreign concepts. Upon the arrival of the English at Edo, many *Ran-gaku* students realized Dutch to be relatively useless. Fukuzawa realigned his efforts towards mastering the English language. Upon proving his abilities, Fukuzawa was selected by the Tokugawa Shogunate to join the first mission to America in 1859, and subsequently to Europe in 1862 as an English translator. During his time in the West, Fukuzawa came under the influence of the Enlightenment and began to speak and write about natural laws and the equality shared between all men. Upon his return, Fukuzawa released multiple volumes of books in a series named *Seiyō Jijō*, "Things Western" and came to recognize and express the necessity of the Japanese to develop along the lines of western nations in order to secure their national independence. Advances in education and the

understanding of western learning, customs and institutions were deemed as key for Japan's economic development along the lines of the West. It was by means of his interpretive literature of both Japanese and western economic history and thought that Fukuzawa Yukichi advanced key economic ideas that influenced modernization during Japan's Meiji Era.

### **Japan's Level of Economic Development in 1875**

Fukuzawa saw the feudal system of Tokugawa Japan as his mortal enemy. Sharing this in common with his late father, he felt "honor bound" to destroy it. In his work *An Outline of a Theory of Civilization* [1875], Fukuzawa builds a case against the *Bakufu* (Shogunate) in which he explains how the Japanese economy was allowed to stagnate during the 250 years of Tokugawa peace. At the current state, Fukuzawa (2009, 175) describes what he terms as *the curse of the imbalance of power*, which he recognizes as existing at all levels of Japanese society. This imbalance exists in literally every aspect of society: between parents and children, husbands and wives, teachers and students, and between the government and its subjects. In his view, there is a never ending cycle of oppression between person A to person B, person B to C, and C to A. To state Fukuzawa's contempt for the feudal system and government as revolutionary—particularly during the rule of the Bakufu—would be an understatement. Indeed, he specifically refers to government as not only one of the many sources of despotism, but as a gathering place for

despots. It is this imbalance of power and the subsequent separation and delegation of duties, that Fukuzawa sees as the source for the *economic tuberculosis* of the *Edo Period*, the rule of the Bakufu.

After his study of western economic theory, Fukuzawa (2009, 210-212) comes to the conclusion that there are two universal principles of economics that apply to any country at any time. The first principle states that there exists a fundamental and indivisible relationship between the expenditure and accumulation of wealth. According to this view, “accumulation of wealth is the art of expenditure, and expenditure is the means of accumulation.” Fukuzawa likens this relationship to the sewing of seeds in springtime to reap the benefits in the fall.

Similarly, expenditure may be equally useless, such as in the pursuit of temporary sensual appetites. There exists then, both meritorious and wasteful ways to use expenditure, and this is measured by counting the accumulation which follows. Neither is the total the means of, nor the end of, the other: accumulation and expenditure are both equally valuable. The goal of economics, therefore, is to increase accumulation with respect to expenditure in a way that increases the overall wealth of a nation. A country which can succeed at furthering accumulation and expenditure in harmony may be referred to as a rich country. Furthermore, Fukuzawa assumes that most individuals are not able to strike this balance: some can accumulate but cannot successfully spend while other can spend but cannot successfully accumulate. According to this principle, Fukuzawa (2009, 212-215)

states that an entity who lays claimant to wealth, in order to operate that wealth in a fashion that may be considered profitable, must possess knowledge that is sufficient and proportionate to that amount of wealth. Those who do not possess this knowledge are sure to lose their wealth, such as is the case with a gambler or an arrogant prodigal son. By using and applying these two principles to Japan, Fukuzawa attempts to explain its economic stagnation.

Due in part to Confucian teachings, and also drawing from orthodox, Japanese beliefs, farmers were seen as a class higher than either the merchant or artisan classes in the Japanese hierarchical structure. Fukuzawa (2009, 213) explains that, as common thinking goes, the life of the merchant or artisan was one of ease, free from taxation—for the most part. The existence of these classes is considered unnatural to the Japanese. Meanwhile, the farmer who is the lifeblood and foundation of the feudal system toils and is taxed heavily in order to feed the country with nearly nothing in return. The common belief is to attribute the artisan and merchant classes as the oppressor, and the farmer as the oppressed. Fukuzawa, however, finds this assessment to be incorrect.

Indeed, the artisans and merchants are taxed less and more so indirectly, but the sheer number of their class and the economic competition within the class as well as their subjection to the state makes their lives no bit easier than that of the farmer. In fact, he argues, their efforts contribute to the national accumulation of wealth in various ways. The true division, which Fukuzawa believes the farmers

should notice, is between the rulers and the ruled, or the *productive* and *non-productive* classes. The fact that the second subset of classes—the *Samurai*, *Daimyo*, *Shogun*, and *Emperor*—are unproductive by definition, means that they lack the knowledge of the accumulation of wealth. In this view, the productive classes accumulate the wealth while the unproductive classes spend it, violating Fukuzawa's second fundamental economic principle. Like a child handling a knife, the Bakufu dangerously wielded one side of the economic equation while being completely unaware of the other.

Around the countryside of Japan today, visitors and tourists can view many masterful monuments and shrines and leave believing that Japan was the home of a flourishing of Buddhism and Shinto. Fukuzawa (2009, 217) takes away the gross incompetence of a government who lived blissfully unaware of the toil from where their wealth came. For 250 years, expenditure was treated without respect to accumulation and wealth was spent frivolously on inconsequential construction while the productive classes stagnated, receiving funds for public works only when the ruling class sensed destabilizing unrest. Like the two halves of one brain split evenly down the middle, there existed no communication or harmony between the accumulation and expenditure of wealth. This stagnation, or economic tuberculosis, left Japan weak and exposed when Commodore Perry arrived in Edo Bay in 1853 as the first act in a chain of events that would have led to Japan's colonization.

## **Learning and Adapting Key Ideas from the West**

Once Fukuzawa formed a clear perception of Japan as backwards, he set out to educate his countrymen in the ways of the West. In the assessment of Fukuzawa (2009, 59-60), Japan was stuck in a semi-civilized state, at least when compared to the civilized, western nations. By this he suggests that the ignorant and sinful are not allowed to act upon their stupidity and sins in the West, while the knowledgeable and virtuous are not allowed to express themselves in the East. At the core of this hindrance in the East is the extent to which Confucianism had taken hold. Throughout the rule of the Shogunate, the merchant class had always been at the very bottom of the social hierarchy. In general, the Japanese looked upon merchants and the act of trade itself with disdain. In order to overcome this Confucian aspect of Japan, Fukuzawa argues the necessary secular nature of economic modernity and explains key economic concepts in a context that Japanese could readily grasp and understand.

First and foremost in convincing the Japanese to inherit the modern way of thinking was to emphasize the strengths of knowledge compared to that of virtue. Simply put, Fukuzawa (2009, 117) argues that no amount of studying the Confucian *Analects* will prepare a Japanese to create a steam engine or a telegraph, or to run a government or economic system effectively. Virtuosity, on an individual level, may be fabricated but knowledge may not. The results of Adam

Smith and James Watt were the products of lengthy intellectual formulation rather than instantaneous enlightenment. This is not to say necessarily that Confucianism is a hindrance or that Christianity is an advantage in terms of modernization, they both have their uses. Indeed, Fukuzawa (2009, 123) asserts that any religious belief should simply not take complete precedence over the proliferation of knowledge. Dedication to the *Analects* or the *Bible* is the same as developing the brain at the cost of the use of the arms. Finally, even though the West may serve as a contemporary model of modernity, it is not the end goal. Fukuzawa (2007, 402) writes that although the West may be modern now, their civilization is still strife with human folly such as war. There appears to be wiggle room in the cultural adaptation of modernity, perhaps even enough for modernity in Japanese style.

Throughout his various writings, Fukuzawa often makes subtle mentions of key economic ideas as part of a larger context or narrative. In an essay discussing natural laws, Fukuzawa (2007, 381-382) makes clear in his belief that economics, as a discipline, exists to discover and explain natural laws rather than to create any sort of man-made laws. Similar to the relation of geology to geography, or pathology to medicine, economics serves to explain natural occurrences in the world. One such occurrence, he argues, is the fact that private property exists as a natural phenomenon. Just as a bird builds its nest with its own labor, a man build his home with his own labor, and both are entitled to the ownership of their labor and the fruits thereof. Additionally, rent serves as interest of the investment made

on the development of land, and its value is calculated by nature “just like the downward flow of water.” It appears that many of Fukuzawa’s economic beliefs are inherited directly from the enlightenment. Indeed, he specifically mentions Adam Smith many times throughout his works. Fukuzawa (2009, 107) clarifies that any man who studies and puts into practice the ideas of any intellectual, such as Watt or Smith, becomes one in the same with that intellectual.

In what appears to be a mere repackaging of the beliefs of Smith, Fukuzawa (2009, 108) demonstrates the labor theory of value with the example of a large iron pot and a steam engine. Truthfully, he argues, no person would value a pot higher than a steam engine even if the amount of iron invested into each were identical. He states that it is the *degree of craftsmanship* invested into each good that determines their value. Additionally, craftsmanship invested into raw ore increases its value. Fukuzawa takes this thought even further, however, by tying in his argument of knowledge and virtue, mentioned earlier. He likens raw ore to virtue and craftsmanship to knowledge. In this sense, virtue by itself is valueless. Yet the value of what may be produced from it is determined entirely by knowledge.

Further expressing the necessity of developing knowledge rather than mere virtue, Fukuzawa introduces the concept of opportunity cost. Fukuzawa (2009, 126-129) explains this concept while developing his argument for knowledge. It is not, he argues, that virtue is unnecessary, but rather that after taking stock of both

virtue and knowledge, it is determined that—at the current moment—the need for additional knowledge is more urgent. When searching for two goods, it is not necessarily about choosing a preference of one over another, but rather a determination of the urgency of one good over another.

All of this is not to suggest that the West must be imitated. For in fact there are considerable aspects of western society which Fukuzawa seeks to avoid. One such aspect is what one may consider as progress, namely, the profit motive. In reference to John Stuart Mill, Fukuzawa (2009, 56) questions profit as the key aim and ultimate goal, or the optimal condition. In developing his criticisms, Fukuzawa looks to the United States. Americans, he claims “spend their lives in the feverish pursuit of money.” Further, the women serve merely to hunt for high dollar earners. It cannot be considered an ideal society and “suffices to give us some ideas of at least one undesirable aspect of the American character.”

### ***Fukoku Kyōhei: Maintenance of National Independence***

Above all, the primary purpose of civilization, in the view of Fukuzawa, is to preserve national independence. It is important to note that Fukuzawa is not the first Japanese to be concerned with independence. Indeed, from the moment Commodore Perry arrived on the shores of Japan, the call for *Jōi* ,“expel the barbarians,” rang across the island nation. Fukuzawa (2009, 241-249) determines that the Japanese have little choice but to accept the presence of foreign trade. In

his mind, Perry essentially stated that “if you don’t do business with me, you’ll be doing business with the undertaker.” In examining the seeming inevitability of colonization, Fukuzawa makes clear to his audience the maritime history of the West. He points out that North America has not always belonged to Europeans, and that the role of “master and guest” on the continent have been flipped with the Native Americans. Certainly, in every place the Europeans touch, nature is essentially destroyed, and entire human populations have been eradicated. Fukuzawa is indeed fearful that the Japanese nation faces possible extinction.

Fear should not be misplaced, however. Nonsensical actions taken on behalf of Jōi radicals only serve to make impending colonization come more rapidly. Fukuzawa (2009, 252-253) condemns the incredible number of assassinations of foreigners as the wicked victims of a people stricken by the plague. Additionally, those who see the disparity of power between Japan and the West as merely a problem of military inferiority are incorrect in their view. For it is not simply the one thousand warships of England that Japan has to fear. Fukuzawa deduces that behind one thousand warships exists ten thousand merchant ships. Further, ten thousand merchant ships necessitates one hundred thousand navigators, and hence naval science. Behind naval science is a society with many professors, merchants, and laws which enables such successful trade. Here inlies Fukuzawa’s contention with the popular phrase of *fukoku kyōhei*, suggesting the importance of maintaining national independence by correlating “rich nation, strong army.” For although

military might is important in order to combat foreign military might, it is not enough to overcome the threat of foreign debt.

Beyond mere military domination, it is of note that it is merely a single method of colonization. Fukuzawa (2009, 237-241) places credence on wisdom when it comes to trading with the West. Westerners who arrive on the shores of Japan, he notes, do not travel the great distance for the beauty of Japan itself, but for the tea and raw silk which it produces. It is upon this idea that Fukuzawa differentiates between *manufacturer nations* and *producer nations*. He argues that Japan, being a producer nation, extracts its natural resources for trade with western nations, that in turn manufacture and repackage the resources for sale back to Japan. Because the value of goods depends entirely on the amount of human craftsmanship invested, the wealth of nations is determined not by the quantity of its natural resources, but primarily by its ability to manufacture goods. It is by this logic that if Japan is to remain independent—and therefore survive—it cannot do so by remaining a producer nation. The path towards becoming a manufacturer nation, Fukuzawa continues, must absolutely not be built upon foreign capital or investment. To borrow from western nations is to pay interest to foreign nations, or in other words to “make the rich richer and the poor poorer.” Fukuzawa notes that colonizers desire to find a weak nation, lacking in capital but rich in manpower, which they may then exploit by loaning excess national capital at excessive rates of interest. By doing so the colonizer reaps profit with minimal labor investment and

commands the native economy with coin instead of men. Fukuzawa (2009, 249) ends his *Outline of a Theory of Civilization* by warning that Japanese civilization is useless without independence. As Fukuzawa's advanced his ideas and promoted his causes for advancing Japan during the Meiji era, Japan's independence remained paramount.

## **Conclusion**

This inquiry has sought to establish that indeed Fukuzawa Yukichi located, translated, and disseminated key economic concepts that would serve to put Japan on economic parity with the western nations. In his analysis of Japan and western economic thought, Fukuzawa was able to convince many Japanese that the old hierarchical system caused severe economic stagnation and that the western knowledge could be relied upon in order to preserve national independence. He argued that the first step towards economic modernization was the synchronization of expenditure with the accumulation of wealth. This could be accomplished by eliminating the dated hierarchical system of Japan that had meant that the unproductive classes that spent the nation's wealth were unaware of the manner in which it was accumulated by the productive classes. Because this balance of expenditure and accumulation had not been understood over the centuries, Japan would need to "catch up" with the West by the diffusion of western knowledge. In his attempt to make the Japanese familiar with western economic concepts such as

“opportunity cost” and the “labor theory of value”, Fukuzawa ties these and other borrowed concepts in with a larger argument for the need to develop knowledge rather than virtue; as the East—so powerfully influenced by the Confucian tradition—had done for so long. As many Japanese loathed the concept of imitating the West, Fukuzawa remained diligent, reminding his readers that the cost of not imitating or emulating would render Japan as pawns of the West. Rather than simply trying to expel all foreigners, or to merely build an army capable of combating them, Fukuzawa argued that Japan would have to undertake a shift that would be felt at all levels of society. This shift or change would be that of transitioning from a *producer* into a *manufacturer* nation.

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