This book, which will construct a relationship between the economy and morality, is intended to provide a systematic approach to economic ethics. It considers two fundamental questions: (1) whether the economy is justified by morality and (2) whether morality, in turn, is supported by the economy. Since under the rule of modernism in academe, economics and ethics are conceived as two virtual, unrelated worlds, these questions require careful consideration lest they threaten the foundations of the two disciplines. I explore this problem along two dimensions: values and institutions. This approach will permit an analysis of the nature of economic ethics, which differs from general ethics in that it also deals with the real processes of the economy.

Although there have been numerous attempts to address the relationship between the economy and morality, many (except for some excellent work in economic philosophy) are no more than emotional statements criticizing the unethical nature of the economy (and economics) or moralistic rationales for integrating altruism and self-interest. Since I believe that the economy cannot work without morality nor morality without the economy, it is necessary to grasp the close relationship between the economy and morality by returning to the foundations of economic and moral knowledge. Both economics and ethics are the superior disciplines that have pursued different subjects by different methods after a long history of moral science in which the two were united. It would be naïve if not irresponsible to suggest a sort of outright antithesis or synthesis between the economy and morality.

The approach used here is twofold. First, I seek a connection between the economy and morality on the dimension of values by reconstructing a coherent system of ethics that coordinates the 'right, good, and virtue.' In other words, I am trying to find those hidden philosophical roots that the grand trees of economics and ethics, so to speak, have developed under the ground. The result will be an economic philosophy constructed from an examination of the principles of contemporary ethical theory. I believe that this paradigm of economic philosophy will be acceptable to both economics and ethics. Second, based on this system of economic philosophy, I build a connection between the economy and morality on the dimension of institutions and present the philosophy of the welfare state. It is necessary to
introduce politics into this discussion, because on the institutional level the coordination of the economy and morality should not be left to the formation of practices through a spontaneous process alone but be mediated by the deliberate action of politics. Thus my conception of the welfare state is that of a tripartite public institution composed of capitalism, democracy, and social security.

The coordination of values and institutions with regard to the economy, politics, and society is both a theoretical and a practical challenge to contemporary social scientists. The reconstruction of the welfare state has been placed on the agenda of practical politics in developed countries, but this cannot be achieved by a makeshift social policy. Reform of the welfare state should be worked out as the reconstruction of capitalism, democracy, and social security as a whole by a good command of ethical theory and all functions of public institutions. The disciplines of social science in the appropriate combination should provide the basic direction for reform.

On the dimension of values, the book considers two key philosophical issues: efficiency versus justice and liberty versus excellence. Resolving the double antithesis of values will virtually constitute a connection between the economy and morality in terms of values; it will also provide the direction for reconstructing the economic, political, and social structure of the welfare state in terms of institutions.

In the discussion of liberty versus excellence, I present an argument that is apparently unfamiliar to contemporary economic thinking, because it emphasizes the importance of the ontological concept of being (or existence) in addition to the concepts of behavior (or act) and institution (or rule). Economists can understand that the ‘good’ regulates ‘act’ and the ‘right’ determines ‘rule,’ but there is no thought in economics that ‘virtue’ drives the ‘existence’ of human beings. It seems to me, however, that this idea was the starting point of economics. The Cambridge economist Alfred Marshall, who had high aspirations to contribute to the well-being of humankind, had once studied ethics. According to the memoir by John Maynard Keynes ([1924] 1972, pp. 200–201), Marshall, about the time he resolved to shift from ethics to economics, bought a small oil painting of a worn-out, grieving destitute person and called the man his patron saint. Looking at the portrait every day, he feared that his work in economics would degenerate into a theoretical exercise. He regarded the improvement of man’s abilities as the ultimate goal of future society. Arthur Cecil Pigou, one of Marshall’s disciples and the father of welfare economics, explained that economics began with ‘the social enthusiasm which revolts from the sordidness of mean streets and the joylessness of withered lives’ ([1920] 1932, p. 5). Both men regarded the starting point of economics as the perception of human ‘misery’ rather than sophisticated notions of ‘efficiency’
and ‘justice.’ This idea was not confined to the British tradition of economics. At his inaugural lecture at the University of Freiburg, Max Weber, the disciple of the German Historical School, had reminded us of the ultimate concern of economics as the ‘quality of the human beings’ rather than economic efficiency and social justice (Weber [1895] 1994, p. 15). However, because economists long lacked the academic concepts of virtue, excellence, and being, the ideas of thoughtful scholars remained mere prose and were buried between the lines in economic works.

I argue that the goals of the welfare state are first to relieve men and women from misery and then to raise them to excellence. Efficiency and justice, both familiar value concepts to economists, might be regarded as an auxiliary means to human excellence and flourishing. The reason for this is as follows. The point of the controversy surrounding efficiency versus justice is well known in economics. But the claim of justice alone over efficiency does not indicate a desirable state of an economy. Although justice is a strong ethical position, it only prescribes the allocation of rights. It is the function of excellence as a moral standard to evaluate the quality of an economy and the living conditions of human beings and to indicate the ultimate direction of society to which efficiency and justice are to be applied. Various romantic claims of quality of life and human flourishing must be justified by a normative theory of excellence. Thus justice and excellence impose effective constraints on the principles of economic freedom and market efficiency. The metaphor of ‘two banks of the river’ in the following introduction is based on this idea.

To study social science, knowledge of four areas, philosophy, politics, economics, and sociology (PPES) is required. This book is an attempt at such interdisciplinary research, and I hope that it will stimulate discussion among these disciplines to construct a paradigm of PPES through an inquiry into contemporary issues of the welfare state.

It was my good fortune to have as my copyeditor Mrs Stevie G. Champion, who did an excellent job of editing the English translation of my book on Joseph Alois Schumpeter, *Schumpeter and the Idea of Social Science* (Cambridge University Press, 1997); I am grateful to her for patiently assisting me again.