

On Logical and Air-Ethical Decisions

Finding a Link between
Shichihei Yamamoto and
John Maynard Keynes

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This paper is concerned with the relationship between the two main subjects in human sciences — economics and ethics. In historical perspectives, both of them were discussed as an inseparable identity in the times of the Ancient Greek philosopher Aristotle (384-322 BC) and much later intensively investigated by “the father of modern economics” Adam Smith (1723-1790) and his followers. When we entered into the twentieth century, however, a high degree of specialization has been required not only in national sciences but also in human sciences as well. In particular, since a highly mathematical general equilibrium theory was promoted by the “three MAD economists”, namely L.W. McKenzie (1919-2010), K. J. Arrow (1921-2017), and G. Debreu (1921-2004), the separation of economics from ethics had been too clear and definite to be interrupted by other “impure and applied subjects” including ethics, psychology and many others.

Long human history has taught us that any extreme measure cannot long forever and must be rolled back by its counter measure. A mathematical science such general equilibrium theory is likely to be sooner or later countered by a nonmathematical subject such as economic behavior theory. One of good examples for this change has been demonstrated by Economics Department, University of Rochester, in which although the mathematical group led by L. W. McKenzie once gained in strength first, has gradually being lost its momentum partly because of the rise of the psychological group promoted by R. H. Thaler.

In my opinion, economics and psychology should not constitute a problem with two

choices. In economic terms, they should not be exclusive substitutes, but rather good complements. In plain words, McKenzie and Thaler could coexist peacefully because the former was a famous professor and the latter was a cheerful graduate student at Rochester. I would like to say loudly that they were both the persons of good characters, thus nourishing a very good relationship throughout their lives. In this connection, the following motto of Ei-ichi Shibusawa (1916) is quite interesting:

Someone might ask me the question what the origin of wealth is all about. I would reply that it must be humanity and ethics. Unless the wealth is produced by right ethics, it cannot stand forever.

(Shibusawa, 1916)

As Shibusawa, being called the father of Japan capitalism, eloquently tells us, the combination of logics and ethics is essential for the healthy development of a human being. Moreover, quite recently, a more grand-design type of social science was promoted by Michio Morishima, who was once a general equilibrium theorist but changed his research area to applied and historical areas. So, it should be of much interest to see what kind of new results Morishima's new adventure into "symphonic social science" bring to the academia in the world.

The contents of this paper are as follows. The second section will discuss what the essayist Shichihei Yamamoto says regarding the effect of air ethic on human behavior. It is noted by Yamamoto that the unique specter called "air" has often possessed an absolute power over human actions in Japanese Society. The

third section will investigate a forgotten link between the Japanese essayist Yamamoto and the British economist Keynes. To find such an important link, it is absolutely necessary for us to carefully reread Keynes' *General Theory*. The fourth section will turn our attention to the beloved term "animal spirits", which has a very old history as far back to Ancient Greece physician-philosopher Aelius Galenus. To our surprise, it had not referred so often until the coming of the great economist J.M. Keynes in 1936. In his revolutionary book *The General Theory of Employment, Interest and Money*, he demonstrated that the existence of changeable animal spirits was the main cause of the instability of capitalism. Such a revolutionary idea by Keynes was further applied to economic development by his successor Joan Robinson and others. More recently, Akerlof and Shiller argued that the five psychological factors — confidence, fairness, corruption and bad faith, money illusion, and stories — were working behind for making animal spirits. The term "the beauty contest" introduced by Keynes was still further developed by Richard H. Thaler, a promoter of recent development of behavioral economics. The final sixth section will focus on Michio Morishima's proposal of the establishment of "symphonic social sciences". I hope that this paper per se will do some contribution to Morishima's grand proposal. We look forward to seeing the arrival of the second Keynes and the second Morishima in the near future.

II | Shichihei Yamamoto on Air Ethic

Let me ask the general reader the following simple question. Which really controls the

Japanese society, logics or air-ethics ? At first glance, rigid logics supporting laws and regulations seem to control the details of the people's behavior. Shichihei Yamamoto (1997), however, strongly raises a firm objection against such a superficial view, thus proposing his own view on the basis of what we may call "air-ethical decision." His opinion seems to be very powerful and persuadable to many Japanese people.

"Air" is the unique specter which is in possession of formidably absolute power over human actions. It might be identified as a sort of "superpower". During the Pacific War Period, it would unreasonably put into action the strategy which was clearly claimed as "totally mismanaged" and "factually misguided" by the elite group of the Japanese Navy". Moreover, even after such a strategy was carried out, no Navy elites would be able to explain the reason why they enforced it. Under the circumstances, all statistical data and analyses together with scientific researches and logical inquiries became totally useless waists for them. No matter how scientifically all of those logical investigations had been done beforehand, they would be vanished in vain in the presence of air ethic. Then, everything would be determined by the absolute "air".

(Yamamoto, 1997, p. 16)

Yamamoto says that "air" is the unique specter, or the super power, which possesses formidably absolute power over human actions. According to his favorable view, there are two different rules, or the double standards, under which we live in this world. They are "the standard of logical decision" and "the stan-

dard of air-ethical decisions." Yamamoto's view of the double standards in human action is very sharp and widely appealing to many Japanese people. It is true that under normal conditions, we have to rely on the established standard of logical decisions. Under non-normal or critical conditions, however, we are likely to show a marked tendency toward making air-ethical decisions. Indeed, when we really make earnest decisions, we have to rely on air-ethical decisions under which "the air or social atmosphere around us never allows us to do otherwise."¹⁾

Historically speaking, there have been a lot of instances of air-ethical decisions. Above all, Yamamoto (1907) is fond of referring to the war-time situation under which the top headquarter in Tokyo made the military order that the famous aircraft carrier Yamato should go to the sea for attacking against its formidable enemy. No doubt, Yamato was the greatest battleship ever built during the Pacific War, and even praised by the whole people as an "invincible battleship". Needless to say, ships were mere ships floating on the sea, being destined to be sunk by many repeated air attacks. According to normal reasoning, the head quarter had to acknowledge the eventual destiny of the battleship under very heavy attack. Facing a critical choice between reason and passion, however, human beings often depended too much on passion and over-optimism to be controlled by the specter of "air-ethic". As the final consequence, many Japanese people firmly yet oddly believed that the "divine wind" would sooner or later blow for their final victory.

Whether and when the great battleship Yamato should go to the sea was really the key question the military men of Japan asked. We

¹⁾ For details, see Yamamoto (1997). This is one of the best essays published in Japan.

should not forget, however, that there would exist another kind of question to ask at the final days of the Japan Empire. The related yet distinct question would be as follows. “We have put everything into the Pacific War so far. In spite of all our energy consumed thus far, however, the battle situations seem to be in a disadvantageous position. Now, it would be the best timing to say good-bye to the “glory of the great battleship Yamato”. Then, a sort of very special wind seemed to strongly blow for the glorious final moment of Yamato. In other words, all the navy men were cast in “the air or atmosphere for performing a funeral service for the glorious Yamato”.

In fact, there exist possibly many kinds of air. The point of importance is that at least one air blowing is good enough for us to make a critical decision right away. Once a strong wind or whirlpool is made, any person would easily get caught up in it, with no way to escape from.

Around eighty years have passed after the end of the Pacific War. The Yamamoto doctrine still hits the mark: Indeed, the specter named “air ethic” seems to be still as dominating in Japanese actions as ever. “Do not fail to understand the air or social atmosphere”. “It’s pity that my friend has always missed the air ethic.” Those conversations are still heard almost everyday. As will be more extensively discussed later, the great writer Yamamoto’s theory of air-ethic seems to be in close connection with the great economist Keynes’s theory of animal spirits. Surely, it is one of my aims of writing this paper that economics and psychology should be a sort of twin sisters in social sciences.²⁾

2) According to the historical document recorded in Tajima (2021-2023), Showa Emperor Hiroshito told to the interviewer as follows. “In order to prevent from starting the Pacific War, I [Emperor Hirohito] had done everything we could do. However, alas, my efforts came to naught. In short, I had been swallowed by the spirit of the times.” In short, at the start of the Pacific War, the

III J.M. Keynes on Air Ethic: His Forgotten Link to S. Yamamoto

3-1 Escaping a Blind Alley: Rereading *The General Theory*

I have been an economist for so long years — surely for more than sixty years. There have been ups and downs in such a long period. Indeed, there have been unaccountably many surprising events illustrated by the war-time memory of escaping from air bombing into underground shelters at Osaka, and the postwar experience of escaping from street demonstrations at Kobe for intensive graduate studies at Rochester, and so on. To my surprise, I was recently quite shocked to find a seemingly strange connection between British great economist J. M. Keynes and Japanese great essayist S. Yamamoto. At first appearance, they should be quite different in terms of nationality, productive years, and occupations. A more careful examination, however, would tell us that there should be a very close link between those two great persons. Surely, the main aim of this section is to shed new light on such an untold connection.

When I was an undergraduate student at Kobe, I bought a foreign student edition of Keynes’s monumental book *The General Theory of Employment, Interest and Money* at Maruzen Book Company at a discount price. Preface of the book began with the following advice from Keynes to the reader:

This book is chiefly addressed to my fellow economists. I hope that it will be intelligible to others.

(Keynes, 1936, Preface, p. v)

nonhuman specter called “air” overwhelmed even Emperor Showa as a human being.

Besides, it was quite remarkable to see that the very last page of Preface passionately ended with the following strong warning by Keynes:

The composition of this book has been for the author a long struggle of escape, and so must the reading of it be for most readers if the author's assault upon them is to be successful, — a struggle of escape from the habitual modes of thought and expression. The ideas which are here expressed so laboriously are extremely simple and should be obvious. The difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify, for those brought up as most of us have been, into every corner of our minds.

(Keynes, 1936, Preface, p. viii)

I myself felt sympathy for the victims of such a struggle of escape from the habitual modes of thought. I also had been labored to find a different kind of escape route from the painful memory of the war-time air attack together with the sad experience of the street demonstrations in the postwar period. Going abroad for graduate study seemed to be the only solution for a good escape from my miserable student life in Japan.

In retrospect, I should have been much more careful of reading great book *The General Theory* which was chiefly addressed to professional economists. I was then one of young amateur economists, so that the book was hardly intelligible to me. In particular, the first around 90 pages, in which the two terms "Introduction" and "Definitions and Ideas" were at large tediously discussed, did not serve well to a young and cheerful student like me. So,

the first impression of *The General Theory* was not so good to me: Indeed, I just felt that it was a badly written book in a hurry. When I proceeded to read it again and again, however, my rating for the book gradually changed from bad to good, and even to excellent. In fact, as soon as the first page of Chapter 12 entitled "The states of long-term expectations" was open, Keynes's mood marked the climax, inserting here and there a lot of impressive passages. Such a nicely surprise would reserve another subsection for a detailed explanation.

3-2 Finding a Link between S. Yamamoto and J. M. Keynes

For my long academic career, I have been reading *The General Theory* so many times. I had a bit overconfidence in the sense that my comprehension of it was too great to miss even a tiny point of Keynes's original ideas. Self-confidence could lead to overconfidence, however. To tell the truth, my recent rediscovery of a missing link between S. Yamamoto and J.M. Keynes gave me an indescribable shock. Let us pay close attention to the following rather long sentence:

It is safe to say that enterprise which depends on hopes stretching into the future benefits the community as a whole. But the individual initiative will only be adequate when reasonable calculation is supplemented and supported by animal spirits, so that the thought of ultimate loss which often overtakes pioneers, as experience undoubtedly tells us and them, is put aside as a healthy man puts aside the expectation of death.

This means, unfortunately, not only that slumps and depressions are exaggerated in degree, but that economic prosperity is excessively dependent on a political and social atmosphere which is congenial to the average business man.

(Keynes, 1936, p. 162)

Here, there exist the two important passages — “animal spirits” and “a political and social atmosphere”. Fortunately or unfortunately, the first passage “animal spirits” has drawn much attention first by Joan Robinson (1960, 1971), and more recently by G. A. Akerlof & R. J. Shiller (2009). The second passage “a political and social atmosphere”, however, has been rather neglected so far. In my opinion, such a non-symmetric treatment would cause a tragedy of misinterpretation of the Economics of Keynes. I would like to focus on the first passage here, leaving the second passage for the next subsection,

Keynes continues to push his own idea of the impact of political and social atmosphere on human decisions and economic prosperity.

We are merely reminding ourselves that human decisions affecting the future, whether personal or political or economic, cannot depend on strict mathematical expectations,

since the basis for making such calculations does not exist; and that it is our innate urge to activity which makes the wheels go around, our rational selves choosing between the alternatives as best we are able, calculating where we can, but often falling back for our motive on whim of sentiment or chance.

(Keynes, 1938, pp.162-163)

It is noted here that the expression “a political and social atmosphere” and the expression “our motive on whim of sentiment or chance” remind us of the famous Japanese expression “kuhki” or its English translation “air ethic”.

To sum up, the relationship between Shichihei Yamamoto and John Maynard Keynes is clearly demonstrated in Table 1. If we pay attention to the fact that S. Yamamoto is an essayist but not an economist, then it would be understandable that such a link has been long neglected until today. A more careful introspection, however, would lead us to believe that one of the two men, Yamamoto and Keynes, would rightly call back the other to our mind. As the actor named “007” was supposed to be alive twice in the famous spy movie, so a pair of the two great men would be alive twice together!

Table 1 Shichihei Yamamoto and John Maynard Keynes

Shichihei Yamamoto (Essayist)	John Maynard Keynes (Economist)
Logical Decision	Strict Mathematical Expectation
Air-Ethical Decision	Political & Social Atmosphere

A close examination of Table 1 tells us that Yamamoto refers to the two different kinds of decisions — logical decision and air-ethical decision. The first logical decision is largely based on strict mathematical expectation in the world of Keynes, duly corresponding to maximization of the expected sum of utilities of each possible outcome. The air-ethical decision is no less than the famous writer Yamamoto's own creature, thus clearly being much more important than the logical decision.

Here, I would like to stress that it was already yet less sharply pointed out as “atmosphere” by Keynes himself. Although the word “atmosphere” should be no different from the word “air” under the circumstances, the former word has been more frequently employed in the English literature than the last one. In Japan, the lightly sound word “air” or “air-ethic” has been more fondly employed by many people. No doubt, such a distinction would reflect very well the difference of national characters of the two island nations — Britain as the west end of Eurasia versus Japan as the east end of Eurasia. The difference between the two nations is so substantial from the viewpoints of geometry, race and culture.

IV | **Animal Spirits as a beloved word**

4-1 Aelius Galenus as An Old Pioneer

The term “animal spirits” has a very old history. It can be traced back as far as Aelius Galenus (129-216), or more simply Galen, who was a legendary physician-philosopher in Ancient Greece. His influence on anatomy,

physiology and philosophy remained strong in Europe and Middle East until the 16th century.

To begin with, we may ask the question why the adjective “animal” is specifically put before the noun “spirits”. In order to answer such a question, it is necessary to explain the work of the great man Galenus.

According to Galenus's theory, a human body is under control of the three different kinds of “pneuma” or spirits. They are (1) physical spirit in the brain system that controls physical motion, sense, and feeling; (2) vital spirit in the heart system that controls blood and body temperature; and (3) natural spirit in the liver system that controls nutrition absorption and metabolism. The first physical spirit in brain is especially related to the positive senses such as lively feeling and strong vigor that are common to every animals including a human being, so that it was later conspicuously named “animal spirit”.

While the term “animal spirit” (a singular form) or “animal spirits” (a plural form) has been conveniently used in the western world, it has been rather unfamiliar in Japan and the oriental world. In order to understand why it is so, I would like to point it out that the way of thinking itself which connects “animals” and “spirits” seems to be very foreign to the Japanese people. Indeed, in Japan, although dogs or cats do have strong likes and dislikes, they are hardly identified as the living creatures which possess special forms of spirits.

In Japan, there have been the different kinds of spirits that have nothing to do with “animal spirits”. Alternatively, the more delightful terms such as “Yamato spirit”, “Samurai spirit” and the like were fondly employed in the

Country of the Rising Sun. It is noted that Yamato is the old name of Japan.

“Yamato spirit” stands for the expression that means the spirit or wisdom peculiar to Japan, but not to foreign countries. Historically speaking, it was first used in *The Tales of the Genji* by the great novelist Lady Murasaki (973?-1014?) in the Aristocratic Heian period, in which the unique culture characteristic of Japan proper was largely appreciated. Later, in the Yedo period of Pre-modern Japan, a political nuance was gradually added to the original cultural implication, stressing the uniqueness of Japan compared with foreign countries.

For an instance, the compound term “Samurai spirit combined with Chinese talent” became fashionable in Feudal Japan. In the Meiji period, in which a variety of foreign goods and cultures flowed into Modern Japan, it had to be transformed into “Japanese spirit combined with Foreign talent.” Eiichi Shibusawa (1916), one of the founders of Japan capitalism, wrote his book *The Confucius analects and the calculation device*, in which his complex motto “Samurai spirit combined Merchant talent” was enthusiastically advocated. In a strictly class-based society in Europe, it would sound quite strange to combine “Samurai” and “Merchant” because they represent entirely different classes. In a more fluid society like Japan, there would not exist such very exclusive barriers between classes and religions.³⁾

4.2 J. M. Keynes and J. Robinson as Frontrunners

Although the term “animal spirits” was first invented by Aelius Galenus in Ancient Greece, it had not referred so often until the

coming of the great economist J. M. Keynes on the academic stage in 1936. In the revolutionary book *The General Theory of Employment, Interest and Money*, Keynes (1936) remarked as follows:

Even apart from the instability due to speculation, there is the instability due to the characteristic of human nature that a large proposition of our positive activities depend on spontaneous optimism rather than on a mathematical expectation, whether moral or hedonistic or economic. Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as a result of animal spirits — of a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities.

(Keynes, 1936, p. 160)

When I read this passage as a young student at Kobe, I had a shock as if a thunderbolt had just come from a clear sky. Then, I was confident that the passage truly constituted the core of what we could call “Keynesian revolution.” In his provocative book *On Keynesian Economics and the Economics of Keynes*, Axel Leijonhufvud (1966) bravely compared the following two similar yet different doctrines of economics. The first doctrine was called “Keynesian Economics” in which the intersection of the two curves — the IS and LM curves — was regarded as an equilibrium point, being very simple and popular in the U.S. Contrary to such an equilibrium approach, the second doctrine was named “the Economics of

3) For details, see Shibusawa (1916). In passing, it is quite interesting to see that Shibusawa’s motto “Samurai spirit combined with Merchant talent” has long been employed as the name of the Memorial Hall of Shiga University in Western Japan.

Keynes”, which was based on uncertainty, disequilibrium and instability, being claimed to be akin to the original Keynes form by Leijonhufvud himself.

What made those two doctrines so distinct can be abridged to the question how to deal with the enterprise’s investment function in the market economy. In this connection, it is important to pay attention to the following sharp remark by Keynes.

If the animal spirits are dimmed and the spontaneous optimism falters, leaving us to depend the nothing but a mathematical expectations, enterprise will fade and die; — though fears of loss may have a basis no more reasonable than hopes of profit had before.

(Keynes, 1936, p. 162)

According to Keynes, there are two rules of decision making. The first rule, saying that we entirely depend on mathematical expectations, has been adopted by many American economists. Keynes thinks that such a rigid rule cannot describe well the flexible and spontaneous behavior of the enterprise. The second rule is more flexible and dynamic than the first one, saying that the behavior of the enterprise is based not on mathematical expectations but rather on the non-mathematical and psychological animal spirits. Then, Keynes conclude his lively and long discussion on animal spirits as follows.

We should not conclude from this that everything depends on waves of irrational psychology. On the contrary, the state of long-term expectation is often steady, and,

when it is not, the other factors exert their compensating effects. We are merely reminding ourselves that human decisions affecting the future, whether personal or political or economic, cannot depend on strict mathematical expectation, since the basis for making such calculations does not exist; and that it is our innate urge to activity which makes go round, our rational selves choosing between the alternatives as best we are able, calculating where we can, but often falling back for our motive on whim or sentiment or chance.

(Keynes, 1936, pp. 162-163)

This concluding remark by Keynes is definitely important, indicating his basic position between rationality and irrationality. On the one hand, he did not want to say that everything depended on waves of irrational psychology. Otherwise, we would stray off into the wood of madness or know-nothingism. In short, he should be neither mad nor nihilistic. On the other hand, he was not in a position to say that everything could be interpreted by means of perfect rationality. He took a firm stand against the school of neo-classical or general equilibrium theory in which a consumer sought maximization of his utility subject to a certain income constraint, and the producer aimed to maximize profits subject to the technological constraint, and the total amount of demand equaled the total amount of supply for any good. The position of Keynes’s *the General Theory* was somewhere in the middle of those two extremes. More importantly, he preferred to stand in a clever position by introducing non-economic or psychological elements into the solid domain of

economic theory. His idea of focusing on animal spirits, spontaneous activity and air-ethics has opened up a new field of economic theory to all the researchers until the present day.

Keynes's idea of animal spirits and their economic applications was succeeded by a lot of economists around the world. Joan Robinson (1903-1983), being just ten years younger than J.M. Keynes, distinguished herself to become one of the most famous successors of Keynes. Remarkably, the relationship between Keynes and Joan Robinson was that of mentor and disciple, as was indicated below by their common friend R. F. Harrod (1951) :

Mrs. (Joan) Robinson, who afterwards achieved international fame, deserves mention as an ardent disciple of Keynes; she had high regard for intellectual powers.

(Harrod, 1951, p. 433)

As was mentioned above by Harrod, J. Robinson was very proud of incarnating the “genuine Keynesian”, thus strongly rejecting a group of the “bastard Keynesians” who relied on the simple IS-LM-type equilibrium and ignored the part of animal spirits in the dynamic economy.⁴⁾

Honestly speaking, J. Robinson, being the first female student at Cambridge, had to have a very hard time at Cambridge University in spite of her completion of economic studies. Cambridge University refused to grant any degrees to women until 1948. Shortly after her marriage to economics teacher Austin Robinson, she moved to India, shaping one of her research subjects on economic development. She agreed with Keynes that the enemy of economic development was basically lack of

spontaneous optimism and everlasting energy. Regarding this point, Keynes made the following remarks:

If the “animal spirits” flag, the economy will fall into stagnation, and thriftiness, far from helping to revive them, makes matter still worse by reducing the profitable market for production. It then becomes the duty of governments to substitute public investment for the failing activity of the private entrepreneur.

(Keynes, 1960, p. 90)

J. Robinson's advisable approach to economic development was further developed by K. K. Kurihara, a Japanese-American economist and later a Distinguished Professor at the State University of New York at Binghamton. Kurihara cleverly applied a macro-economic approach à la J. M. Keynes and J. Robinson to show why and how Japan had succeeded in the quick recovery and rapid growth after the defeat of the Pacific War. When I was introduced by Shigeo Minabe, my close friend, to meet Kurihara at his home at Binghamton, New York State, I became confident that Kurihara himself was a respectable person with a lot of animal spirits.⁵⁾

4.3 G. A. Akerlof and R. J. Shiller as Recent Promoters

In September 2009, I made a three-day stopover at Tokyo to attend a certain economic association meeting. When I dropped into a big bookstore near the Tokyo Station, a strange-looking English paperback, whose cover was filled with nine semi-human animals hanging on broken iron sticks, greeted my eye

4) For details, see Robinson (1960, 1964, 1971, 1973).

5) See Kurihara, K. K. *The Keynesian Theory of Economic Development*, Columbia Univ. Press, 1959. Personally speaking, I had a good memory with Kurihara, Minabe at New York Univ. at Binghamton in Summer 1972. Shigeo Minabe, a close friend of mine, was then writing his Ph.D. thesis under the direction of Kurihara.

so charmingly. It happened with surprising suddenness. Looking at the authors' names, I really got the second shock when I found them very familiar names of economists. They were nothing less than George A. Akerlof and R. J. Shiller (2009). Besides, this paperback was entitled *Animal Spirits*, which was so familiar to me as a consistent reader of economic books of Keynes. To my surprise, seventy-three long years had passed between the old book *General Theory* by the established economist J.M. Keynes and the recent book *Animal Spirits* by the two establishing economists G.A. Akerlof and R.J. Shiller.

I remembered Shakespeare's maxim very well: "All's well that ends well." So, I decided to begin reading the new book *Animal Sprits* back to front. It was really important for me to pay close attention on the following sentence in "Chapter 14 Conclusion" of the book.

Our theory of animal spirits provides an answer to a conundrum: Why did most of us utterly fail to foresee the current economic crisis? How can we understand this crisis when it seems to have come out of the blue

with no cause? Why have the measures to forestall it fallen short, while the economic authorities publicly express surprise at their ineffectiveness? We need to answer these questions if we are to feel any confidence in economic policy in the months to come.

(Akerlof & Shiller, 2009, p. 167)

Those conundrums given above in the quoted passage were quite fundamental and should be answered. According to Akerlof & Shiller, the key to find the correct answers could be found by perfect understanding of the term "animal spirits". In this respect, they compared Keynes' animal spirits with Adam Smith's invisible hand.

Just as Adam Smith's invisible hand is the keynote of classical economics, Keynes' animal spirits are the keynote to a different view of the economy — a view that explains the underlying instability of capitalism.

(Akerlof & Shiller, 2009, Preface, p. xxiii)

They wanted to identify the five psychological factors which could be seen in Table 2.

Table 2 Akerlof & Shiller on Five Psychological Factors and their Influences

Five psychological factors	Where and how each factor influences human expectations
(1) confidence	when the economy goes into recession, it is necessary to restore confidence
(2) fairness	consideration of fairness is a major motivator, being related to our ability to work effectively together
(3) corruption & bad faith	lower principles reflect a social osmosis, and corruption feeds back into more corruption
(4) money illusion	people see through the veil of inflation, and taking money illusion into account yields a different macroeconomics
(5) stories	changes in new stories affect the expectations for personal success in business

There were (1) confidence, (2) fairness, (3) corruption and bad faith, (4) money illusion, and (5) stories. Concerning the question where and how each of the factors influenced human expectations, we also see more detailed explanations in the right part of the table.

(1) The term “confidence” per se implies human behavior that goes beyond a rational approach to decision making. On the one hand, when the economy went into recession, we had to restore people’s confidence. On the other hand, the economy went up to boom, people’s confidence was likely to change to overconfidence. In this way, we could see the cycle of confidence in capitalism.

(2) The consideration of “fairness” was one of major motivators in many economic decisions and were related to our ability to ability to work effectively together. It was very regrettable to say that Current economics, however, had an ambiguous view of fair ness.⁶⁾

(3) Many kinds of corrupt and bad faith behavior arise from time to time, but memories of government crackdowns against corruption fade over time. Lower principles may reflect a social osmosis, and to our regret, corruptions feeds back into more corruption.

(4) The problem at issue is that people see through the veil of inflation, which gives us a different macroeconomics. As a result, people are easily led to a wrong policy implications. To be worse yet, such veil may not easily be recognizable.

(5) Much of human motivation comes from living through a story of our lives, a story that creates a framework nor motivation. Changes in new stories affect the expectations for personal success in business.

⁶⁾ In the capitalist economy, there have been no right answer to the question of “fairness”. Perhaps, this represents one of the greatest weaknesses of any type of economy. For a delicate balance between fairness and efficiency, see Sen. (2009).

Keeping those five factors in mind, Akerlof and Shiller come to the following conclusion regarding the impact of human psychology on economic activities.

Theoretical economists have been struggling ever since to make sense of how people handle such true uncertainty. As time goes by, their effects seem to be converging more and more on behavioral economics. Jack Welch’s phrase “straight from the gun” sums it up: decisions that matter for investment are intuitive rather than analytical. That intuition is a social process that follows the laws of psychology — and in particular, since group decisions are being made, social psychology.

(Akerlof & Shiller, 2009, p. 144)

After long struggling in economic jungles for many long years, Akerlof and Shiller are now in a position to get out of the dark maze to find a promising exit. They love the business man Jack Welch’s straight phrase “straight from the gun”, which seems to go a bit too far. They believe that investment decisions are intuitive rather than psychology. I myself think that although their conclusions are generally agreeable, it should be a bit too early to completely swallow.

4.4 J. M. Keynes and R. H. Thaler on the Beauty Contest

R. H. Thaler was a good friend of mine at Rochester. He was a lively person and liked by everybody, thus being friendly nicknamed “Mr. Going My Way”. He has published so many books and papers on behavior economics, a promising new subject in recent years. I am now very proud of Thaler, who is respectfully

admired by his colleagues as “Professor Nudge” at the University of Chicago.⁷⁾

Once, the great economist J. M. Keynes used the term “beauty contest” in order to describe the volatility of financial market. Around forty years later, my friend Richard Thaler reused it more effectively than Keynes. In this respect, Thaler, a respectable promoter of behavioral economics, seems to be a good successor of Keynes as well.

Keynes was known to get much excitement from the popular beauty contest that was often sponsored by a newspaper company, carefully considering the economic implications of the contest throughout his life. He claimed that professional investment may be likened to the news paper competitions in which the competitors are asked to pick up the six prettiest faces out of a hundred photographs. The prize is a handsome amount of money given to an elected beauty queen. Such a prize is awarded to the competitor whose choice most nearly corresponds to the average preferences of the competitors as a whole. As a result, each competitor tends to pick up, not those faces which he himself finds prettiest, but those which he thinks likeliest to catch the fancy of other competitors. Note that all of the competitors are likely to look at the problem from the same point of view. Then, interestingly enough, Keynes made the following remark:

It is not a case of choosing those which, to the best of one’s judgment, are really the prettiest, nor even those which average opinion genuinely thinks the prettiest, We have reached the third degree where we devote our intelligences to anticipating what average opinion expects the average opinion to

be. And there are some, I [namely, Keynes himself] believe, who practice the fourth, fifth and higher degrees.

(Keynes, 1936, p. 156)

To sum up, according to Keynes, the following sequence of predictions will be formed endlessly. As can be seen in Table 3, this is certainly an amazing result we can obtain in the beauty contest.⁸⁾

There are two kinds of prediction sequences. The first kind tells us that price levels go up, up, and up forever until their inescapable downturn. Between those two kinds, we may face the up-and-down cycles of the economy. This is certainly the boom aspect of the trade cycle. The second kind contrasts itself to the first one, telling that prices get down, down and down until its eventual upturn. This state indicates that we are in the recession of the economy. Between, those two kinds, it is true that we may face the up-and-down cycles of the economy. In conclusion, we can say that fortunately or unfortunately, the beauty contest may not be as beautiful as it should be.

While I was reading Thaler’s enjoyable book *Misbehaving; The Making of Behavioral Economics*, I noticed that he spared so much space to discuss the old topic “the beauty contest”, which was begun by Keynes in the 1930s but had been gradually less popular after the end of the Second World War. So, it was really delightful for me to see the following sentence by Thaler:

I [Thaler] believe Keynes’ beauty contest analogy remains an apt description of how financial markets work, as well as of the key

7) The terms “nudge” and “endowment effect” were effectively discussed in Thaler (2005).

8) See Sakai (2016), pp.1-21.

Table 3 J. M. Keynes on the Beauty Contest

Keynes on the infinite sequence of prediction			
each competitor	→ average opinion	→ average opinion	→ average opinion →
1st degree prediction	2nd degree	3rd degree	
	→ average opinion	→ average opinion	→ average opinion →
4th degree	5th degree	higher degrees of predictions	

role played by behavioral factors, though it may be a bit hard to get your head around. To understand the gist of his analogy, and appreciate its subtlety, try out this puzzle.

(Thaler, 2005, p. 211)

In this way, Thaler’s courageous journey of unlocking the mystery of Keynes’ beauty contest began starting beautifully. He attached a series of attractive names to the chapters of the latter half of his book *Misbehaving; The Making of Behavioral Economics*, which ironically demonstrated how misbehaving those names were. Let me write down some examples as follows:

Chapter 22: Does the Stick Market Over-react?

Chapter 23: The Reaction to Overreaction

Chapter 24: The Price Is Not Right

Chapter 25: The Battle of Closed-End Funds

Chapter 26: Fruit, Icebergs, and Negative Stock Prices

Because of the space constraint, I cannot get into the detailed contents of those attractive chapters. So, I have to be satisfied to merely quote the following paragraph.

My conclusion: the price is often wrong, and sometimes very wrong. Furthermore, when prices diverge from fundamental value by such wide margins, the misallocation of resources can be quite big.

(Thaler, 2005, p. 252)

And finally, the sensational economist Richard H. Thaler ends such a sensational book with the following passage:

All economics will be behavioral as it needs to be. And those who have been stubbornly clinging to an imaginary world that consists only of Econs will be waving a white flag, rather than an invisible hand.

(Thaler, 2005, p. 358)

V Michio Morishima on “Symphonic Social Sciences”: Final Remarks

Michio Morishima (1922-199+) distinguished himself to be one of the greatest economists in Japan. In his later years, he was very critical of purely mathematical approaches to economic science, and instead advocated the rise and development of multi-dimensional social sciences on the wide basis of economics, sociology, psychology, anthropology, and many other fields.

In 1999, he published a sensational book entitled *Why will Japan Collapse*, arousing many pros and cons around the world. In this book, he stressed the necessity of establishing what he could call “symphonic social sciences” in the near future. In this respect, he strongly remarked as follows:

This book [namely, *Why will Japan collapse*] represents my ambitious attempt to a sort of interdisciplinary and synthetic research in social sciences — namely, the research area I once called the “symphonic social sciences” — in which I did my best to combine and integrate as many fields including economics, sociology, education science, history science and other related fields as I could.

(Morishima, 1999, Appendix, p. 197)

Several years later, I was lucky to published a new book entitled *Keynes versus Frank Knight: How the Two Economics Giants Analyzed “The Age of Uncertainty”*. Then, Tetsuya Nosse, a close friend of Morishima, kindly sent a letter to me, saying that my book looked like a sort of Morishima’s “symphonic social science.” Honestly speaking, this had to be an overvaluation for sure, but I was then very pleased.⁹⁾

In my opinion, behavioral economics connecting economics with psychology can serve very well as the first important keystone to build the grand-scale “symphonic social science” that has been wholeheartedly proposed and promoted by my mentor Michio Morishima. I sincerely look forward to seeing the arrival of the second Morishima on the academic stage in the near future.

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⁹⁾ For details, see Sakai (1995). Just one year later, its enlarged English version, i.e. Sakai (1996), was fortunately published. I am so thankful to Nosse for his constant encouragement. Besides, I would like to take this occasion to say that Nosse (2007) impressed me so much, still remaining in my memory.

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On Logical and Air-Ethical Decisions

Finding a Link between Shichihei Yamamoto and John Maynard Keynes

Yasuhiro Sakai

This paper mainly discusses the relationship between economics and psychology. Those two subjects should not be exclusive subjects, but rather good complements. According to the Japanese essayist Shichihei Yamamoto, the unique specter called “air” has often possessed an absolute power over human action in Japanese society. In order to investigate a forgotten link between the noted literary man Yamamoto and the great economist Keynes, it is necessary to reread *The General Theory*. We note that although logical and air-ethic decisions should be separated, they have often been confused so far. We next turn our attention to the beloved term “animal spirits”, which was referred to Keynes and J. Robinson, and recently further developed by Akerlof and Shiller. The term “the beauty contest” was also introduced by Keynes by Keynes. Hopefully, this paper will do some contribution to Michio Morishima’s ambitious proposal of “symphonic social science”.

