SERIES: JAPANESE HISTORIANS OF ECONOMIC THOUGHT (1)

Noboru Kobayashi and His Study on the History of Economic Thought:
National and Historical Characters in the Making of Economics

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Abstract:
This paper explores the core of the late Noboru Kobayashi’s scholarship on the history of economic thought. Kobayashi’s main research topics are British mercantilism, Adam Smith and Friedlich List. For him, these topics are not independent subjects, but integrated into a single theme. By examining the national and historical characters of Britain’s and Germany’s economics, he tried to elucidate the structures of their economies from the viewpoint of the generation of modern productive powers. He called the unique methodology of his study the “heuristic reciprocation between the history of economic thought and economic history.” Kobayashi clarified that Smith’s misunderstanding of mercantilism caused a basic defect in his historical recognition of the formation of British capitalism, and that the foundation to List’s criticism of Smith arose from this defect.

The idiosyncratic points of Kobayashi’s study are as follows. First, from the viewpoint of the developing stages of economic theory, Steuart’s Principles and Smith’s Wealth of Nations are defined as a general theory of primitive accumulation and a system of capitalist accumulation, respectively. Second, a common feature among the above two works is the economics of affluence, and Steuart’s Principles can be defined as the first system of political economy. Third, Tucker’s gradual shift toward economic liberalism coexisted with his consistent political conservatism. Fourth, List’s relatively neglected work, Land System, is the key to understanding his social science. He proposed expansionistic policies toward Hungary and the Balkans to create middle-scale farms as a domestic market for the protected industrial power.

In his later years, worrying about the fact that postwar Japan “has amassed an enormous GNP at the cost of balance in its economy,” Kobayashi expressed the need for a reflection on contemporary economics that originated with Smith.

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I  Noboru Kobayashi’s Study on the History of Economic Thought

Professor Noboru Kobayashi (1916–2010) published his first essay, “On the Interpretation of Mercantilism,” in 1942, and his last, “The Reexamination of the East–West Debates on List,” in 2007. The former was published in a journal from the Fukushima High School of Commerce (the predecessor of Fukushima University), and the latter in one from the Japan Academy. Kobayashi was elected a member of the Japan Academy in 1992. His vast amount of scholarly work, unfailingly executed over a period of sixty years, predominantly concentrates on the history of economic thought. As the titles of the two essays suggest, Kobayashi’s research topics were threefold: first, mercantilism in Britain; second, German economist Friedrich List; and third, Adam Smith, who criticized mercantilism and was in turn criticized by List. However, Kobayashi did not see these topics as independent subjects. Conscripted and sent to Vietnam during the years of Japan’s invasion of Asian countries as the doomed outcome of Japan’s semifeudal capitalism, Kobayashi constantly asked himself how advanced British and backward German forms of capitalism respectively gave each country its unique historical character and how it formed each country’s economic structure.

Kobayashi pursued that single theme in his long career. His study comprises three different categories. First and second, Kobayashi tried to clarify the structures of Britain’s and Germany’s economies from the viewpoint of the generation of modern productive powers by examining the national and historical characters of their respective economies. Third, Kobayashi attempted to apply those analyses to understanding Japanese capitalism though he never directly addressed the problem. The majority of his research was finally collected in *Works of Noboru Kobayashi on the History of Economic Thought* (in Japanese. Miraisha, 1976–1989, 11 volumes) (hereinafter Works).1

The methodological character of Kobayashi’s study was, first, to grasp the nature of economic theories by means of socio-economic history; and second, to provide in turn a new viewpoint to the study of socio-economic history by way of economic theories. He named this method “heuristic reciprocation between history of economic thought and economic history.” He also called it “access to history of economic thought by way of economic history.”

Kobayashi’s studies on the economic history of Britain were mainly based on the work of Hisao Otsuka (1907–1996). One of Otsuka’s representative writings was *The Spirit of Capitalism: The Max Weber Thesis in an Economic Historical Perspective*, which was published in English in 1982. Otsuka identified the essence of the development of capitalism in Britain, first in the formation of yeomanry and independent producers during the fifteenth and sixteenth centuries, and second in their subsequent polarization into bourgeoisie and proletariat that further generated an affluent domestic market. Otsuka argued that it was not commercial capital in the cities, but the growth of small, rural industries into early manufacturers that led the way to British capitalism and to the Industrial Revolution. It was the accumulation of industrial capital based
upon the domestic market, not upon the overseas market that created mainstream capitalism in Britain. Following Otsuka, Kobayashi arrived at the conviction that the economic policies of British mercantilism and their supporting economic theories functioned as the driving force of what Karl Marx called the “primitive accumulation” of capital.

II Kobayashi on British Mercantilism

In Kobayashi’s view, when Adam Smith criticized the mercantile system in An Inquiry into the Nature and Causes of the Wealth of Nations (1776),2 as a system of regulation distorting the “system of natural liberty,” his targets were not only the early bullionism, which conflated wealth with money, but also the advocates of the theory of general balance of trade, represented by Thomas Mun, and the advocates of the theory of particular balance of trade. Mun supported the interests of the East India Company and criticized the latter, who were also advocates of protectionism for the interest of Britain’s domestic industries.

By contrast, Kobayashi strictly defined the role of mercantilism in Britain and invented the notion “mercantilism in the proper sense” (1954a, 402; 1964–65, 342 ff.). Unlike bullionism in Britain, Colbertisme in France, or Kameralistik as territorial monarchies’ fiscal policy in Germany prior to bourgeois revolutions, what Kobayashi called “mercantilism in the proper sense,” or parliamentary mercantilism after the Glorious Revolution in 1688, carried out a systematic policy for protecting and nurturing such national industries as the wool industry and for helping industrial capital steadily grow. As Kobayashi argues, the system of mercantilist policy in Britain consisted of, first, protectionism in the form of solidarity protectionism; second, the old colonial system; and third, the modern tax institution and domestic credit system.

The protectionism mentioned here focused on protecting Britain’s domestic market from overseas competitors, taking full advantage of their low wages. It was estimated that the wages in Britain at the time were twice as high as those in France. Kobayashi found his typical example in British Merchant (1721), edited by Charles King.3 British Merchant presented the maxim “[t]hat the Exportation of Manufactures is, in the highest degree, beneficial to a Nation,” and “[t]hat the Importation of such Goods as hinder the consumption of our own, or check the progress of any of our Manufactures, is a visible Disadvantage, and necessarily tends to the Ruin of multitudes of People” (vol. 1, 5–6). British Merchant stood in the belief that “the first and best market of Britain are the natives and inhabitants of Britain” (vol. 1, 165), and demanded a trade restriction against France at the same time, claiming that the domestic market would grow twenty times as large as the foreign market. This was also because France was not important as an export market for British wool, and the British trade balance was in a deficit against France (1950b, 362–63).

To avoid conceptual confusion about the term “mercantilism,” Kobayashi also employed the expression “economic theory in the period of primitive accumulation” from the viewpoint of the developing stages of economics. It held three meanings: first, a pre-Smithian grasp of the relationship be-
tween capital and labor centering around the idea of the independent producer; second, an emphasis on “industry” as the driving force of a growing economy with clear indications that it is free and independent labor and radically different from the premodern forced labor of slaves and serfs; and third, a standpoint of monetary analysis on market economy. In developing the expression “economic theory in the period of primitive accumulation,” Kobayashi made extensive scientific researches into a vast amount of economic literature in the period of primitive accumulation, and by far the most important authors were James Steuart and Josiah Tucker. This is because Kobayashi strongly believed that Wealth of Nations had two fundamental failures in the treatment of its predecessors. One was that Smith avoided squarely confronting James Steuart’s theory of monetary economy as an accomplished expression of mercantilism, and the other was Smith’s lack of awareness of being a successor of Josiah Tucker, a prominent forerunner of economic liberalism (1951a, 345).

1. James Steuart
In his long career, Kobayashi changed his understanding of the theoretical nature of James Steuart’s Principles of Political Economy (1767, hereinafter Principles) in relation to Wealth of Nations. This change was caused mainly by Kobayashi’s deepened and expanded recognition of the theoretical issues involved. His serious study on Steuart began in 1951. Kobayashi pointed out that John Maynard Keynes’ treatment of mercantilism in Chapter 23 of The General Theory of Employment, Interest and Money (1936) was limited, because he had not read Steuart. Keynes turned to Eli F. Heckscher’s Mercantilism (2 vols., English ed., 1935), which made no particular mention of Steuart. Nevertheless, Kobayashi knew that Steuart was the most important figure for Keynes’ theoretical system (1950a, 384–85), and therefore characterized Principles as “a theoretical system of mercantilism,” and what Karl Marx later called “the rational expression of the monetary and mercantile systems” by “the last mercantilist.” Kobayashi emphasized Principles’ systematic nature as a theory of monetary economy, as opposed to the real, objective system of the classical school (1951b, 242, 255).

Kobayashi came increasingly to define Principles as “a general theory of primitive accumulation” to avoid conceptual confusion deriving from the term “mercantilism” (1967, 8; 1962–63, 236). This definition was used in clear contrast with Wealth of Nations as an economic theory of capitalist accumulation. As Kobayashi argues, Principles followed David Hume in describing the modern society as the process of agrarian–industrial separation on the theoretical model of independent producers. Kobayashi also emphasized that Principles was a theoretical system of “effectual demand” for preventing the market failure by monetary, credit, and fiscal policies by “statesmen.” Kobayashi highly appreciated Principles’ policy prescriptions to secure effective demand based upon a theory of monetary economy, a so-called paper-money mercantilism as the core of Steuart’s “theory of circulation” (cf. 1993). Kobayashi also pointed out that Principles did not have a clear view of capitalists rising through the accumulation of profit upon “industry” because Steuart’s analysis was limited by his
picture of market society as chiefly built upon independent producers and the categorical distinction between wages and profits was not clearly made. Hence, Kobayashi defined *Principles* as “a general theory of primitive accumulation.”

After once completing the nine-volume *Works* in 1979, Kobayashi published the tenth volume under the title *New Studies on James Steuart* (in Japanese) in 1988. Since then, Kobayashi continued to characterize *Principles* as a system of monetary economics with respect to its “systematic nature,” and as a general theory of primitive accumulation which precedes *Wealth of Nations* in terms of its “theoretical stage” (1987, 375). However he finally characterized *Principles* as a general theory of small or simple commodity production (1998, 1xx) to show that the history of economic theories gradually completed itself during the period of primitive accumulation in the theoretical direction toward a theory of small or simple commodity production (1988a, 205).

The maturity of *Principles* as a general theory of small or simple commodity production allows us to see the relation between *Principles* and *Wealth of Nations*. On the basis of his historical study on the birth of consumer society and proto-industrialization, Kobayashi argues that *Principles’* analysis of small or simple commodity production immediately precedes *Wealth of Nations* and prepares an extensive ground for the emergence of *Wealth of Nations*. Kobayashi views eighteenth-century Britain as “the golden age of British laboring classes,” and not what Marx called the age of a violent expulsion of farmers from the land. Kobayashi argues that *Principles* and *Wealth of Nations* “share the same standpoint or recognition of common producers becoming affluent,” and that the two systems of *Principles* and *Wealth of Nations* were “formed as so-called economics of affluence” at the developing stage of economics in Britain. Notwithstanding the conflict between intervention and freedom and the presence or absence of monetary analysis, Kobayashi emphasizes “the commonality of the systems” between *Principles* and *Wealth of Nations* (1988b, 70–74). Thus, *Principles* is the first system of political economy comparable to and standing before *Wealth of Nations* (1984, 170. See the titles of 1992, 1998).

Kobayashi raises two issues concerning the historical background of *Principles* and *Wealth of Nations* as economics of affluence. First is the fact that only in Britain did agriculture achieve capitalization, and up to the present time, the majority of farmers have been self-employed the world over. Both *Principles*, which was based on the reality of Continental Europe (1960, 140), and *Wealth of Nations*, which made much of the middle and small size landlords as a driving force of agricultural improvement (1957, 153–54; 1973a, 203–04), had the same limitation because they did not positively recognize the polarization of yeomanry, but rather called for its prevention by neglecting the importance of large-scale capitalistic farms (1973b, 262; 1976a, 291). Second, the deprivation of the means of production from small farmers was much slower during the primitive accumulation than the deprivation by the Industrial Revolution (1988c, 392).

After completing *Works*, Kobayashi came to emphasize the distinction between Steuart and mercantilism in *The First System
of Political Economy (in Japanese, The University of Nagoya Press, 1994). This work made three points. First, Principles criticized the theory of the balance of trade, the hallmark of mercantilist economics, or at least possessed a theory that supported that criticism. Second, Steuart’s support for protectionist policy was not of the nature of a general demand and he does not demand protection of the domestic market for the sake of general or particular industrial capital (1960–61, 67). Principles’ argument for what could be called protectionism is mainly limited to trade in its early stages, and the claim is connected to even the cases in France (1985, 286–87). Third, Principles demonstrates a sound economic sense that is not limited within the framework of mercantilism.

For instance, the order of various criteria of the durability of goods discussed in Principles’ Book 2, Chapter 26 is regarded by Kobayashi as showing “a sound common sense maintained outside of the analysis of exchange value” (1992, 64; 1998, lxxix; 1985, 31). This is exactly the sense in which Kobayashi characterizes Steuart as “the first founder of political economy” and Principles as “the first system of political economy” that adhered to the world of Wealth of Nations while staying away from the world of mercantilism (1994b, 92–95, 102, 108, 119–20). While “the first” and “system of political economy” are expressions originally used by Marx, Kobayashi’s arguments effectively went beyond those of Marx.

As a result of characterizing Principles as “a general theory of small or simple commodity production,” Kobayashi discovers in Principles a strict system based on histori-
tary theory of public credit. This led to Kobayashi’s historical clarification of the raison d’être of Principles’ monetary theory, which lay beyond the scope of what Marx called the abstract antithesis against the classical economics.

Further in Kobayashi’s view, Principles achieved a systematic “reducing to principles, and forming into a regular science, the complicated interests of domestic policy” (Principles, Vol. 1, 3) by a “train of reasoning” through the eyes of the “cruel citizens of the world.” This meant Kobayashi’s outright rejection of the common definition of Principles as an advocate of nationalistic protectionism (1967, 6; 1992, 82; 1998, xc). Principles was a general theory of primitive accumulation after all, and its nature was quite different from List’s National System of Political Economy—Kobayashi called it “the unique (German) theory of primitive accumulation” or “a general theory of trade policy for backward capitalist countries” (1967, 30)—which made a strong claim of protectionism for the interest of backward Germany.

2. Josiah Tucker
Kobayashi published his full-scale study on Tucker under the title A Study on the Dissolving Period of Mercantilism (in Japanese, 1954 b, Works IV). While over a half century old, it still stands as a forerunner of Tucker studies even by the international standard. By exploring each and every piece of work by Tucker then available in Japan, Kobayashi produced the brilliant work on Tucker that easily surpassed W. E. Clark’s Josiah Tucker, Economist: A Study in the History of Economics (1903), and R. L. Schuyler’s Josiah Tucker: A Selection from His Economic and Political Writings (1931). Schuyler identified forty-four works by Tucker, and Kobayashi traced the transformation of Tucker’s economic thought through twenty-one of Tucker’s works.

Kobayashi pointed out the change of Tucker’s position from an enlightened mercantilist in his early years to an advocate of free trade based on the recognition of the Industrial Revolution in his later years. Kobayashi also described the way in which this change occurred in accordance with Tucker’s persistent political conservatism. Kobayashi intended to clarify the historical context in which Tucker’s criticism of political radicalism coexisted with his economic liberalism and his argument for the abandonment of American colonies. Thus Kobayashi criticized the prevalent view in Japan that political radicalism and economic liberalism must be one and the same as in the case of Adam Smith. Kobayashi’s study on Tucker was equally pioneering in that much preceded the later studies on Free Trade Imperialism in the West.5) Kobayashi’s view of Tucker consists of three major arguments.

First, the early Tucker was a proponent of protectionist mercantile policy as represented by the British Merchant. Following the standard argument of “mercantilism in the proper sense,” Tucker criticized the privileged cities and guilds and the East India Company in support of a free domestic market and national industrial capital. As Tucker said, “we still want the GLORIOUS REVOLUTION in the Commercial System which we have happily obtained in the Political.”6) While Tucker argued that the common producer was the source of national wealth, he
did not finally build a system of economics as Smith did. Tucker was also not aware of the importance of effective demand, Steuart's main agenda, because of his conviction of the domestic market's gravity. This led Tucker to depart from the theory of the balance of trade and to move forward instead to the emphasis on the balance of labor.

Why then did the early Tucker remain an enlightened mercantilist and successor of protectionist mercantilism? This is because Tucker in his early years definitely argued for the economics of low wages. He believed that low wages were vitally important for British trade to cope with the still lower wages of competing countries and criticized laborers' luxurious way of living. This had been a typical mercantilist position since William Temple. In addition, while Tucker recognized the significance of economic self-interest, he demanded that it be controlled on the ground, believing that its unrestrained release would result in monopoly. Tucker said, “a lasting and extensive National Commerce is not otherwise to be obtained, than by a prudent Direction of the Passion of Self-Love to its proper Objects, —by confining it to those Objects, —and there giving it all possible Assistance and Encouragement” (Tucker, Element of Commerce, Works III, 61). This represented the supremacy of policy over economic laws, and was different from Smith's line of economic liberalism. Kobayashi also pointed out that the early Tucker lacked criticism of the Corn Laws or the Navigation Acts.

Second, the later Tucker criticized the theory of the alternation between rich and poor countries as an application of Hume's quantity theory of money. Kobayashi pointed out the importance of Tucker's criticism of Hume's quantity theory of money in the first tract of Four Tracts together with Two Sermons (1774), which Schuyler did not consider. Tucker distinguished two types of precious metal inflow. The inflow brought by the labor of ordinary people in Britain would enable production at low prices and higher productivity, while an inflow of precious metals in Spain would result in unproductive consumption by indolent people. Precious metals flowing into Britain from overseas would immediately convert into industrial capital and more than offset the country's higher wages by “machines to abridge labour.” The competitive disadvantage due to higher wages was a serious issue of Britain's mercantilism, and it was Tucker's recognition of the new stage of industrial capitalism in Britain that was represented by the metal industries in Birmingham. Thus, Tucker broke with the economic theory of low wages and arrived at the new stage of his theory of free trade. Tucker wrote “the Trade of the World is carried on, in a great Measure, by British Capitals; and whilst this Superiority shall last, it is morally impossible that the Trade of the British Nation can suffer any very great or alarming Diminution” (Tucker, Series of Answers, 1776, Works V, 31).

On the basis of this theoretical recognition, Tucker was quick to call for a complete abandonment of North American colonies. As Tucker saw the circumstances, America's independence would not cause any substantial trade loss to Britain and, on the contrary, their independence would increase the trade between Britain and America. Tucker also emphasized that for Britain to divert its political control into its economic control
would help it eliminate unnecessary spending without losing economic control. Against the background of the beginning of the Industrial Revolution, the later Tucker could envisage a continued and lasting hegemony through free trade, that is, the continuation of purely economic control through free trade, which was later to become the core ideal of Free Trade Imperialism. In Tucker, the self-dissolution of protectionism at its peak opened the way to Smithian free trade theory.\(^7\) As a consequence, the later Tucker was to mount open criticism of the Corn Laws and the Navigation Acts.

Third, Kobayashi argued in the end that Tucker’s gradual shift toward economic liberalism was one with his criticism of political radicalism, including the revolutionary movement in America. Tucker was a defender of the Glorious Revolution with the old Walpolean political belief. Tucker’s argument for the abandonment of America was by no means an argument for colonial emancipation. As Tucker wrote, “[i]n short, while you are a Colony, you must be subordinate to the Mother Country” (Tucker, Four Tracts, together with Two Sermons, 1774, Works II, 127). Tucker was concerned about the spread of Lockean republicanism in the colonies, and criticized the Rockingham Whigs at home like Edmund Burke. Tucker’s A Treatise Concerning Civil Government (1781) criticized in principle Locke’s social contract theory in the Two Treatises of Government (1690). Tucker emphasized the existence of humanity’s natural desire for the formation of society. Tucker said, “[m]ankind therefore being thus under the Influence of social and benevolent Affections, as naturally seek Society in order to gratify these social Instincts, as they require Food for appeasing the Appetite of Hunger” (Tucker, Elements of Commerce, Works III, 57).

Tucker rejects the idea of the inalienable right of free choice of government as confusing freedom of conscience and religion with political freedom. Tucker therefore replaced the idea of the social contract with that of “quasi-contract.” For Tucker, the relationship between individual and government should be considered not by criteria of rationality or completeness of the contract theory, but by the principle of the good of the whole under civil government. Kobayashi pointed out the similarity between Tucker and Hume in their emphasis on the good of the whole or public utility. For Tucker, the independent movement in America was one with the spread of radicalism in Britain, such as the Parliamentary Reform, and the Gordon Riots of 1780. Tucker believed that abandoning America would effectively prevent a further spread of radical movements in Britain.

Tucker believed that this would maintain British politics, including its ruling structure and restrictive election system. Tucker’s idea of the unity of economic liberalism and political conservatism in the new stage of industrial capitalism was easily reconciled with what Smith called “the interest of consumers” due to increasing productive forces in Britain. This in turn helped choose the prospect of economic profit, instead of oppression by the government, as a means of fighting radicalism. Tucker’s new standpoint concerning capitalist productivity is visible here, which led the way to the Eden Treaty in 1786, and established the foundation of the later Manchester Free Trade movement.

From this analysis, Kobayashi went on to
characterize Adam Smith’s political role in relation to his economic liberalism. If Tuck-
er’s economic liberalism was backed up by his political conservatism, Smith’s political conserva-
tivism would surely develop into economic liberalism. Since Smith’s economic liberalism stood out and covered up his political conservatism, an apparent radical tone permeated his entire discourse. However, hu-
manitarian discussion about the welfare of laborers shown in Wealth of Nations did not produce any political proposal that would real-
ize this goal. Smith’s idea of “the interest of consumers” played the role of diverting the mass republican and democratic enthusiasm of the time to the pursuit of purely economic interest. Wealth of Nations was exported to foreign nations as a theory to assert the universal benefits of free trade, as well as its humanitarian ideal of “the interest of consumers.” The exported Smith was integrated with the German commercial capital which needed free trade for exporting agricultural products of eastern Germany, as we see that List later had to fight the Manchester School in Germany.

III Kobayashi on the Wealth of Nations

1. Smith in the History of Economics

Kobayashi’s representative study on Wealth of Nations was The Establishment of the System of the Wealth of Nations (in Japanese, Miraisha, 1973, in Works 1). Kobayashi defined the status of Wealth of Nations in the history of economics as “a theoretical system of capitalistic accumulation,” by contrasting it with Steuart’s Principles as “the last theoretical system of primitive accumulation” (1973b, 158). Kobayashi placed Principles before Wealth of Nations as far as the devel-
oping stages of economic theory were concerned, and clarified how Smith’s economic analysis of capitalistic accumulation went beyond Steuart’s system whose model was based on free and equal independent producers rather than on capitalist class relations. Kobayashi also identified what Smith achieved in his own right, and what differences were made between the two theories. Kobayashi’s study on British mercantilism was fully utilized in clarifying Wealth of Nations’ achievement in the general history of economic theories. Kobayashi also shed light on some theoretical problems of Wealth of Nations arising from Smith’s view of history and mercantilism.

Kobayashi appraised Wealth of Nations as the greatest achievement in the history of economics, and characterized it as a system of capitalist economics (1973b, 217). This is because, for the first time in the history of economics, Smith grasped the capitalist society as a society consisting of three major classes: capitalists, wage laborers, and landowners, and thereby established the categori-
cal distinction between the wage of labor and the profit of capital. For Kobayashi, Smith tackled the major theoretical task of analyzing exchange value by excluding a subjective theory of value and criticized the idea that land is the source of national wealth. Kobayashi argued that this enabled Wealth of Nations to go beyond Hume’s and Steuart’s model of independent producers and to remove an account of the separation between manufacture and agriculture from the theoretical part of Book 1 to the historical part of Book 3 of Wealth of Nations.

Kobayashi attached particular significance to Smith’s idea of “commercial socie-
ty” at the beginning of Book 1, Chapter 4. “Commercial society” is defined as a society where division of labor is thoroughly established, and everyone “becomes in some measure a merchant” (Wealth of Nations, 37). It is a society where commodity production for market by independent producers has become dominant and, as Kobayashi said, “the process of primitive accumulation has now been completed” (1967, 19). As Smith went on to analyze the structure of the capitalist economy and its operating laws through analysis of exchange value, the idea of “commercial society” was presented as the key concept of Smith’s analysis of capitalism. As Kobayashi concluded, Smith’s Wealth of Nations took off from the runway where Steuart’s Principles was running for takeoff (1998, lxii; 1973b, 178).

Kobayashi drew attention to the well-known fact that Smith rejected the labor theory of value as an analytical tool for capitalist society, and turned to the cost of production theory and the supply–demand theory. This was to explain the existence of profit (as a category of income in capitalism) and to justify capitalist distribution of income. It is true that in comparison with the far from systematic analysis of the labor theory of value in the works of William Petty and John Locke, Smith’s idea of the centrality of labor was more systematic throughout his discussion of labor as the ultimate source of national wealth (1973b, 163, 191, 209, 213–14). It is clearly indicated in the introduction to Wealth of Nations that the annual labor of nation is the fund of wealth (1967, 15–16). Moreover, the theory of natural price in Book 1, Chapter 7 of Wealth of Nations was significant by opening the path to the theory of short-term and long-term equilibrium price and clarified in and after Chapter 8 the way in which income distribution to the three classes is realized through the fluctuation of market prices that converge at the natural price.

2. Smith on Wages

However, Kobayashi was quick to point out that Smith’s theoretical achievement was coupled with his problematic treatment of mercantilism. Kobayashi makes three points. First, Kobayashi argues that Smith’s theory of natural price neglects Steuart’s monetary analysis, which discusses the possibility of overproduction as the result of the lack of effective demand as an inherent contradiction of commodity production in general. Wealth of Nations only developed the system of a long-term real, as opposed to monetary, analysis (1973b, 242–43).

Second, Kobayashi argues that while in Book 1, Chapter 8 of Wealth of Nations Smith advocates improvement of the social and economic conditions of the lower classes on humanitarian grounds, and theoretically accepts high wages, he makes no explicit mention of the significance of high wages as a cause of effective demand and fails to appreciate the economic role and capacity of laborers as consumers. In other words, as Kobayashi saw it, Smith broke away from the theoretical tradition of British Merchant and Daniel Defoe that regarded laborers as a growing body of consumers. According to Kobayashi, Wealth of Nations assumes that the motor of increasing investment is capitalist’s parsimony and saving, not laborer’s consumption, and therefore Smith recognized no need to encourage high wages from the
viewpoint of effective demand as long as capitalists’ profit is immediately turned to productive investment (1957, 87–88, 127, 142, 174–75).

Third, Kobayashi draws special attention to the social role of “servants” as unproductive laborers, many of whom were employed by aristocrats and landlords of the time and comprised about 9% of the total population at the beginning of the nineteenth century. By way of calling unproductive laborers’ wages "the wages of idleness" in Book 2, Chapter 3, Smith regards their existence as a potential contributor to economic growth to be in reality making a stumbling block on it. Smith thus stresses the need to change the manners and customs of those aristocrats and landlords who support the servants. Smith said, “the conduct of every prodigal, by feeding the idle with the bread of the industrious, tends not only to beggar himself, but to impoverish his country” (Wealth of Nations, 339) (1957, 156–57).

However, Kobayashi argues that Smith attaches no special importance to the genesis of the proletariat as wage laborers, as shown in introduction of Book 2. Smith argues there that a weaver can dedicate himself to his specialized work only in a society where his necessary food, material, and tools are “beforehand stored up somewhere, either in his own possession or in that of some other person,” that is, “[t]his accumulation must, evidently, be previous to his applying his industry for so long a time to such a peculiar business” (Wealth of Nations, 276–77). In the case of the possession of “some other person,” a weaver is employed by a capitalist and the capitalist makes accumulation for investment. Smith conflates a theoretical connection of capitalist saving and accumulation with primitive accumulation (i.e., the genesis of a proletariat) (1973b, 251). As Smith says. “[a]s soon as stock has accumulated in the hands of particular persons, some of them will naturally employ it in setting to work industrious people” (Wealth of Nations, 65), and the employment of laborers is a matter of course.

As Kobayashi argues, in spite of Smith’s categorical distinction between wages and profits in capitalist society, Wealth of Nations actually describes laborers as comprising both modern proletariat and independent producers. Similarly, the profit-earners in Smith’s account include not only capitalists but also independent producers. This means that Smith’s theoretical distinction between wages and profits did not actually achieve a full and consistent distinction throughout the Wealth of Nations between wage-laborers and capitalists as two separate and independent classes. Smith rather combined the two within the framework of independent producers (1973c). In this sense, Kobayashi pointed out the existence of the economics of affluence as the common feature between Steuart’s Principles and Smith’s Wealth of Nations.

3. Smith on History and Theory
Kobayashi’s analysis of Book 3 is remarkable among his studies on Wealth of Nations. Following a theoretical account of the natural order of investment in Book 2, Chapter 5, Book 3 develops the history of Europe after the fall of the Roman Empire. The argument on the natural order of employment of capital presupposes a capitalist society. It is intended to demonstrate that profits and advan-
tages (i.e., marginal efficiency of investment) in the employment of capital decrease in order of agriculture, manufacture, and commerce because of the decreasing number of productive laborers employed by each investment of the three sectors. However, as Kobayashi argues, Smith’s treatment of this particular part contained theoretical flaws and unverifiable assumptions.

Smith simply fails to recognize that the polarization of yeomanry and independent producers led to modern capitalist society (1973b, 242–43). This means that Smith also failed to recognize the historical significance of the Glorious Revolution which, as a bourgeois revolution, systematically encouraged this polarization by means of the mercantilist policies. Indeed, Smith recognized the historical significance of the Glorious Revolution in the sense that it established a system of laws which greatly helped secure every man’s enjoyment of the fruits of his own labor, but only with the provision that “this security was perfected by the Revolution, much about the same time that the bounty was established” (Wealth of Nations, 540).

In contrast, Smith sees the establishment of absolute monarchy as the most significant turning point in modern history and as a “revolution of the greatest importance to the public happiness” (Wealth of Nations, 422; 1973a, 196). Thus, for Smith, Kobayashi argues, the security of personal liberty that was virtually realized by the absolute monarchy of England is alone sufficient to make any country flourish, notwithstanding the economic interference, namely mercantilism, by the bourgeois revolution regime that came after the absolute monarchy (1973a, 184).

For Smith, the difference in political and social systems of England and other European countries, including prerevolutionary France, was simply a difference in the degree of the emergence of civil liberties. Smith fails to appropriately recognize that absolute monarchy played the vital role of preventing the realization of the natural order of investment and the polarization of yeomanry and independent producers, and therefore that the mercantilist policies in the proper sense of the word was historically required after the Glorious Revolution to encourage and complete the development of manufactures as “the offspring of agriculture” (1973a, 213).

Kobayashi continues to find problems with the way Smith combines the economic theory of capitalism (Book 2, Chapter 5 of Wealth of Nations) with the historical understanding of capitalism (Book 3). First, while Smith’s account of the natural order of investment in Book 2 assumes a national market organized in a capitalist way, Book 3 discusses the history of the formation of the national economy itself. Second, this means that Smith constructs the theory of the natural order of investment for illustrating the natural order of a country’s increase in affluence. Third, Smith anachronistically based his account of the precapitalist history of modern Europe upon a capitalist theory of investment. For example, Smith fails to recognize that in medieval Europe, agricultural development was not motivated by any selfish pursuit of profit. Lastly, the formation and establishment of yeomanry in England is understood by Smith to be the starting point for a capitalist development and accumulation, which progressed of its own accord, notwithstanding the external interference by
the misguided mercantilist policies.

Thus, Kobayashi concludes, the process of primitive accumulation as a polarization of yeomanry and independent producers into capitalists and proletariat is simply understood by Smith as an expanding social division of labor between the three sectors of agriculture, manufacture, and commerce (1976b, 236; 1976a, 275, 291). Smith at one place admits the possibility that free trade, which Smith himself advocates, hinders the realization of the natural order of investment in underdeveloped countries. In this respect, *Wealth of Nations* had the political effect of representing the interests of Britain’s industrial capital, not the wealth of nations (1973b, 298).

Kobayashi’s discussion of Book 5 of *Wealth of Nations* deserves a summary. Smith was generally indifferent to the economic effects of government expenditure due to his lack of the standpoint of monetary analysis. The argument on public expense in Chapter 1 inclines toward the argument on institutions, and fails to give a correct evaluation of the economic significance of public spending. The argument on national debt neither concerns the effect of the creation of effective demand nor conceives of the idea of digesting national debt through credit creation. The fiscal policies as developed in *Wealth of Nations* are solely intended to show the folly of preventing individual saving that is the best way to capitalist accumulation.

Finally, Kobayashi confirms that, notwithstanding Smith’s severe criticisms of the system of public debt, the protective system, and the old colonial system that monopolizes the trade with America, *Wealth of Nations* lacks a criticism of the government (that was established by the Glorious Revolution) that carries out these systems. Kobayashi concludes that it was not the change of the Glorious Revolution settlement itself, but the drastic reform of its policy system that Smith pursued throughout the criticisms of mercantilism. Thus, Kobayashi points out the existence of genuine political conservatism similar in nature to Josiah Tucker’s behind Smith’s economic liberalism (1973b, 305, 307–09, 317, 327).

**IV Kobayashi on Friedrich List**

1. **List on Colonization**

Kobayashi’s study on List is particularly unique in the priority which he gives to the relatively neglected work “The Land System, Minute-scale Holdings, and Emigration” (“Die Ackerverfassung, die Zwergwirtschaft und die Auswanderung,” hereinafter *Land System*, 1842) over the better-known work *The National System of Political Economy* (Das nationale System der politischen Ökonomie, hereinafter *National System*, 1841). As early as May 1944, Kobayashi examined *Land System* in his essay “List on Colonization” (in Japanese, *Works* VI). Kobayashi made it clear there that List proposed in that essay a systematic colonization of Hungary and the Balkans in Germany’s southeast backyard, rather than the sporadic colonization project as developed in *National System*, and that the central force of this colonization project was identified as the medium-scale farmers. List’s vision of the German economic sphere to be formed by the project was a Quasi-Imperium different from the large economic sphere of the British Empire (1962, 10).
As Kobayashi was conscripted and sent to war at the end of July 1944, "List on Colonization" was written in a premonition of the conscription, and it was the starting point of his full-scale List studies after the war (1988d, 9–10). Kobayashi twice translated Land System into Japanese in 1949 and 1974, and National System in 1970. When Kobayashi presented the original paper of 1990f at Verein für Socialpolitik, Dogmenhistorischer Ausschuss in September 1989, he responded to a question:

When I first encountered Land System, I thought that it discussed the same problem that Japanese farming villages were facing then. I thought of Japan’s experiences, such as the policy to decrease the number of poor peasants, and maintain the number of independent farmers, and the emigration project for the development of Manchurian farmland. All of these were demanded by the militaristic policy of the time. I also thought of the postwar farm land reform. These helped me to understand the bright and dark sides of Land System (1990a, 145).

So, why did Kobayashi regard Land System as the key to List’s ideas? As Kobayashi argued, National System demands protective tariffs to attain industrialization from the agricultural to the agro-industrial stage. This was based on the reality that, even with their low wages, infant industries in Germany could not compete against Britain’s “manufacturing and commercial supremacy,” 8 achieved by the Industrial Revolution. The historical condition of List’s protectionism should be understood in terms of British industries at the beginning of the eighteenth century, which needed mercantilism to protect its domestic market against imports from foreign countries with low wages (1967, 27; 1948, 83–86; 1950b, 333–34). As List wrote, the modern “free trade is synonymous with the dissolution of every politically and economically underdeveloped country for the sake of the most developed country” (List, Bd. 7, 468).

Fortifying the Zollverein (customs union), which started in 1834, is imperative, but the market for domestic industrial power that should be fostered must be sought in the domestic market, that is, domestic agriculture. National System maintained that “[m]anufactures are the foundation of domestic and foreign trade, maritime traffic, and improved agriculture” and “in the case of the change from the agricultural state into the manufacturing state [the action is] much stronger on the part of manufacture than on the part of agriculture” (List, Bd. 6, 257; The National System of Political Economy, translated by S. S. Lloyd, 1904, 187). List then criticized the claim of the supremacy of agricultural investment based on Smith’s argument on the natural order of investment. “But it would be folly to conclude . . . that a nation obtains greater advantages by investing its material capital in agriculture than in manufactures, and that the former is in itself more favourable to the augmentation of capital than the latter” (List, Bd. 6, 275; Ibid., 203).

As discussed before, Wealth of Nations developed a somewhat flawed theory of the natural order of investment in order to justify the historical significance of yeomanry in the growth of Britain’s modern industry. It was clear to List, who attempted to establish
modern industrial capacity in Germany, that, under Britain’s insular supremacy, the development of agriculture would not lead to the establishment of manufacture “in the natural course of things” as Smith described.

However, does establishment of industrial capacity automatically lead to development of agriculture as a domestic market for manufactured products (i.e., the modernization of agriculture)? In Germany, especially in southwestern Germany, the liberation of farmers was not yet achieved, and the small-scale peasant agriculture oppressed by feudal burdens still prevailed (1949, 294–95). Eastern Germany was already incorporated into the sphere of British capitalism because the area needed free trade for its agricultural interest, according to National System (1956, 43). Thus, for Germany to become a nation in its normal state with the harmonious balance between agriculture, manufactures, and commerce, it was vitally important to produce a large agricultural surplus and to realize its commercialization by a steady growth of farmers who possess sufficient purchasing power for manufactured products. Hence, the domestic market for the domestic industrial capital should be a modern market where wealth is accumulated in agriculture (1990e, 5; 1990f, 66; 1990b, 193).

In Kobayashi’s view, National System cannot answer the question, which is how to create a modern domestic market for industry, and that was the reason why List wrote Land System immediately after publishing National System. Kobayashi described the main arguments of the work as follows.

First, it claimed the necessity of land reform to modernize poor and miserable agriculture prevalent in the southwestern part of Germany. To achieve this, extensive land organization, dissolution of old village communities, paid abolishment of feudal burdens, and creation of middle-scale farms by enclosures were most important. On the one hand, List thought that the small-scale peasant agriculture (so-called Napoleon farmers) in France was the foundation of its autocratic regime, and produced France’s tendency toward expansionism. On the other hand, List rejected Britain’s large-scale farms on the ground that they created a large number of proletarians, who lean toward socialism under the pressures of economic fluctuation. List therefore maintained that Germany should create 500,000 medium-scale farms forty to sixty acres large, and their owners should be a landowner, a capital owner, a cultivator, and a peasant, at the same time. The ratio of the agricultural to the industrial population in the whole country should be one to one. This compared with three to one in France and one to three in Britain. As List wrote, “the truth is clearly in the middle” (1948, 203–05).

Second, List argued that “the task of land reform should maintain this middle” (List, Bd. 5, 431, emphasis added). The creation of these medium-scale farms required enclosures to be carried out from above by the leadership of the state, and the state’s intervention through the property laws was needed to prevent the created medium-scale farms from breaking up and to secure them in the expansion of commodity production. “The state should give consideration to permanently preserving this state of affairs” (List, Bd. 5, 484, emphasis added). Kobayashi pointed out that “List was afraid of the accomplishment of the primitive accumula-
tion.” In essence, a program for modernizing domestic agriculture must assume two contradictory tasks at the same time—a creation of middle-class farmers, and prevention of the capitalistic breakup of those farmers to be brought about by the modernizing process (1962, 40–41).

Third, concerning the creation of medium-scale farmers, List envisaged Germans’ settlement in Hungary and the Balkans, not in Germany, to avoid confronting Junkers in eastern Germany (1966, 165). List maintained that the settlement of Germans who held capital in Hungary, which belonged to the Austrian Empire, would contribute to the improvement of agricultural productivity in Hungary and that Hungary, which was aiming at independence, needed German immigrants to compete with Slavs. List’s argument was clearly intended for the expansion of the German economic sphere in the name of the Oriental Empire of Germans and Magyars (List, Bd. 5, 499). The intention is clearly expressed in his words, “for Germany, Hungary is the key for opening Turkey, the entire Near Eastern region, and the East, and at the same time, a block against the northern power (namely Russia)” (List, Bd. 5, 502), and Hungary is “a means for friendly conquering countries in the lower Danube areas” (List, Bd. 3, 480; 1948, 220–22).

Moreover, from a military point of view, German settlers were required to be at the forefront of expanding the Empire (1974, 97–99). Thus, in Kobayashi’s view, Land System’s idea for generating and modernizing Germany’s domestic market in itself meant “nationalistic expansionist policies,” and it eventually foresaw the failure of Germany’s world politics in the first half of the twentieth century, which was to culminate in Nazism (1967, 34–35; 1990e, 14–15; 1990f, 75–77; 1990c, 114; 1948, 271–72; 1974, 93; 1966, 139, 173–74).

Fourth, Kobayashi discovered behind Land System’s expansionism List’s global strategies. In National System, List proposed the formation of a continental alliance to encounter with Britain’s economic power, but immediately emphasized the importance of the establishment of the Anglo–German alliance to counter the expansionism of France and Russia (1962, 11). The Anglo–German alliance was practicable only on the condition of the economic unification of Germany as a protectionist system, and of Britain’s approval of Germany’s advance to its southeast. List argued that Germany’s expansion to its southeast up to Turkey ensured Britain’s security by preventing France and Russia’s advance to Britain’s sea route to the Orient through the Mediterranean (1967, 32–34).

List clearly foresaw that the revision of Britain’s corn duties in the 1830s would strengthen Britain’s self-sufficient economic empire, reduce the importance of the corn export from eastern Germany to Britain, and, hence, make the application of National System’s free trade to agriculture useless. Under such recognition, List asked Sir Robert Peel to support his new global strategies, but in vain (1948, 165–71).

2. List on Modern Civilization

Thus, Kobayashi pointed out the serious problem of Land System’s expansionism, and conversely appraised the significance of a comparative historical study of land systems in Land System. Land System discusses the land systems of thirteen countries, and List
emphasized the significance of the Hof (farm-type holdings) liberated from feudal bonds in those countries (1990a, 141). Behind List’s vision of creating the middle-scale farms by Germans’ settlement in Hungary and the Balkans was the recognition of the universal significance of these farmers (1949, 318).

In “The Anonymous Statistics against the National System: On the Relation among Agriculture, Industry, and Commerce, and on the History of Ancient Economy” (1844), written as a response to criticisms of National System, List showed a keen insight into the historical difference between the ancient Oriental and the modern European societies by noting that in the latter, the relative poorness of fertility in agricultural land gave rise to an industrious and rational type of man as the human foundation of modern industrial powers (1948, 216; 1966, 184–85). In other words, industry and liberty in modern society originated in the Western-European farmers (1977b, 34; 1990a, 138).

In addition, the self-employed farmer in Land System was characteristically identical with the Gemeinde citizen, who served as the foundation of the Korporations system, which was the early List’s organizing principle of municipalities and states based on freedom and representation. Kobayashi also pointed out that this Gemeinde citizen in one respect received an ideological influence from Justus Möser’s romanticism, but that as a whole, it had its place in the trend of the ideas of the Enlightenment in Vormärz (1948, 266–68; 1990c, 103–04).

As seen above, List’s vision for creating middle-scale farms resulted in national, expansionistic policies in the end. Kobayashi is most emphatic about this particular issue. Indeed, List did not conclude from the vision of creating middle-scale farms a further project of developing domestic industries in farming villages (1948, 237). This was the case with Smith, as discussed earlier. At the basis of List’s national expansionism, Kobayashi stressed the importance of the historical circumstances, which made it imperative for backward countries to make an inevitable choice of expanding into other countries and achieving their modernization under the overwhelming pressure of Britain’s economic power.

Kobayashi gave a high appraisal of List’s recognition in Land System of the historical role of the small, independent farmer, especially those of yeomanry in Britain. But he was quick to characterize the anachronistic nature of List’s vision as “treason against history” that formed a modern and independent national market by politically creating medium-scale farms by enclosures with expansionistic policies (1948, 85; 1990e, 13; 1990f, 74). Kobayashi also called List’s nationalistic expansionism “the pillar of political reaction” (1949, 325–26).

In sum, Kobayashi emphasized that it was nevertheless historically significant that List and Land System in particular proved the important fact that land reform, the resulting liberation of peasants, and the way in which agriculture and manufacture separation develops vitally condition the structure of each national economy, and give special structural and historical characters of modern capitalism in each country (1966, 132–33).

Seen in this light, Kobayashi’s studies on the history of economic thought are understood as clarifying the structure of each
country’s national economy through examination of national and historical characters in the process of making economics which appear in mercantilism in Britain and Smith’s and List’s economics. In his later years, Kobayashi was concerned about the fact that Japan "has amassed an enormous GNP at the cost of balance in its economy" (1977a, 24) and voiced the need for reflection and reexamination on contemporary economics centering around the exchange value analysis, which certainly originated with Adam Smith (cf. especially 1978). Balance of economy was a key idea of National System, thus Kobayashi acquired a new understanding of the contemporary meaning of National System.

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Notes

1) Citation from Kobayashi’s works will be made in the text by title, year of first publication, and the relevant volume number of the Works.


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