

Yoshihiko Uchida, *Wealth of Nations* as a Critique of the Old Imperial System

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Introduction by Toshio Yamada

This text was originally a chapter in Yoshihiko Uchida's (1913–1989) first book, *The Birth of Economic Science* (hereafter referred to as "*Birth*"), Tokyo: Mirai-sha Publishers, 1953, and was later included in *Collected Works of Yoshihiko Uchida*, vol. 1, Tokyo: Iwanami Shoten, Publishers, 1989. *Birth* was published eight years after Japan's defeat in World War II, in the era of chaos and hope that followed this conflict. It has been widely read by generations of social scientists, and is now considered one of the greatest masterpieces in the study of Adam Smith in Japan.

Following its somewhat lengthy "Introduction," Uchida's *Birth* is constructed in two parts: Part One, "The Birth of Economic Science: *Wealth of Nations* as a Critique of the Old Imperial System" and Part Two, "Analysis of the System of *Wealth of Nations*." In Part One, Uchida depicts the birth of economic science in Smith not as an extension of political economy after the mercantile system but rather as a critical response to the examination of civil society found in thinkers such as John Locke, David Hume and above all Jean-Jacques Rousseau, thus bringing into sharp relief Adam Smith as a thinker who criticized mercantilist "modernization from above." In Part Two, starting with an examination of Smith's concept of civil society and theory of the division of labor, Uchida analyzes his theories of value, surplus value, and capital accumulation and reproduction by contrasting them with those of Karl Marx. For a more detailed outline of *Birth*, see Sakamoto (2017).

The text translated here is Chapter Four of Part One, “*Wealth of Nations* as a Critique of the Old Imperial System.” As the last chapter of Part One, it summarizes its central theme (Smith’s critique of the old imperial system) and lays out the logical structure of the five Books that constitute *Wealth of Nations*. The phrase “old imperial system” directly refers to the successive territorial and colonialist wars that had been conducted by European powers culminating in the Seven Years War (1756–1763), and in particular the ideology of mercantilism or “Whig totalitarianism” that was the driving force behind these conflicts in Britain. By choosing this phrase, however, Uchida presumably also implies a criticism of militarist–imperialist Japan and its conflicts that started with the Sino–Japanese War in the 1930s and spiraled into World War II in the 1940s. In other words, by borrowing from Smith in the context of postwar Japan, Uchida made an appeal for reconstruction of a democratic and peaceful nation through the formation of civil society “from below” by ordinary people.

After publishing *Birth*, Uchida began to focus his studies on the intellectual history of modern Japan. Through these studies, he ultimately came to insist on the importance of everyone learning about the social sciences, and the need for the social sciences in turn to respond to the needs of ordinary citizens in their daily lives, as *Wealth of Nations* can be well understood by any citizen without specialist training.

The following studies are useful for understanding Yoshihiko Uchida. (1) Tatsuya Sakamoto (2017), ‘Adam Smith’s Dialogue with Rousseau and Hume: Yoshihiko Uchida and the Birth of the *Wealth of Nations*,’ *The Adam Smith Review*, 9. (2) Nobuo Suzuki (2013), ‘Uchida Yoshihiko: A Japanese Civil-Society Economist and Historian of Economic Thought of Postwar Japan,’ *The History of Economic Thought* (The Japanese Society for the History of Economic Thought), 55 (1). (3) Andrew E. Barshay (2004), *The Social Science in Modern Japan: The Marxian and Modernist Traditions*, Berkeley: University of California Press, Ch. 6.

〈Explanatory notes〉

1. Regarding citations from Smith’s *Wealth of Nations* [WN], while Uchida himself makes use of the so-called Cannan Edition of 1930, we refer here to the *Glasgow Edition of the Works and Correspondence of Adam Smith*, II (edited by R. H. Campbell and A. S. Skinner, Oxford: Clarendon Press, 1976, and Indianapolis: Liberty Press, 1979) using an abbreviated citation format in which “(WN, IV.vii.c.43),” for example, signifies “Book IV, Chapter 7, Third Part (= c), Paragraph 43.”
2. Italics for emphasis are Uchida’s.
3. Text in [] in quotations from Smith was inserted by Uchida. Text in []

in Uchida's writing was inserted by the translators.

4. In order to reflect the references to Smith's terminology in the Japanese text, certain words have been translated using Smith's original phrasing. Where this usage is particularly antiquated, angle brackets have been added the first time the term in question appears (e.g. ⟨opulence⟩).

I

Wealth of Nations [hereafter "WN"], as is widely known, takes an extremely comprehensive approach. It covers all fields of inquiry within the domain of political economy, with economic theory being developed in Books I and II, economic history in Book III, the history of economic doctrine or economic policy in Book IV, and public finance in Book V.

Regarding WN being so comprehensive and including such a diverse array of fields within economics, some commentators cite this as an indication that Adam Smith's economic science had not yet reached a fully mature form, while others consider it proof of his greatness as a thinker. John Stuart Mill, to give a familiar example, saw this comprehensive approach as part of Smith's superiority to David Ricardo's political economy, and Jean Charles Leonard Simonde de Sismondi, who, as explained above [Chapter Two of Part One in Uchida's *Birth*], was destined to become both the perfecter of classical French political economy and originator of European romanticism, sought to take up this legacy of Smith's when creating his own system in opposition to Ricardo. In any case, however, until now there seems to have been no study of the logical structure of WN's construction as a series of separate "Books" itself, that is, research that examines the nature of the internal relationships within which these fields of inquiry pursued in separate Books have been positioned.

Is Smith's approach comprehensive in the sense that he wrote theory, wrote history, *also* touched on the history of doctrine or economic policy, and *also* referenced financial policy? Do these Books simply address these coexisting fields one after the other? In other words, do these Books merely position these fields horizontally as parallel domains? If indeed nothing more than this is accomplished, then Smith's including all of these domains of political economy in a single text possesses no internal necessity whatsoever. "Comprehensive" becomes merely a synonym for "hodgepodge." Is Smith's text so impoverished? Or have these Books not, on the contrary, been given a three-dimensional, logically ordered structure? If we do not think about things in this way, various contradictions arise.

Here are some examples. First, while it is often noted that Books III and IV address economic history and the history of economic doctrine respectively, if

we think of Books III and IV as economic history and the history of economic doctrine in a side-by-side or parallel relationship, we immediately come up against an extremely unnatural state of affairs. Namely, what Smith is dealing with directly in Book III is the feudal period. What he mainly addresses in Book IV, however, is *modern* economic doctrine (not that of the past), and he does so while connecting it to modern economic policy as something that has influenced it (this is the basis for the coexistence of the two assertions that Book IV deals with the history of economic doctrine and that it deals with economic policy). If we relate Books III and IV to each other, in the manner of a textbook-like presentation, as addressing the economic history and the history of economic doctrine respectively in parallel, we immediately run into the problem of their dealing with different eras. Here let us ask Smith himself. The following comments on Books III and IV in the “Introduction and Plan of the Work” are suggestive of his intentions in this regard, and I quote them here for the reader’s confirmation.

Nations tolerably well advanced as to skill, dexterity, and judgement, in the application of labour, have followed very different plans in the general conduct or direction of it; and those plans have not all been equally favourable to the greatness of its produce. . . . Since the downfall of the Roman empire, the policy of Europe has been more favourable to arts, manufactures, and commerce, the industry of towns; than to agriculture, the industry of the country. *The circumstances which seem to have introduced and established this policy are explained in the Third Book.*

Though those different plans were, perhaps, first introduced by *the private interests and prejudices of particular orders of men, without any regard to, or foresight of, their consequences upon the general welfare of the society; yet they have given occasion to very different theories* of political œconomy; of which some magnify the importance of that industry which is carried on in towns, others of that which is carried on in the country [both *in the name of the general welfare* of the society]. Those theories have had a considerable influence, not only upon the opinions of men of learning, but upon the public conduct of princes and sovereign states. I have endeavoured, in the Fourth Book, to explain, as fully and distinctly as I can, those different theories, and the principal effects which they have produced in different ages and nations. (WN, Introduction. 7–8)

While the logical relationship into which Books III and IV have been placed is difficult to understand from this quote alone, it is perhaps at least clear that so-

called “economic history” is not simply a history of the past, but is provided as a key to understanding the history of the present, and Book III was thus written with its relationship to Book IV in mind (phrases such as “the private interests and prejudices of particular orders of men” and “the general welfare of the society” should also be read carefully in relation to what was said earlier concerning “two monopolies” [feudal and essentially mercantile monopolies]). Here we must presumably ask why Smith had to look back at Europe’s past in order to analyze its present. Was there some kind of logical connection between this and his immediate aim of criticizing mercantilism?—Moreover, in relation to this point, here (in Book IV) Smith’s critical gaze that was directed at the old landlords in Book III is no longer focused on them, but instead has become fixed exclusively on merchants seized by a desire for monopolies and the controlling attitude of statesmen under their influence. Indeed, to the extent they make an appearance at all, landlords are seen as a group whose interests should, *fundamentally speaking*, coincide with those of the nation as a whole. Where does this shift come from? This is another question that must be addressed.

Now we run into another problem. Namely, the way “nations” are dealt with in WN. In the past I remember there having been a debate between Professor Hyōe Ōuchi, a translator, and Professor Tadao Yanaihara over whether the title “*Wealth of Nations*” should be translated as meaning “wealth of *various nations*” or “wealth of *each nation*.” There is no need to get into the meat of this argument here, but in any case if we read carefully we notice that the way “nations” are dealt with differs considerably from Book to Book. In the “theoretical” Books I and II, discrimination between various nations recedes. That is not to say it completely disappears, but fundamentally what is addressed here are theoretical requisites that are *common*, to a greater or lesser extent, to all civilized nations, while in the “history” of Book III each individual nation is taken up one after the other, and their *structural differences* are examined from the perspective of ⟨opulence⟩ [to use Smith’s terminology] in the manner of a *comparative history*. On the other hand, in Book IV, which engages in an analysis of the current state of Europe, nations are not dealt with simply in terms of comparative history, and *to that extent as individual nations*, but on the contrary, appear *all at once* and are vividly depicted in their dog-eat-dog nature as great powers competing with each other like battling leviathans. In assessing this approach, some have said that in Book IV Smith on the contrary takes on the guise of a patriot. I will take up the question of whether or not this is so later, but in any case if we consider Book IV on its own apart from the other Books, it is indeed a fact that Smith often employs a political economy approach to dealing with the economy that is very similar to that of the mercantilist opinion leaders of the day (for example, his opinion that national defense

comes before wealth). Is there anything that might prevent us from viewing these differences in how nations are dealt with as simply contingent differences in perspective, or a kind of confusion on the part of the author?

To me, an explanation of the structure of WN as a textbook-like presentation of the discrete domains of economic theory, economic history, the history of economic doctrine, economic policy, and the study of finance in parallel completely ignores both the *unified* historical topic (= overarching aim) pursued by Smith in this text and the process of analysis (= internal logical structure) he adopts in each Book with this aim in mind. As has already been mentioned [Chapter Two of Part One in Uchida's *Birth*], "imperialist wars" were being conducted on "the basis of primitive capitalism" [V. I. Lenin, "The Junius Pamphlet," 1916]. Intense conflicts between nations, the scramble for colonies, and the ceaseless wars between great powers they caused: all of Smith's theoretical pursuits from *The Theory of Moral Sentiments* (1759) to *Wealth of Nations* (1776) were conducted in the midst of this maelstrom. From the perspective of world history, we already see the establishment of bourgeois property rights (French revolution!) and liberation from the power of countries with a primitive accumulation of capital (dismantling the old colonial system) emerging therein as two overlapping topics of great importance. And as I have stated elsewhere, the reason for Smith's transition from jurist to economist was nothing other than the outright bankruptcy of existing jurisprudence in the face of this crisis. Smith's academic aim was to save this bankrupt jurisprudence from its crisis and rebuild the foundations of the law in response to the issues of the day. The error in existing jurisprudence lay in its attempting to ground the law from a perspective of "social utility" premised on the "fact" of conflict between states being taken for granted as a matter of common sense. Even the great David Hume, to the extent that he did not move beyond the idea of mercantilism, was unable to get away from this common sense assumption. The problem lay in clarifying this assumption itself, that is, in showing why nations had to be in conflict with each other. Smith's WN was undoubtedly directed toward this aim. I believe WN should be read as a unified text in this regard, and I think viewing the division into Books in this light is perhaps the approach most faithful to Smith's intentions. I thus arrive at the following conclusions. All of the problems Smith addresses are brought together in his analysis of the current state of crisis in Europe given in Book IV (once these problems begin to be solved it should also become possible to give a theoretical grounding to public finance reform). The Books of WN that come before Book IV, as elements of an analytic procedure that Smith had to undertake in analyzing Europe in its current state, differ in their level of abstraction and possess a logically necessary order. And what gives the text internal unity is Smith's economic theory (= theory of

reproduction).

II

In contrast to the “popular notion” that wealth consists in money, in *Wealth of Nations* [WN] Smith begins with the idea that wealth is the consumable goods (〈necessaries and conveniences〉 of life) reproduced annually through labor; to Smith, the view that wealth is money, namely the popular view that “naturally arises from the double function of money, as the instrument of commerce, and as the measure of value” (WN, IV.i.1), had been systematized in the theory of balance of trade, “became a fundamental maxim in the political œconomy, not of England only, but of all other commercial countries” (WN, IV.i.10), got in the way of these nations’ prosperity, and formed a foundation that gave rise to international conflicts.¹ As a result, all of Smith’s theories concerning the nature and causes of the wealth of nations are positioned within a contrast between a *false* balance based on monetary wealth (= “balance of trade”) and a *true* balance (= balance of production and consumption) based on true wealth; this is a key theme that runs throughout all of the Books that make up WN.^{2,3}

Adopting this perspective, Smith begins his study by going back to the most universal process of the metabolism of material things (*Stoffwechsel*) that occurs between human beings and nature, namely, the process by which human beings apply effort to nature, produce and consume, and by repeating this inter-

1 “The title of Mun’s book, *England’s Treasure in Foreign Trade*, became a fundamental maxim in the political œconomy, not of England only, but of all other commercial countries. The inland or home trade, the most important of all, the trade in which an equal capital affords the greatest revenue, and creates the greatest employment to the people of the country, was considered as subsidiary only to foreign trade. . . . The country, therefore, could never become either richer or poorer by means of it, except so far as its prosperity or decay might indirectly influence the state of foreign trade” (WN, IV.i.10).

2 “There is another balance, indeed, which has already been explained, very different from the balance of trade, and which, according as it happens to be either favourable or unfavourable, necessarily occasions the prosperity or decay of every nation. This is the balance of the annual produce and consumption. If the exchangeable value of the annual produce, it has already been observed, exceeds that of the annual consumption, the capital of the society must annually increase in proportion to this excess. The society in this case lives within its revenue, and what is annually saved out of its revenue is naturally added to its capital, and employed so as to increase still further the annual produce. If the exchangeable value of the annual produce, on the contrary, falls short of the annual consumption, the capital of the society must annually decay in proportion to this deficiency. The expense of the society in this case exceeds its revenue, and necessarily encroaches upon its capital. Its capital, therefore, must necessarily decay, and, together with it, the exchangeable value of the annual produce of its industry” (WN, IV.iii.15).

action engage in the business of living—a process which, since it is the most fundamental process in the lives of human beings, is common throughout our entire history. He considers how this process of material metabolism operates in civilized societies (= capitalist societies), and, while adding a consideration of the role played by money and capital from the perspective of this production and consumption of true wealth, proceeds with a deep analysis of how the mercantilist system was created and what sort of role it plays while at the same time clarifying the law of history that has been born out despite being impeded and diverted as a result of this *false* policy.

[On Book I]

As is well known, what Smith took as the foundation of the productive powers (= the process of metabolism of matter) in civilized societies was the division of labor formed by exchange, that is, the joining of the labor of independent individuals into a total labor of society. It is not, however, as though each individual is aware of this when they take part in exchanges; it occurs in the background—as an objective process guided by an invisible hand—outside of their consciousness. Here each instance of private or personal labor, to the extent that, whatever field it may belong to, it is part of this division of labor, at the same time possesses a social character as a divisible part of the total labor of society. Only labor that makes money directly is not social, and to that extent not productive. Conversely, all labor that creates value in use is at the same time social, and to that extent productive, while money mediates the exchange of products as value in use, and, by measuring the magnitude of products as value (to the extent that they are the products of labor, and as a result possess the power to “command” an equivalent amount of social labor), is nothing more than a tool for facilitating the formation of joint labor. Labor as a part of a system of division of labor is not simply productive in the sense that it is equivalent to labor that makes money; at the same time it is also productive in the sense that it creates more value than it consumes, regardless of where this labor is ultimately done. This gives products “additional value” consisting of whatever value exceeds that needed to reproduce the labor force. This breaks down to rent and

3 In order to accurately understand the meaning of this *true wealth*, we have to understand the upside-down principle in Smith’s homo economicus (see Chapter 3 [of the original text, not included here]). Here I should mention Hiroshi Mizuta’s excellent study that cites a corresponding understanding of human beings in Thomas Hobbes: “Igirisu Jyūshō Shugi to Kokkaron [British Mercantilism and Theory of the State],” *Shōgakuronshū [The Journal of Commerce, Economics and Economic History]*, 21 (1), [Fukushima University, May 1952].

profit. In this way, it is the labor that is joined into a grand total of labor of society as a whole through exchange that is the foundation of the opulence of civilized societies, and this joint labor forms the principal of the revenue that is distributed to each class of society as income. (Book I)

[On Book II]

Labor, as we saw above, is not simply carried out independently, and by its being conducted while forming part of the total labor of society as an element of the division of labor, productive powers are developed and everyday necessities and conveniences are supplied in abundance. So under what conditions is this formation of the division of labor carried out? If wealth is produced by the division of labor—and corresponds to the degree to which it is implemented—then presumably the degree of magnitude of each nation’s wealth is connected to the extent to which the prerequisites or “conditions” that make the formation of the division of labor possible have been met. These conditions being satisfied—to use Smith’s phrasing—is “necessary,” but in actual history it has been extremely “slow and gradual,” and as a result the opulence of societies, too, has in fact attained no more than sluggish development. So while having historical inquiry into what it is that makes the progress of opulence so slow in mind from the start, Smith puts this aside until later and begins by attempting to theoretically establish what these conditions are. This is Book II of WN.⁴

These conditions, considered for now as a question of political economy, are, first, the existence of a market and, second, someone having already accumulated more ⟨stock⟩ than they can directly consume. In Book I, the formation of the division of labor and the creation (and distribution) of wealth it creates are considered with these two conditions being taken as givens. Regarding the market, in Book I Chapter 3 Smith states, “As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market” (WN, I.iii.1), but here he is only asserting that a market, whether within the nation or between nations, must exist; he does not touch on how it

4 Let us look closely at the following oft-quoted passage. “. . . [the division of labor] is the *necessary, though very slow and gradual* consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another” (WN, I.ii.1). The propensity for exchange does *not determine* everything. In order for the propensity for exchange to *actually* operate, and for the division of labor to *actually* be formed, certain *conditions* are required. Indeed, while all labor operating as part of a division of labor is a necessary outcome (it is both the endpoint of history and something that had already been determined as an ideal when history began), in *actual history* it is only a “very slow and gradual consequence.”

comes to be formed,⁵ and regarding the existence of surplus (stock), here (in Book I) he posits it as a given and does not discuss it at all. In Book II, Smith returns for the first time to these questions, addressing *surplus “stock” as a condition necessary to the maintenance of the division of labor*, presenting it as capital stock formed year by year out of the products of labor. At the same time, as is the cases with individual consumption, products are also consumed in productive consumption (a market is created). According to Smith, the formation of this stock occurs only through “the uniform, constant, and uninterrupted effort of every man to better his condition” (WN, II.iii.31) based on the existence of a “justice” that protects property rights, and through this process more and more productive labor (= division of labor) is employed and the amount of commodities (value) produced every year by the society in question grows larger. When this occurs, the size of the market also grows in correspondence to the increase in the value of commodities. This is the case because whether surplus products are productively consumed as capital or dispensed as revenue for the maintenance of unproductive labor, in either case the fact that products are consumed remains the same, and in this way the value of surplus products regulates the size of the market. The market thus cumulatively expands in accordance with the degree to which surplus products are converted to capital. Here what is required is the security of property rights, nothing *more* and nothing *less*. Since if the security of property is violated (because of the existence of feudal privileges, for example) the possibility of improving one’s own position through expansion of capital stock is lost, the formation of this stock will immediately cease or be greatly retarded; conversely, if the government engages in some kind of “control” beyond the securing of property rights—even if subjectively this is done for the “public” purpose of increasing the wealth of society or the nation—this does not add anything to the overall stock (or market) within the society, but simply shifts the sector in which stock is invested from where it should properly be to somewhere else, and at the same time alters *correspondingly* the structure of the market; what’s more, according to Smith, this distorts the natural order of investment that should arise from a state of nature in the manner of a pre-established harmony (and therefore also the naturally developing structure of the market that corresponds to it), and so ends up being nothing

5 As a simple historical fact, markets first formed as foreign markets (that is, as relationships between regions). Therefore, in this text (Book I), whose purpose is not to theoretically pursue the formation of markets, Smith accepts this fact at face value and states that “civilized societies” began near rivers and other places connected to foreign markets. As will be stated in Chapter 1 of Part Two in this book [*The Birth of Economic Science*], these “civilized societies” were not originally “capitalist societies.”

but a hindrance to the creation of wealth. While relating his inquiry to the conditions required to maintain the division of labor, Smith thus approaches the question of what the government should adhere to (as a legal condition required for this expansion of wealth). Here the reader will note the reemergence of Smith's "constant subjects" [the idea that a nation's prosperity (opulence) is not brought about by coercive intervention, but rather by things running their natural course].

In any case, it is with this theory in hand that Smith approaches history as it has actually unfolded.

[On Book III]

Smith places the fundamental structure of the market between town and country (industry and agriculture). Its core is the division of labor and material metabolism that occurs between town and country, and consequently also the division of labor and material metabolism that occurs among inhabitants of each town. As a result, the degree of development of town industry and commerce is ultimately constrained by country markets *somewhere*, but while there are cases in which these market foundations of town industry are located *directly* in the same nation, there are also cases in which they are to be found abroad. Correspondingly, there are some cases in which commerce has its roots in domestic markets and others in which these roots are located in foreign markets. This market structure "model" is determined by the structural order in which stock is allocated, and this order (or structure) of the allocation of stock and the corresponding "model" of market structure, as a determinant of how quickly the wealth of the each nation develops, and, at the same time, of whether there is a possibility of nations coexisting peacefully and independently, forms one of the central concepts of Smith's theory. Later we will return to this market structure that developed in a distorted manner as a cause of conflict between European countries and of resulting crises that have occurred, but first, together with Smith, let us examine what circumstances gave rise to this distorted market structure in the first place. In Book III, his Book on economic history, Smith conducts a study in comparative history, investigating the establishment of this "model" and the historical "circumstances" (= foundations) that caused it to arise, with a focus on the era⁶ of the formation of market relationships during which the prototype "models" of market structure and capital accumulation (= allocation) were established.

So in the "natural order," to begin with stock is allocated to agriculture, industry arises by taking the surplus products of the rural countryside as its material foundation via markets, and this in turn establishes conditions conducive to the development of agriculture. In this way, while forming a rich domestic mar-

ket, industry is separated from agriculture (and through this process town from country) and further developed. The industry of towns that has been developed on the basis of domestic markets then begins to engage in production aimed at foreign markets. Backed by this productive foundation, commercial capital emerges, and, in accordance with the production (= market) circumstances described above, first domestic and then foreign commerce begins to be conducted. In the “natural order,” the investment of stock in agriculture, industry and commerce is carried out, and through it first the domestic market and then foreign markets are formed and developed. This is the natural progression of opulence, and it is in such cases that the development of opulence goes most smoothly. According to Smith this is the case because the amount of (surplus) products that would produce the same productive capital is greater when used for industry than when used for commerce, and is greatest when used for agri-

6 In Smith’s view, this was the era of agricultural societies.

“In a yet more advanced state of society [as a result of progress from nations of hunters (in which there is neither ownership nor any fixed division of labor) via nations of herders (in which ownership of stock (= movable property) emerges)]; among those nations of husbandmen who have little foreign commerce, and no other manufactures but those coarse and household ones which almost every private family prepares for its own use” (WN, V.i.a.6). At the same time, this is also the period during which domestic markets are created. “The complete division of labour, however, is posterior to the invention even of agriculture. By means of agriculture the same quantity of ground not only produces corn but is made capable of supporting a much greater number of cattle than before. A much greater number of people, therefore, may easily subsist in the same place. The home market, in consequence, becomes much more extensive. The smith, the mason, the carpenter, the weaver and the taylor soon find it for their interest not to trouble themselves with cultivating the ground, but to exchange with the farmer the produces of their several employments for the corn and cattle which they have occasion for. The farmer too very soon comes to find it equally for his interest not to interrupt his own business with making cloaths for his family, with building or repairing his own house, with mending or making the different instruments of his trade, or the different parts of his household furniture, but to call in the assistance of other workmen for each of those purposes whom he rewards with corn and with cattle” (A. Smith, ‘First Fragment on the Division of Labour,’ in *Lectures on Jurisprudence (The Glasgow Edition of the Works and Correspondence of Adam Smith, V)*, edited by R. L. Meek, D. D. Raphael, and P. G. Stein, Indianapolis: Liberty Press, 1982, p. 584). In this way, a domestic market emerges in agricultural nations based on the separation of agriculture and industry. Smith includes ancient China and Egypt among these agricultural nations, but states that neither agriculture nor domestic markets developed because the monarch’s interest was only in rent and industry was suppressed. Smith’s view was that, while mediated by the policies of mercantilism (the “system of the modern age”), overseas commerce and industry finally emerged in modern Europe, and around this axis domestic markets were formed (see his criticism of physiocracy in Book IV [WN, IV.ix.49]). So how were domestic markets formed in the “modern era”? And was this the only possible route to the formation of these markets?

culture where “nature labours along with man.”

It is the rich development of this agricultural-industrial domestic market originating in agriculture that forms the foundation of each nation’s opulence, and America provides a characteristic example of this. In the case of Europe, however, this order of investment and market structure has to a greater or lesser extent undergone changes and been inverted; without waiting for the investment of capital in agriculture, and therefore without the foundation of an exchange of materials (= domestic market) between agriculture and industry within the country in question, the commerce and industry of towns jumped straight into a development tied to foreign markets, and the investment of capital in agriculture—and therefore the formation of genuine domestic markets—eventually came to be conducted on the contrary as a consequence of foreign trade.

If we extend our examination a bit further, Smith also focused his attention on the following fact: in this case even within the industry of this society, in contrast to the industry that is an “offspring of agriculture” and has been separated from agriculture and developed with domestic markets as its foundation described above (and which begins with “coarse” manufacturing and then with this as its foundation moves on to the manufacture of more “refined” products suitable for foreign trade), the European industry that developed as an “offspring of foreign commerce” based on foreign markets began straight away with the manufacture of “refined” goods (of a nature suitable for foreign trade, and thus requiring “protection” because they were in competition with foreign goods of the same type). This point will become very important in the analysis of the mercantile system in Book IV, where, as we shall see later, the legal condition required for the development of industry is grounded not on the imposition of “protective” customs but on the abolition of various feudal relationships (that impede the development of agriculture) and the formation of liberal land ownership. Putting aside this issue for now, in any case Smith states that in this way the order of investment and the structure of markets in Europe has been to a greater or lesser extent inverted, and as a result there has been a corresponding delay in the progress of opulence in comparison to America.

So how did this “model” of distortion arise? In order to pursue this question, Smith employs the theory regarding the conditions for the accumulation of stock described above (while conversely verifying it on the basis of actual history), conducts historical comparisons with a focus on the era of the formation of market relationships, and thereby clarifies why the very existence of feudal land ownership was determinative at the time markets first arose. The original productive capacity of land, expressed by the one third of what is produced being charged as rent, would presumably have enabled the rapid development of domestic markets if it had been left in the hands of farmers and used as stock.

This did in fact occur in America where there was nothing to impede the investment of capital in agriculture, and formed the foundation of that country's opulence. In Europe, however, under the feudal system all surplus products went to landlords and were spent on the maintenance of unproductive labor. And the security of "tenant farmers," who ought to have been the owners of stock, was not guaranteed. This hindered the investment of capital in agriculture, which should have been the starting point of all forward motion and impeded the formation of domestic markets. In this way the accumulation of stock occurred outside of farming villages after the formation of free cities, and these cities that lacked a domestic agricultural market foundation naturally had no choice but to seek a market foundation in foreign countries. Moreover, the "liberty" that was granted exceptional acceptance and became the privileged position of free cities acquired a monopolistic character in the commerce and industry conducted in these areas, and by doing so, took away from farming villages and further delayed their development. In this way the basic model of the inverted market structure in Europe was established. But that was not all. As a result of this, the investment that should have flowed first into agriculture was conducted conversely as a consequence of foreign trade, and the same factors that hindered investment in agriculture at the start continue even today, with the "monopoly of land" and old privileged authority to a greater or lesser extent intact, to impede the investment of capital in agriculture and thereby hinder the formation of rich domestic markets. But the *natural* starting point of history—as is seen in America—is liberal land ownership, that is, the state of affairs in which farmers and landowners interact with each other as owners of commodities *at the same level and without a hierarchy*. Smith saw this *logical* starting point of the whole system that ought to have been birthed naturally at the beginning of history as having emerged upside down in actual history because of the class (= privileged) interests of landlords, and, after a long period of history during which it caused the crisis in Europe discussed below, was only now finally beginning to realize itself in its proper form. It is a law of history, to be discovered by philosophers in the "course itself of things," that must be allowed to manifest in actual history.

In this way, through a comparative study of history with a focus on the period of the formation of market relationships, Smith discerned (1) the logical (= natural) starting point of the formation of capitalism, (2) the prototype "model" that had inverted the reproductive trajectory of European capitalism, and (3) the class interests that regulated this model, and furthermore (4) discovered that, in the case of this inverted model, the natural starting point of history was gradually being realized as a consequence of history as it unfolded.

[On Book IV]

Through his analysis focusing on the period during which this model was established, Smith, who had thus identified the model in Europe (= distortion of the market structure) and the historical “circumstances” (= foundation) at the time it first emerged (although it still appeared in the present as something that had to be historically sublated [*aufgehoben*]), took this analysis a step further and arrived at an examination of the current state of affairs in which Europe is in “crisis” (Book IV).

This is a world in which the fetishism of money that makes a mockery of human beings becomes starkly apparent in the midst of dog-eat-dog international conflict. Aroused by violent national animosity, traders from rival nations “with all the passionate confidence of interested falsehood” proclaim “the certain ruin of each [nation], in consequence of that unfavourable balance of trade which, they pretend, would be the infallible effect of an unrestrained commerce with the other.” In order to protect the domestic market and obtain advantageous conditions in foreign markets for the sake of the “balance of trade,” various forms of industrial development policies, diplomacy (= forcible intervention in foreign countries), and, ultimately, the establishment of colonies that constitute monopolistic foreign markets must be undertaken. This is in the “public interest,” because in this dog-eat-dog world the nation’s industry would presumably lose its market foundation and collapse without such policies. In Smith, however, these circumstances are not simply positioned as necessary givens without any presuppositions; up until the previous Book [Book III] he has been conducting a fundamental analysis of what gave rise to these circumstances and made them necessary. On the basis of his analysis in Book III, he thoroughly examines each state of affairs in which these mercantilist regulations are made necessary by a distorted or fragile market structure, and shows that rather than resulting in an increase in the wealth and power of the nations involved, on the contrary, these regulations further distort and weaken the structure of the market, spawn international conflict through the vicious circles they create, and lead to crises.

It may seem a bit redundant, but here I would like to once again touch on the relationship between Book III and Book IV.

We must not think of the relationship between Book III and Book IV as simply different domains in parallel. The themes of the analysis of Book III include the categorical discernment of the structure of markets as a root cause of later wars and crises, along with the discernment of the historical circumstances (= foundations) that necessitated this structure’s emergence, being conducted in the standards of the period of formation of its original model. Furthermore, they

include the discovery of the logical starting point (= “law of history” itself) that emerged in the midst of these crises as though breaking out of its mold. To this end Smith considered various countries in terms of comparative history from the perspective of opulence, but to this extent individually. And of course the direct target of his attacks was the old feudal privileges of landlords (and associated old type of privileged class interests) that formed the root or foundation of all later policies that would come to harm the natural progress of opulence.

In Book IV, however, what Smith attempts to analyze is the current state of Europe, a region that has developed with an inverted market structure on top of its feudal foundation while fomenting crises in the midst of international conflict. Here countries are not presented individually within the context of comparison as they were in Book III, but appear on the stage of history all together in their dog-eat-dog nature, as nations (= great powers) engaged in international conflict or war, led by politicians (or, in Smith’s words, “that insidious and crafty animal, vulgarly called a statesman”) who demonstrate unvarnished Machiavellianism with their slogans of increasing national wealth and power. Here it is clear what is being presented: the distortion or weakness of the market structure that has thus far been viewed as something hindering each country’s true *development of opulence* is now taken to be a root cause that places *nations in conflict with each other* and precipitates crises, and the full formation and development of domestic markets centered on the development of capitalism in agriculture by abolishing feudal privileges is no longer simply the *source of wealth* but now appears amidst this upheaval as a *condition of international peace and independence* and law of history capable of truly resolving these crises. Here in Book IV, Smith’s critical gaze, which in Book III had been turned toward the class-based privileged self-interest of the old feudal power structure (which by ignoring justice had impeded the investment of capital in agriculture and created the original model of the inverted market structure), turns toward the faulty prejudices of the coercive control implemented through the policies of Whig statesmen from the perspective of public utility, or, in Smith’s words, their efforts to “*sacrifice the ordinary laws of justice to an idea of public utility, to a sort of reasons of state*” (WN, IV.v.b.39).—They saw these policies as a national necessity, but according to Smith they were only necessary *because of the assumption* of a market structure that had been distorted by the existence of a foundation outside of these laws; what they were doing did not remove this assumption but rather implemented “control” on top of it, and, by moving capital from one sector to another, distorted the natural order of capital investment (and therefore the natural structure of the market), thereby stifling the growth of true wealth in each nation while fanning the flames of international conflict. The real issue to be addressed was the dismantling of this foundation itself.

By employing this method of analysis, Smith looked back at the same class interests (=landlords' lust for power and merchants' lust for market monopolies) that had stood in the way of the opulence of each nation as having, through the medium of the prejudices of politicians adopting a stance of national utility, precipitated international conflicts and crises while further distorting already distorted markets and increasing their frailty. The correctness of Smith's approach, in which he ascends from the division of labor to nations, and from abstract notions to concrete reality, seems evident.

To begin with, in Chapter One, Smith pulls back the veil of money, and, after making the general observation that the so-called balance of trade doctrine was in essence a set of policies designed to create monopolies in both foreign and domestic markets, enters into more detailed analysis, making it clear that custom policies and the bounty system implemented in the name of protecting domestic and foreign markets were in fact nothing more than efforts to protect the industry that was *the offspring of foreign commerce* (this is discussed in the interrelated Chapters Two and Five). In addition, Smith clarifies that this fragile market structure led to national prejudice and animosity (which are far more fierce than individual interests) between the Britain and France, the two wealthiest and most powerful nations, and to their being brought into conflict in the name of this peculiar balance doctrine that was incoherent even from the perspective of mercantilism (Chapter Three). He also clarifies that the money necessary for roundabout trade engendered a "preferential relationship" with Portugal and led to the British army having to take up even the national defense of this "weak ally" (Chapter Six. Chapters Three and Six are related to each other). Finally the issue of colonies, the inevitable consequence of mercantilism, its summation, and, therefore, the optimal stage for the activities of politicians in the spirit of the Whig system, is addressed, and they are subjected to frank criticism as the most corrupt organized monopoly (= domination) of all mercantilist policies.

The maintenance of this monopoly has hitherto been the principal, or more properly perhaps the sole end and purpose of the dominion which Great Britain assumes over her colonies. . . . The monopoly is the principal badge of their dependency, and it is the sole fruit which has hitherto been gathered from that dependency. Whatever expense Great Britain has hitherto laid out in maintaining this dependency has really been laid out in order to support this monopoly. . . . The late war was altogether a colony quarrel, and the whole expense of it, in whatever part of the world it may have been laid out, whether in Germany or the East Indies, ought justly to be stated to the account of the colonies. (WN, IV.vii.c.64)

To found a great empire for the sole purpose of raising up a people of customers may at first sight appear a project fit only for a nation of shopkeepers. It is, however, a project altogether unfit for a nation of shopkeepers; but extremely fit for a nation whose government is influenced by shopkeepers. Such statesmen, and such statesmen only, are capable of fancying that they will find some advantage in employing the blood and treasure of their fellow-citizens to found and maintain such an empire.

(WN, IV.vii.c.63)

But what was gained as a result of this approach? Monopolies of this kind served to raise the rate of profit of colonial trade, and in so doing also boosted profits in every sector of British industry. “The capital of Great Britain, one may justly say, has partly been drawn and partly been driven from the greater part of the different branches of trade of which she has not the monopoly; from the trade of Europe in particular, and from that of the countries which lie round the Mediterranean Sea” (WN, IV.vii.c.30), and this is undoubtedly a result of the generally high rate of profit of the colonial trade mentioned above. “By raising the price of her [Britain’s] produce above what it otherwise would be, it [the raising of rates of profit] enables the merchants of other countries to undersell her in foreign markets” (WN, IV.vii.c.28). “Our merchants frequently complain of the high wages of British labour as the cause of their manufactures being undersold in foreign markets, but they are silent about the high profits of stock. . . . The high profits of British stock, however, may contribute towards raising the price of British manufactures in many cases as much, and in some perhaps more, than the high wages of British labour” (WN, IV.vii.c.29). And that was not all. The decline in ability to compete in foreign markets that occurred as a result of this increase in rates of profit (at the same time manifesting as a movement to reduce wages) led to British trade becoming increasingly tied to the colonial market as its sole market. Smith thus describes the current instability of trade as follows.

The industry of Great Britain, instead of being accommodated to a great number of small markets, has been principally suited to one great market. . . . In her present condition, Great Britain resembles one of those unwholesome bodies in which some of the vital parts are overgrown, and which, upon that account, are liable to many dangerous disorders scarce incident to those in which all the parts are more properly proportioned. A small stop in that great blood-vessel, which has been artificially swelled beyond its natural dimensions, and through which an unnatural proportion of the industry and commerce of the country has been forced to circulate,

is very likely to bring on the most dangerous disorders upon the whole body politick. The expectation of a rupture with the colonies, accordingly, has struck the people of Great Britain with more terror than they ever felt for a Spanish armada, or a French invasion. . . . In the total exclusion from the colony market, was it to last only for a few years, the greater part of our merchants used to fancy that they foresaw an entire stop to their trade; the greater part of our master manufacturers, the entire ruin of their business; and the greater part of our workmen, an end of their employment.

(WN, IV.vii.c.43)

Such are the unfortunate effects of all the regulations of mercantile system! They not only introduce very dangerous disorders into the state of the body politick, but disorders which it is often difficult to remedy, without occasioning for a time at least, still greater disorders.

(WN, IV.vii.c.44)

However, the conditions required for opulence were at the same time also the conditions required for independence. Just as America, in which without the fetters of land ownership the rich formation of domestic markets originating in agriculture had been accomplished, displayed the fundamental model of the progress of opulence, so too did it display the fundamental model of a country's independence. As I stated in my description of Book III, when the allocation of capital develops in the normal order of agriculture → industry → commerce without being impeded by aspects of feudalism, industry separates from agriculture and develops as its own sector. As a result, to begin with the "coarse" industry that had traditionally been carried out while being bound to agriculture separates from (management of) agriculture and develops while reciprocally forming a market between itself and agriculture, the womb from which it has emerged. It is this "coarse" industry descended from agriculture (unlike the refined industry suited to trade) that displays the most tenacious resistance to foreign industry. No foreign competition, or even coercive colonial policy, can squash it. To the extent the agriculture that is its womb exists, it will develop to a corresponding degree. The foundation of the development of industry and a country's independence lies not in the protection of industry from foreign products, but in the formation of the conditions for the development of agriculture through the investment of capital, or, in other words, in the abolishment of feudal systems and formation of liberal land ownership. This is shown by the history of America, a colony. Its coarse industry, an offspring of agriculture, formed the foundation of its domestic market and achieved tireless growth in spite of the various oppressive systems of its mother country of Britain. And now, atop this solid foundation, refined industry was about to emerge. Having reached this

stage the industry-oppressing policies of Britain are indeed harmful, but will Americans put up with this oppression forever? Smith poses this question and replies in the negative.

How obstinately the city of Paris upon that occasion defended itself, what a dreadful famine it supported rather than submit to the best and afterwards to the most beloved of all the French kings, is well known. The greater part of the citizens, or those who governed the greater part of them, fought in defence of their own importance, which they foresaw was to be at an end whenever the ancient government should be re-established. Our colonies, unless they can be induced to consent to a union, are very likely to defend themselves against the best of all mother countries as obstinately as the city of Paris did against one of the best of kings. (WN, IV.vii.c.76)

They are very weak who flatter themselves that, in the state to which things have come, our colonies will be easily conquered by force alone. (WN, IV.vii.c.75)

So first we saw that Smith's theoretical activities, from his writings in the *Edinburgh Review* through the *The Theory of Moral Sentiments* and culminating in *Wealth of Nations*, were conducted within a maelstrom of imperialist wars fought on "the basis of primitive capitalism"—intense conflict between nations, the scramble for colonies, and the ceaseless wars between great powers they caused. Then we saw that from a global perspective the two issues of the abolition of feudal land ownership (the French revolution) and liberation from the coercion of states with a primitive accumulation of capital (breaking down the old colonial system) appeared superimposed on each other in actual history. Smith's answer is as stated above. Let me summarize. According to him, the solution is the abolition of feudal land ownership and international free trade based on it.

III

A society formed in this way is in fact the society depicted in the first two Books, the so-called "theoretical books," of *Wealth of Nations*. "All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men"

(WN, IV.ix.51). Here each person is positioned only as a “merchant” (= owner of commodities), and the overall structure of society (= its structure of productive powers and classes) is in all respects regulated by “exchange.” Smith’s theory of the market itself depicts the process by which a “commercial society” molded by this exchange emerges as a historical necessity and natural aspect of the world despite being hindered by class interests and political prejudice. From the perspective of logical construction, however, it goes without saying that a theoretical understanding of this commercial society as the natural state of the world must come first, since his theory of the market itself is premised on an understanding of the process of reproduction in the case of a full flowering of this kind of relationship of capital, that is, a theory of reproduction as P . . P [circuit of productive capital], and is indeed nothing other than a concrete application of this understanding to the history of the formation of relationships of capital.—It is just as when Lenin premised his theory of the market on Marx’s theory of value (= theory of reproduction) and took this as a process that, while destroying the foundation of feudal land ownership, shaped the relationships of capital found in the stage of imperialism, the highest stage of capitalism. What is at issue is Smith’s understanding of reproduction as P . . P, Marx’ understanding of reproduction as C’ . . C’ [circuit of commodity capital], and the methodology of the concrete application of these viewpoints.⁷

7 Along with the distinctive Britishness of mercantilism, the Smithian perspective that understands primitive accumulation is readily apparent in the following passage from Smith on the development of British capitalism in agriculture. He writes, “To this species of tenancy succeeded, though by very slow degrees, farmers properly so called, who cultivated the land with their own stock, paying a rent certain to the landlord. When such farmers have a lease for a term of years, they may sometimes find it for their interest to lay out part of their capital in the further improvement of the farm; because they may sometimes expect to recover it, with a large profit, before the expiration of the lease. The possession even of such farmers, however, was long extremely precarious, and still is so in many parts of Europe. They could before the expiration of their term be legally outed of their lease by a new purchaser. . . . If they were turned out illegally by the violence of their master, the action by which they obtained redress was extremely imperfect. It did not always reinstate them in the possession of the land, but gave them damages which never amounted to the real loss. Even in England, the country perhaps of Europe where the yeomanry has always been most respected, it was not till about the 14th year of Henry the VIIIth that the action of ejectment was invented, by which the tenant recovers, not damages only but possession, and in which his claim is not necessarily concluded by the uncertain decision of a single assize. . . . In England, therefore, the security of the tenant is equal to that of the proprietor. . . . There is, I believe, nowhere in Europe, except in England, any instance of the tenant building upon the land of which he had no lease, and trusting that the honour of his landlord would take no advantage of so important an improvement. Those laws and customs so favourable to the yeomanry have perhaps contributed more to the present grandeur of
(continued)

England than all their boasted regulations of commerce taken together” (WN, III.ii.14).

The establishment of cultivation rights in competition with landlords and the liberty of commodity production—the rapid development of capitalism in British agriculture was a result of this foundation. Smith is correct in asserting this. And the establishment of the right to cultivation has been growing stronger and stronger! The foundation of development has also thus been strengthened. Here again Smith is perfectly correct. This is the “exact opposite” of the view in which the basis for the development of agricultural capitalism is taken to be the right of landlords to confiscate land and the liberty of buying and selling plots. What Smith did not see, however, was that the establishment of cultivation rights and agricultural capitalism was driving all of the peasants from the land, and while “the right to cultivation has been growing stronger and stronger,” the subjects who enjoyed it has changed completely; those who have reaped the right of cultivation are not peasants, who have been driven from the land in question, but rather capitalist farmers. Here the true nature of the primitive accumulation policies enacted after the Puritan (= Glorious) Revolution, which played a violent role in transforming money into capital on the basis of the perfect liberty of commodity production, is displayed, as is the true nature of Smith’s theory insofar as he does not address the fact that within this overall process commodity producers were undergoing a definitive transformation.—For a comparison to Japan, see Professor Takeyoshi Kawashima’s, *Shoyūkenhō no Riron* [*Theory of Property Rights Law*], [Tokyo: Iwanami Shoten, 1949,] p. 54.—In Smith’s view, in response to the degree of confirmation of property rights to the products of labor of direct producers in competition with landlords, serfs began to engage in sharecropping, and once direct producers obtained complete liberty yeomanry-farmers then emerged (note this relationship between yeomanry and farmers). This point corresponds to the following understanding—“That system of laws, therefore, which is connected with the establishment of the bounty, seems to deserve no part of the praise which has been bestowed upon it. The improvement and prosperity of Great Britain, which has been so often ascribed to those laws, may very easily be accounted for by other causes. That security which the laws in Great Britain give to every man that he shall enjoy the fruits of his own labour is alone sufficient to make any country flourish, notwithstanding these and twenty other absurd regulations of commerce; and this security was perfected by the revolution much about the same time that the bounty was established. . . . In Great Britain industry is perfectly secure; and though it is far from being perfectly free, it is as free or freer than in any other part of Europe” (WN, IV.v.b.43).

Smith also says, “. . . the period of the greatest prosperity and improvement of Great Britain has been posterior to . . . the national debt. But the national debt has most assuredly not been the cause of it” (WN, IV.v.b.44). In the same vein, he could presumably also say that while the development of British capitalism came after primitive accumulation, primitive accumulation was not its cause; the former would have occurred regardless of the latter. In fact, the entire argument for the theory of policy Smith develops in Book IV concerns the criticism of individual policies as levers of primitive accumulation. Smith’s argument is as follows. While on the one hand the Puritan (= Glorious) Revolution had upheld liberty and justice (the establishment of property rights!), on the other hand it had also strengthened “nationalistic” monopolistic policies. This corruption and oppression had now reached an unbearable degree. It had to be done away with. This was Smith’s view of primitive accumulation, and it corresponded to his understanding of capitalist accumulation. It can be seen in the manner in which he excludes primitive expropriation as the foundation of the entire process, and understands it as liberty \rightleftharpoons monopolies.

While avoiding for the most part any analysis of Smith's theory of political economy (= theories of value and reproduction), leaving this, so to speak, as an empty space, in this text I have addressed it from only two perspectives: the process of descent toward this theory, and its concrete application to history. I have done so because it would not have been possible for me to make clear the nature of the theories of value and reproduction themselves if I had followed Smith's order of presentation and adopted a method of ascending from abstract concepts to concrete realities. Instead, for the time being what was needed was a clarification of what Smith was focusing on as he went about the construction of this theory. I believe that I have at last reached a point at which Smith's overall system of political economy can be reconstructed from its most abstract elements by making reference to the "critique of political economy." [This is examined in Part Two of Uchida's book, "Analysis of the System of *Wealth of Nations*.]

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