

# Kyoto University Economic Review

MEMOIRS OF  
THE DEPARTMENT OF ECONOMICS  
IN  
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VOLUME I 1926



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## EDITORIAL FOREWORD

Japan, during the two hundred and fifty years of the Tokugawa Era (1603-1867), secluded herself from the nations of the world, with the exception of China and Holland, with both of which she engaged in a trade relationship. During that era Japan managed to import the Western learning through the medium of Holland. All this was changed after the Imperial Restoration of 1868 when Japan joined the family of nations at the urgent invitation of Western countries, particularly the United States. Once the obstacle was removed, our country freely imported Western science, art, industrial technologies and culture. Occidental ideas and thought found their way into the minds of the Japanese people, and the natural as well as social sciences were eagerly accepted by our scholars and statesmen. Our country set its mind to cast off whatever was regarded as defective and abusive in our customs and traditions, and to borrow from the West everything that seemed worth importing. Things Occidental were fast imported from the United States, Great Britain, France and Germany. We have then absorbed and digested them and thereby enriched our own native culture.

Economics which is the object of our study was also imported from the West during the opening of our country. Although some of our scholars of the Tokugawa Era advanced their opinions regarding the economic affairs of their time and the scholars of the Dutch learning in particular

had some influence of Western economic ideas, their views on current economic problems were mostly fragmentary and were not systematized. Economics as a science was first imported into our country after the Imperial Restoration. It was first introduced to the Japanese scholars through English and American literatures, and then through those from France and Germany in the order given. Generally speaking, the first half of the Meiji Era (the latter half of 19th century) can be regarded as an age of translation. During this era our scholars were absorbed in importing Western economic thoughts. But during the second half (the beginning of 20th century) they began to show a critical attitude towards the imported ideas and doctrines which they evaluated at will, taking into consideration the peculiar history and special circumstances of our own. In recent years great strides have been made in the economic studies of our country—so much so that it will not be long before the Japanese Economic School can be established by our economists.

Many of the studies in the natural and social sciences already published in our country have had far-reaching effects in the advancement of science and the enhancement of human happiness, but as the majority of them were written in the Japanese language they have not been accessible to Western scholars. Although studies in the natural sciences have been published by our scholars through books, university, memoirs, reports of various associations and others all of which were written in Western languages, no similar attempt has, so far, been made as regards the studies in the social sciences, the result being that the real condition in the field of our economic science has been almost unknown to the Western countries. Realizing that such a condition is truly regrettable from the standpoint of intellectual cooperation which should be established by the scholars of all nations, the Economic Department of the Imperial University of Kyoto has decided to undertake the work of publishing a series of memoirs.

The memoirs are intended to be the organ through which the results of the studies conducted by the professors, assistant professors and lecturers of the University, are to be published in the Western language; and we regret to state that considerations of space have compelled us to omit many important works. The essays which are contained in the present memoirs, we believe, are of various kinds and are representative of the different economic fields. Some of them are of a general nature, others of a specific nature, some treat their subjects in full, others merely give rough outlines. We are confident, however, that the essays contained herein are sufficient to indicate the general tendency of Japanese economic studies.

As the present work is perhaps the first of the kind ever attempted in Japan, we anticipate various defects and shortcomings, which, however, we wish to eradicate in the course of time.

April 1926,

The Editorial Committee

## RULES

1. The Memoirs will be published twice or over annually from time to time.
2. The names of books and periodicals printed in italics are originally written in Japanese.
3. The work of translation of articles herein contained was done by Mr. Leonard Goroku Masui, of The Japan Times,

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NUMBER I

NEW THEORY OF SURPLUS VALUE  
AND THE HARMONY OF THE  
VARIOUS CLASSES OF SOCIETY.

1. INTRODUCTION.

The Marxian theory of surplus value divides social classes into capitalists or property owners and labourers or proletarians; bases its argument on the supposition that the interests of these two classes by their nature not only differ but are also contradictory to each other; and concludes that the ceaseless and ever-increasing class struggle will result in the destruction of the capitalistic class. The so-called surplus value is the capitalist's profit from the unpaid labor of workers, and involves the idea that the profit of the one means the loss of the other. I have pointed out and commented on the fallacy of this theory.<sup>1)</sup> I wish to present in this article what I believe to be a new and right theory of

<sup>1)</sup> *The Economic Review* of Kyoto Imperial University Economic Society (經濟論叢), No's 1, 3, 4, published in January, March and April, 1922.



surplus value and the harmony of the various classes of society, with the hope of elucidating economic truth and the real condition of society, on the one hand, and of rectifying the errors of Marxian Socialism, on the other.

## 2. THE *PRODUIT NET* OF THE PHYSIOCRAT SCHOOL.

The term "surplus value" (plus value), which is so much used by Marx and his followers, may be traced to the *produit net* of the School of the "Natural Order" or the Physiocrats, who maintained in the later part of the 18th century that, of the various industries, agriculture alone produces the *produit net*, or the wealth over and above the amount expended for production. Their argument runs somewhat in the following vein:<sup>2)</sup>

"Of the various industries, agriculture alone creates a net product. Here alone the wealth produced is greater than the wealth consumed. Barring accidents, the farmers reap more than they consumed, even if we include in their consumption their maintenance throughout a whole year, not merely during the seasons of harvest and tilth. This excess or surplus increases the wealth of a nation and is the essential factor of human civilization. It is not true of any other class of production, either of commerce or of transport, where it is quite evident that man's labour produces nothing, but merely replaces or transfers the products already produced. Neither is it true of manufacture, where the artisan simply combines or otherwise modifies the raw materials."

"Of course, such transfer or accretion of matter may increase the value of the product, but only in proportion to the amount of wealth which had to be consumed in order to produce it; because the price of manual labour is always equal to the cost of the necessaries consumed by the worker.

<sup>2)</sup> Gide et Rist, *Histoire des Doctrines Économiques*, 1ère éd. 1909 pp. 12-15.

All that we have in this case, however, is a collection of superimposed values with some raw material thrown into the bargain."

In consequence of the above view, merchants and manufacturers were regarded as an unproductive class (*la classe stérile*); but they emphasized the fact that the term "unproductive" implied no contempt for industry and commerce, nor did it connote that these industries were useless.

"It may be pointed out, on the other hand, that the gains both in industry and commerce are far in excess of those of agriculture. All this was immaterial to the Physiocrats, for they were gained, not produced. Such gains simply represented wealth transferred from the agricultural to the industrial classes. The agricultural classes furnished the artisans not only with raw material, but also with the necessaries of life. The artisans were simply the domestic servants of the agriculturists. If the artisans should get great gains by selling their products to the agriculturists, or in other words, if they should get gains which are greater than the sum of the values of raw materials and those of their daily necessaries,—then it would be like many servants in fine houses managing to make a very good living at their master's expense. The artisans' gains are derived from the net product of the agricultural classes."

### 3. THE THEORY OF THE TRIPARTITE DIVISION OF SOCIETY.

The Physiocrat School divided society into the following three classes:—1. A proprietary class consisting mainly of landed proprietors. 2. A productive class consisting of agriculturists. 3. A sterile class consisting of merchants, manufacturers, servants and members of the liberal professions. The unproductive class was considered to be next to the agricultural class in point of importance, while the proprietary class was placed at the head of all classes. The agricultural class, the Physiocrats thought, did not

create the land but had received it from the proprietors whom God has willed to be the first dispenser of all wealth. They are either the men who cleared and drained the land or else their rightful descendants. They have incurred or they are incurring expenditure in clearing the land, enclosing it and building upon it—what the Physiocrats call the “*avances foncières*,” which are the expenses incurred with a view to preparing the land for cultivation. In this sense the proprietors create the land—“*faire la terre*.”

The productive class never create the land, but merely rent it from the proprietary class. The agriculturists simply incur the original and annual expenditures, but never incur the *avances foncières*. The original outlay (*avances primitives*) is involved in buying cattle and implements which render service for a number of years, while the annual expenditure (*avances annuelles*) is incurred in connection with the actual work of cultivation, which recurs every year, such as the cost of seed and manure, cost of maintaining labourers. The productive class is entitled to keep for itself an amount equal to the sum of its annual investment and the annual repayment of the first or original outlay and should turn in the remaining net product to the proprietary class.<sup>3)</sup> The proprietary class, in turn, must pay to the State in the form of tax what remains after subtracting from its revenue which it receives from the agriculturists as ground rent, its past *avances foncières*, its living expenses, and its future *avances foncières*. This is a form of single tax on land.

#### 4. COMPARISON BETWEEN THE PRODUIT NET AND SURPLUS VALUE OF MARXISM.

A comparison between the theory of the produit net of the Physiocrats and the surplus value of Marxian Socialism reveals curious points of difference. (1). While the Physiocrats divided society into three classes, one of which is

<sup>3)</sup> Gide et Rist, *ibid*, 20-26.

composed of agriculturists, regarded as the productive class, Marxism divides society into two classes and regards one of them, namely, the working class, alone as productive. (2). While the Physiocrats revered the proprietary class or landed proprietors, who, they thought, created the land and was the first dispenser of all wealth in accordance with God's will, Marxists treat them as the parasites of society and despise them as a wasteful and unproductive element of society. (3). Although under the Physiocratic system, merchants and manufacturers are included in the unproductive class, their necessity in society is fully recognized; while, although Marxists place the employees of merchants and manufacturers under the productive class, the operators of agriculture, industry and commerce, whom they call by the name of capitalists, (including landowners) are regarded as unproductive. (4). Although the produit net of the Physiocrats is taken over by the proprietary class, it is returned to the agriculturists in the form of payments of expenses for daily necessities of this class; aids the production of the agriculturists in the form of the future avances foncières; and is used indirectly for the sake of the production of the farmers in the form of a tax. Whereas, in the case of Marxists, surplus value originates from unremunerated labour and tends to fatten the capitalistic class at the sacrifice of the labouring class, inasmuch as its creation and increase will enable the capitalists to impose more unremunerated labour upon workers. (5). The three classes given by the Physiocrats live a harmonious life and enjoy mutual help and preservation and they are destined to enhance their common interests. On the contrary, the two classes of Marxian Socialism are engaged in perpetual warfare and one of them, the capitalistic class, is bound to meet destruction in the end.

Despite the above mentioned differences, there are points common to both doctrines. Both point to the surplus of the value of products over the cost of their production. That is why I stated at the outset of the present discus-

sion that the word surplus value probably was derived from the word "produit net." Another point of similarity is found in the fact that, whereas the Physiocrats regarded the farmers' living expenses as part of the production cost, Marxism maintains that the labourers' living expenses are equal to the value of their labour power.

These two schools of economic thought lived in different times and their standpoints and aims were different from each other. The Physiocrat School asserted under the ancien regime, in the eighteenth century, economic liberalism (*laissez faire, laissez passer*), and revered the monarchical system and protected the agricultural class which was composed of the majority of the population. Marxism, on the other hand, maintained Socialism and Communism in the 19th century during the years following the close of the Industrial Revolution. We, who live in Japan, whose history, customs, systems and culture differ from those of Europe, are in a position where we can see the more clearly the defects and shortcomings of these two doctrines, especially because the social conditions of the world have greatly changed since these years.

##### 5. MERITS AND DEMERITS OF THE TWO THEORIES ON SOCIAL CLASSES.

The Physiocrats' division of society into three classes may have fitted the social circumstances of their time. But they made a mistake by maintaining that the agricultural class was the only productive class, just as a similar error was made by the Marxists who maintained that the labouring class is the only productive class, because both Schools failed to understand the true meaning of production. Marxists' division of society into the capitalists and workers or the capitalistic class and the proletarian class cannot be said to have suited even the social circumstances of the 19th Century, and it is a great theoretical blunder.

Whereas, ordinary economists include in the producers or in the productive co-partners the landowners, capitalists, entrepreneurs, and labourers, the Marxists group put the first three into one class and call them "capitalists" or "propertied class," regarding them as "unproductive"; and this unproductive or capitalistic class is opposed by the Marxists to the labourers who are called the "proletarians" or the "non-propertied class." I have pointed out errors involved in this division of social classes in my recent book entitled "The Wages and Profits," and therefore I shall not repeat them here.

The Physiocrats' conception of the productive function of the proprietary class—that the landed proprietors create the land through various investments—was largely based upon the real facts of the time; it is also true of the conditions in our own country. In the civilized countries—old countries in particular—no soil is rented to tenant farmers in its primitive natural condition. In most cases, its first owner prepared it and his descendants improved it continuously; and those who have purchased the land have paid for superimposed investments on the land or, in other words, the capitalized value of the land; and not only for what Ricardo calls the economic rent or rent for the land's original and indestructible powers. The greater portion of its payment is the remuneration for the investment made on the land. In consequence, it is clear that the Marxists make a great error when they regard the landed proprietors as an entirely unproductive class and the rent as the exploitation of the fruit of the labour of tenants. On the other hand, although the Physiocrats go to an extreme when they revere the landed proprietors saying that they create the land and establish the avances foncières, their theory is based upon facts, and in this respect is much superior to the Marxian doctrine. Moreover, the Physiocrats not only point out the economic facts about the landowners but also their moral obligations, and herein lies their great contribution to society in general.

## 6. COMMON DEFECT OF THE TWO THEORIES.

It is particularly pleasing to note that in sharp contradistinction to the Marxian theory of class struggle, the Physiocrats believe in a harmony of the different classes. The former regards society as being constituted of hostile classes ready to fly at each other's throat, while the latter presents a view of society attractive even for angels. It is indeed a curious phenomenon that such opposing theories should have something in common. I have already pointed out that there is something common between the theory of the produit net and that of surplus value. I wish to point out here that the views of the Physiocrats regarding exchange correspond with those of the Marxists.

Exchange in ordinary cases, the Physiocrats thought, was unproductive, for by definition it implies a transfer of equal values. The case is only conceivable in which one party gains through the loss of the other. All trade, therefore, was considered by the Physiocrats to be unproductive, and business men and manufacturers were regarded as unproductive. Marx quoted from such Physiocrats as Le Trosne and Mercier de la Rivière to prove that the exchange of goods gives advantage only in respect of use value but never of exchange value and that in consequence it never creates a surplus value; and he also cites the proverb that identical things never give rise to any gain ("Wo Gleichheit ist, ist Kein Gewinn.") The mistake common to the Physiocrats and Marxists is that they both failed to understand the real nature of value; and in consequence their produit net and surplus value are also based upon errors. It is not my main purpose herein to point out their errors. I wish to present what I believe to be a new theory of surplus value and of the harmony of the social classes.

## 7. OUTLINES OF NEW THEORY.

I have termed mine a "new theory of surplus value" in contradistinction to the Marxian theory. I confess that it is based on the current economic theories. In the first place, the Marxists are wrong when they suppose that labour is the only basis of value. In general the true basis of the value of goods is their utility. By utility I mean the power to satisfy human wants. However, things will have no value if they exist in abundance; an example is found in air. Therefore, besides utility things must have scarcity in order to have the quality of value. An uncultivated fertile land, for instance, has value although no labor has been applied to it, because it has both the qualities of utility and scarcity. However much labor may be applied, things will have no value if they have no utility. An example can be found in the case of a Roman tyrant who commanded criminals to level a mound and then build it again.

Production of goods means creating of utility. Products will have value because their quantity is limited. We can, therefore, say that the production of goods is the creation of value. Nature, labor and capital are three elements of production. Nature sometimes creates value; an example can be seen in the case of a wild fruit getting ripe without human labor. But the production of such fruit will be doubled with the cooperation of labour, and capital such as farm implements, minerals, etc.. That which unites the three elements of production is known as industrial enterprise, and one who undertakes it is known as an entrepreneur. All production requires cost, that is, in order to produce value some values must be sacrificed. From the standpoint of the private economy of an entrepreneur, the remunerations for the three elements of production is his cost of production. These remunerations are: rent for the land, interests for the capital and its repayments, and wages for



the workers. When these three elements of production are properly united, a surplus value will appear. From the viewpoint of an entrepreneur's private economy, such a surplus is his profit. But viewed from the standpoints of the capitalist or the labour a surplus value is found in the rent and interest and in wages. Because the land is properly used, the landowner will get a remuneration which is greater than the outlay put on it; because the labourer was properly employed he will be paid a wage which will be more than compensate his toil and pain; and, because capital is suitably used, the capitalist gets a profit greater than his expectation.

In general, the productive classes, or the four co-partners of production, the landowners, capitalists, labourers, and entrepreneurs, all get a surplus value through proper cooperation. Both the man who supplies capital and the man who uses it will get a benefit; and both the worker who sells labour and the one buys it will also get a profit. These four classes which are mutually beneficent by their very nature are to cooperate together. Such is a rough outline of the new theory of surplus value and of the harmony of social classes.

Although Ricardo is not entirely wrong when he attributes rent to the original and indestructible powers of the land, it is clear that if no capital or labour is applied to the land, it will produce very little if at all. Agricultural labour of seeding, cultivating and crop-gathering as well as agricultural capital of seeds, minerals, farm implements, cattle, and barns, can only produce wealth in concert with the original and indestructible powers of the soil. Supposing the productive power of each of these three elements to be 10, if they are properly united, they will produce 50 instead of 30; and if the productive expense is represented by 20, what remains after subtracting this from 50, namely, 30, will be surplus value. In the case of an ordinary farmer, this surplus will be entirely his own profit. In the case of a tenant, this surplus will be fairly distributed be-

tween him and the landlord, provided proper cooperation existed between the two. The landlord gets the benefits of capital and the tenant's labour, while the tenant gets those of capital and the landlord's soil; and thus their benefits are mutual.

Although in Europe a proprietary class such as the Physiocrats described and venerated has gradually diminished and though in our own country we have many tenancy disputes in recent years, it cannot be gainsaid that, in general, cooperation between the landlord and the tenant will enable both to produce a greater surplus value. Tenancy disputes are only temporary abnormal phenomena, while cooperation is a permanent reality. The same thing can be said of the relations between employers and employees in industry. Their close cooperations—workers being industrious, skilful and faithful, and employers having wisdom, humanity and intelligence—will certainly give rise to a greater surplus value. The labourer's productive power decides the maximum amount of his wages, while his standard of living fixes the minimum. And, since raising of the worker's standard of living tends to expand his productive power, it follows that, if the employer should pay the worker a wage higher than his standard of living, the former's profit will also be augmented. It is clear that their cooperation will result in increasing surplus value.

The foregoing truth is also seen in the cases of loaning of capital and of selling and purchasing of goods. It is self-evident that exchange benefits the two parties. The utility and value of goods are not the same for all persons in all places and at all times, and it is because of this fact that financial and commercial transactions between different individuals and countries result in benefits to the parties concerned. Such a clear truth as this was not understood by both the Physiocrats and Marxists because of their erroneous conceptions of value. Two things are required for an exchange which is mutually beneficial to the parties: the parties should stand on an equal footing and free com-

petition should be allowed. When monopoly exists, or where a stronger state exercises pressure upon a weaker one, any benefit accrued to the one often means a loss to the other. For this reason, harmony between social classes and international cooperation are the two indispensable conditions for the creation of surplus value.

#### 8. CONCLUDING REMARKS.

In addition to the conditions above referred to, may be mentioned the favour or grace of ancestors, sages, society and the State which expands, extends, and perpetuates the favour. One will have to undergo a great pain and difficulty if he attempts to reach a distant point by swimming across the river, but his toil will be greatly lessened if he constructs a raft, and uses sails, oars and rudders, especially when if he is aided by a favourable wind or current. Aids from rivers, currents, and winds are Nature's favour. We owe to sages for inventing or contriving a rafts, sails, and rudders which are capitals, and for extending knowledge concerning their use; and we owe to our ancestors for our being able to get the benefits of these through their efforts not only to preserve these capitals, but also to accumulate as well as improve them. By the favour of society I mean the benefit arising from the division of labour among the population. Some cut down trees, others construct vessels; some cultivate hemp and make sails, and others become sailors. They thus cooperate in the division of labour to their mutual benefits. The favour referred to has greatly expanded inasmuch as ship-building industry and the art of navigation have shown a remarkable progress in modern times.

Because of the discovery of steam power and electricity, the favour of Nature greatly increased. The favour of sages also increased because of inventions for the utilization of various natural powers. We owe to the thrift of our ancestors for our ability to build many vessels and machines

and to maintain and preserve them. It is almost inconceivable how greatly we have been benefitted by the great division of labour which resulted from the development of ship-building industry and navigation. However, it should be noted that we are able to receive the favour and benefits because of the existence of the State whose favour makes them secure and certain. Just as the human body gets the benefits of air and sunlight, the people receive those of land, rivers, and seas perfectly through the organization of a State; and the difference in the forms of States is immaterial in this respect. History shows that sages and philosophers administered government and made laws as officials of the State; and those among the people themselves were enabled to use their intelligence and wisdom under the protection and encouragement of the State. The favour of sages, therefore, resolves itself in the end into that of the State. Our ancestors received the favour of the State during their life time, while the present society prospers under its protection. In consequence, it can be said that the favours of ancestors and society only reflect the radiant light which they receive from the State.

I have singled out one example but it can be applied in all social phenomena. What I wish to emphasize is the fact that every person, whether he be a capitalist, landowner, or labourer, and every class whether it be the agricultural, commercial, industrial, or professional,—all receive the benefits of Nature, of ancestors, of sages and philosophers, and of society; and that the favours of the State unify those above mentioned favours. This is the foundation of my new theory of surplus value, and of the harmony of social classes. The Physiocrats' theory of the produit net and the Marxian theory of surplus value are fundamentally opposed to my main contentions. Of course these two theories contain some truth. The Physiocrats are correct when they emphasize the benefits of Nature, while the Marxists are justified in holding the favour of labour in such a high esteem. However, the Physiocrats excelled the

Marxists in that their theory of social harmony is much better than the Marxian theory of class struggle; furthermore, the former hinted the favours of sages and of the State. These two theories, however, are not complete and do not explain surplus value in full. What they have done is to emphasize some points to the neglect of others.

In writing this article I have used the accepted economic views and theories, and when I term it a new theory, I wish to oppose it to the Marxian theory. I dare not propound a new doctrine, and I find much truth in the Chinese saying that the best way to know the new things is to study the old ones. I find that some scholars in our country advocating Marxism, while others are advocating even more dangerous doctrines such as Syndicalism and Anarchism. My work is intended as an answer to their mad advocacy.

KINJI TAJIMA