

THE KYOTO UNIVERSITY ECONOMIC REVIEW

MEMOIRS OF THE FACULTY OF ECONOMICS
IN THE KYOTO UNIVERSITY

VOL. 10, NO. 1, OCTOBER, 1962 Whole No. 73

CONTENTS

General Causes of Capitalism and

World Market

Kyôko MATSUMI 1

Confucian Concept of State and

Modern-day Japan

Yasuo HOSHINO 26

The Kinds of Truth Conveyed by Hatime Kawakami

Yasuo DEGUCHI 39

THE FACULTY OF ECONOMICS, KYOTO UNIVERSITY

SAKYÔKU, KYOTO, JAPAN

KYOTO UNIVERSITY ECONOMIC REVIEW

MEMOIRS OF THE FACULTY OF ECONOMICS
IN
THE KYOTO UNIVERSITY

VOLUME XXXII NUMBER 2 (OCT., 1962) WHOLE NUMBER 73

GENERAL CRISIS OF CAPITALISM AND THE WORLD MARKET

By Kiyoshi MATSUI

PART ONE : State Monopoly Capitalism and the World Market

I. Capitalism and the World Market

Let us consider in this paper the relations of state monopoly capitalism to the world market, which have been one of the most important themes in the Marxian economic circles after the war.

As was once pointed out by Mr. Noriyoshi Imai, there are two model concepts of state monopoly capitalism: namely the 'crisis cause theory' and the 'productive relationships theory'. ("*State Monopoly Capitalism of Japan*" by Yoshinori Imai, pp. 19-20.) But as Mr. Imai himself who originated such a classification admitted, the classification over-simplifies the problem. 'The crisis cause theory' seeks the basis of the formation of state monopoly capitalism in the general crisis of capitalism, while 'the productive relationships theory' in the socialization of production. Nevertheless, the former does not necessarily deny the socialization of production nor the growing conflict between capitalism and ownership. It is also true that the latter

* Professor of Economics, Kyoto University.

theory cannot come at a true knowledge of the socialization of production without referring to the general crisis of capitalism. Therefore, if 'the crisis cause theory' and 'the productive relationships theory' were presented in such a pure form as either of them denies the other entirely, the discussion would inevitably drift into an abstract speculation. It is not going too far to say that state monopoly capitalism cannot be grasped in its concrete form until we place these two model concepts into their proper positions, is it?

Now, 'the productive relationships theory' that is gaining support in a certain circle in Japan seems to be confined to the apprehension of productive powers and of the socialization of the productive relationships corresponding to it in general and abstract terms presumably because of the primary influence of the old Zieschang theory of East Germany. As long as it remains to be an abstract and general idea, it is applicable to the world capitalism as well as to one-state capitalism. Or if we use another expression, its application demands the alternative of the world capitalism or one-state capitalism, and consequently will debar us from making a concrete analysis of one-state capitalism under a crisis of the world capitalism. Mr. Jyun Ikegami rightly pointed out in his paper that "the idea of the socialization of productive relationships corresponding to the socialization of productive powers=state monopoly capitalism is an extremely abstract and general idea so that it may as well be confined to an analysis within the framework of one-state capitalism. In this respect, it stands out in sharp contrast to the crisis cause theory that demands a careful consideration to be given to the international relations." (Minka: *New Interpretation of History*, 1960, No. 10, p. 8)

On the other hand, the crisis cause theory takes up state-monopoly capitalism as related to the world capitalism. What is important here in this case is not only that one-state capitalism under the general crisis must be grasped in a consistent manner in its relation to the world capitalism, but also that a new methodological approach needs to be established so that the new phase of capitalism may be grasped in concrete and historical terms. Although this is a thing that has become realized only as late as at the stage of monopoly capitalism, especially at the stage of general crisis, a consistent grasp of one-state capitalism and the world capitalism was necessary, of course, for a concrete and historical grasp of capitalism even at the stage of industrial capitalism preceding the stage of monopoly capitalism. My paper 'The World Economy in the Economics System' in July issue of *The (Keizaihyoron)* is an attempt to contribute towards establishing a new methodological approach as such. In this paper this author pointed out as follows: "Speaking in the abstract and general terms, capitalism can exist

either as one-state capitalism or as the world capitalism. But to speak in the concrete and historical terms, it assumes the form of a nation-state, and capitalism of individual nations is linked together through international trade, forming the world capitalism." (*Keizaihyoron*, 1962, 7, p. 81) In the above-referred article, Mr. Jyun Ikegami pointed out as follows "A consistent grasp of the general crisis and state monopoly capitalism leads us to discover the same unity in a primitive form in the intertwining process of a growing national economy with the world economy before the emergence of monopoly capitalism. Therefore our analysis must begin from that point." (*ibid.*, p. 11). It may safely be said that various studies concerning the plan problem of Marxian economics that have been conducted in Japan after the war made some contribution towards establishing such a methodological approach.

Nevertheless we can't say these studies have ever been successful in throwing light on the question of how consistently one-state capitalism and the world capitalism are actually related with each other. Lenin's "The development of Capitalism in Russia" is often quoted as a study that calls this point in question. Saying in this that the necessity of foreign market for the capitalism of one nation is a historical one, Lenin mentions the following three factors.

(1) Capitalism emerged out of a far-flung commodity circulation extending beyond the border. In this sense, capitalism has been tied up with the world market by foreign trade ever since capitalism was established. The development of foreign trade in the last years of Feudalism destroyed the natural economy of farmers, and gradually involved it into commodity economy. Therefore, by the time when one-state capitalism was established on the basis of domestic market in this process, it had already been tied up with the world market through foreign trade. We may as well consider in this case that the world market was rather the cause which brought one-state capitalism into being.

(2) Once one-state capitalism was established in this manner, capitalism now acted as the cause for the formation of the world market. The theory of capitalist reproduction is not designed to explain the actual process of reproduction itself, but to clarify the adaptation relations of individual parts constituting the social reproduction by means of establishing a mean size of constantly oscillating ones. Being an abstract and general theory, this applies to both one state capitalism and the world capitalism. To put it in a concrete form in historical terms, it may be shown as follows; the adaptation relations conceived in the abstract are constantly being destroyed under the influence of individual producers actually working independently towards

unknown markets. Various industrial branches that provide markets one with another do not develop evenly, but are outrunning one another. Far advanced industries require foreign trade for the acquisition of raw materials or the sale of products. Ricardo's theory of relative costs of production was to explain the necessity of foreign trade on the assumption that such an uneven development of various industrial branches was bound to create differences in productivity among themselves. This is just the opposite here. Capitalism is the very cause which brings the world market into being.

(3) Reproduction in the ages preceding capitalism meant the repetition of a production process on the same scale under the same conditions as before. For example, the slave labor economy of landlords, the natural economy of farmers, or the manual production economy of handicraftsmen. Whereas, capitalist reproduction is characterized by constant renovation of production method and the infinite expansion of production scale, both of which are the attributes of it. In the former case where an old production method long obtained, both the nature and the scale of a unit business could remain unchanged. A small neighboring market was found sufficient for a producer who could survive many centuries without overstepping the boundary. On the other hand, a capitalist enterprise inevitably goes beyond the bounds of a local market or the border line of its country. In this case also, capitalism creates foreign trade and expands the world market under the imperative necessity created by its own tendency to expand infinitely.

At the stage of industrial capitalism that preceded the monopoly stage, there were remaining a lots of frontiers awaiting exploitation for the expansion of the world market. Rapidly growing capitalism undermined the foundation of the old production methods, and gradually subjugated the whole world to the laws of capitalism. Thus, by the end of the nineteenth century the partition of the world market among advanced capitalist nations had almost been completed, and the world capitalism was getting into proper shape. Individual national economies were getting involved into the world economy through international trade and other international economic relations.

As an economic index characterizing the monopoly-imperialism stage, Lenin mentioned the partition of the world market among advanced capitalist nations. Keeping pace with the completion of the world capitalism, capitalism shifts to the so-called imperialistic stage. We may perhaps consider that this transition took place after the beginning of the twentieth century. At this stage economics was compelled to break with the tradition, and to expand the object of study from the national economy (one-state capitalism) to the world economy (the world capitalism). It was in 1912

that Prof. B Harms who inherited the tradition of German Historical School wrote "Volkswirtschaft und Weltwirtschaft" which was a rather remarkable work in those days. In 1913, the following year, the World Economy Research Institute was founded in Kiel. We may name Rosa Luxemburg as one of those Marxists who denied in a determined manner the German traditional 'national economics' and stressed the importance of the studies of the world economy in those days. Making a scapegoat of Prof. Karl Bücher, she censured loudly those university professors who, clinging to the traditional national economy, tried to refuse the existence of the world economy. It is a good thing to put the national economy and the world economy side by side, and grasp them in a consistent manner. But it is wrong to consider, through excess of emphasis on the significance of the world economy, that the national economy will be dissolved into the world economy and one-state capitalism into the world economy and one-state capitalism into the world capitalism. But evidently Rosa Luxemburge fell into the error of making such a reasoning in her concept. This fallacy is closely related to the mistake in her theory of nation. Even at the monopoly stage where the partition of the world market has been completed and the world capitalism has reached perfection, one state capitalism will never be dissolved. Monopoly capital of one nation has common interests with that of another while the former's interest may conflict with the latter's. Therefore, whenever the problems of one-state capitalism are in question, there is no denying that there are always some problems proper to the country under discussion. But the author wants to point out that to underestimate the importance of the world capitalism aspect like the "productive relationships" theorists whom we referred to above will lead to the exact opposite of the fallacy that Rosa fell into.

II. State Monopoly Capitalism and the World Market

In touching on the 'Crisis Cause' theory of state monopoly capitalism, we cannot but mention the classical proposition of Lenin. Let us quote two passages from his "The State and Revolution" written in 1917. (Lenin: *Selected Works II*, p. 141) "The imperialist war has greatly accelerated and intensified the process of transformation of monopoly capitalism into state-monopoly capitalism. The monstrous oppression of the masses of the toilers by the state—which is merging more and more with the all-powerful capitalist combines—is becoming ever more monstrous." "Here we have what is most essential in the theoretical appraisal of the latest phase of capitalism, i. e., imperialism, viz., that capitalism becomes monopoly capitalism. The

latter must be emphasized because the erroneous bourgeois reformist assertion that monopoly capitalism or state monopoly capitalism is no longer capitalism, but can already be termed 'state socialism' or something of that sort, is very widespread. The trusts, of course, have not created, do not create now, and create full and complete planning. But to whatever extent they do plan, to whatever extent the capitalist magnates calculate in advance on a national and even on international scale, and to whatever extent systematically regulate it, we still remain under capitalism—capitalism in its new stage, it is true, but still, undoubtedly, capitalism." (Lenin, *ibid.*, 186–188)

If one is to seek the source of the formation of state monopoly capitalism in the general crisis of capitalism, he must trace its origin down to the years immediately following the Great Revolution of 1917 and the World War I. The fact that Bukharin's theory of 'state capitalistic trust' and Hilferding's theory of 'organized capitalism' appeared in the nineteen-twenties demonstrates that state monopoly capitalism had become an issue in some form or other already at this stage. However, state monopoly capitalism immediately after the World War I was still in an embryonic stage, and it was too early to bloom as a constant structure. This was true both at home and abroad. As the world capitalism entered the so-called 'relative stability stage' in 1923, major capitalist countries of the world were returning to the gold standard one after another. It was after the great panic that started in 1929 or in those years preceding the World War II when the international tension was running higher at every moment that state monopoly capitalism began to take shape into a constant structure. In the midst of the great panic, world nations suspended the gold standard, adopted the so-called managed currency system, and completed their preparation of monetary and financial control for state monopoly capitalism. The transition to state monopoly capitalism took place immediately after the adoption of the New Deal in 1933 in the United States, after the adoption of preferentialism of the British Commonwealth of Nations at the Ottawa conference in 1932 in England, after the establishment of the Nazi regime in 1933 in Germany, and after the opening of invasion of the Continent in 1931 in Japan.

Now let us examine the characteristics of international trade and the world market at this stage of state monopoly capitalism. In the field of international trade, the government control of trade and foreign exchange became more dominant. In the aspect of the world market, block economies and great-sphere economies came into being with the progress of the repartition of the world market.

International Trade

Prof. Wageman of Germany classified foreign trade policies at this stage as follows : (see my work *The Thought History of Foreign Trade Policies*, p. 310)

- I. Price restrictions on import
 - (1) Upward revision of tariff rates and commissions
 - (2) Tariff policy manipulation (reclassification of dutiable articles)
 - (3) Compulsory application of various forms and other bureaucratic regulations
 - (4) Above all, devaluation of the legal tender.
- II. Quantative restrictions on import
 - (1) Import prohibition
 - (2) Import allotment quota system
 - (a) unilateral
 - (b) bilateral
 - (3) Monopoly of the trade or adoption of a monopolistic system.
- III. Restrictions by increased difficulty of payment
 - (1) Simple measures by credit policy
 - (2) Foreign exchange control

Wider-Territory Economy

With respect to the repartition of the world market, the preferentialism of the British Commonwealth of Nations adopted at the Ottawa Conference in 1932 was called a bloc economy, and Germany insisted upon a European wider-territory economy as a new order of the world economy to cope with the former. As a representative of this view, let us take up the opinion of Andreas Predöhl who was the director of the Kiel World Economy Research Institute at that time. (see my work *The Thought History of Foreign Trade*, pp. 311 sq.)

- (1) Wider-territory economy and international division of labor

Is it at all possible to return to international division of labor based on the principle of relative costs of production in this new order of the world? As a number of literatures have made it clear, the theory of relative costs of production contains many problems even in a static economy. How much more difficult should it be to apply the principle of international division of labor=free trade advocated by this theory to a dynamic economy that develops rapidly! It will not necessarily bring a maximum supply of commodities. This is the reason why the theory of fostering tariff was developed by List in young capitalist countries of Germany and the United States. However, Predöhl never regards these protective tariff theories or criticism against free trade as fundamental, because these arguments are based on the idea that free trade is an ideal form of trade in the long run, if not in the short run.

The cardinal criticism of Predöhl against the theory of relative costs of production comes to this that it does not count the government control of foreign trade. Since the world panic that started in 1929, international division of labor, the international gold standard, and the interrelations of free market mechanism have gone, and it became often that the actual facts were contradictory with the principle of international division of labor advocated in the theory of relative costs of production. One of the best examples is the Ottawa Conference. So perhaps we can say that the real intention of Predöhl was to criticize unconditional free trade, and to build a theory of international division of labor under state control. And yet he was not an advocate of absolute economic self-sufficiency or autarky, because giant monopoly capital would never be contented with narrow home market, but demanded a broader market abroad. In other words, the repartition of the world market, the share that a country could gain control of by dint of her national power was what the theory of wider-territory economy was concerned. According to Predöhl, the point that a national economy can attain by virtue of free trade is a maximum. The closer it advances towards autarky, the more it is subject to the law of increasing cost and the law of decreasing returns. When it reaches the perfect autarkical condition, it is at the minimum point. But this is true only in economic sense. The reverse is the case when one sees it from the standpoint of political objective of state control. The goal of his wider-territory economy is the point where the economic objective and the political objective maintain equilibrium. Autarky in an old narrow sense of the word is not the goal of his wider-territory economy. It is interesting to note that Predöhl admitted that there could exist varieties of wider-territory economies. It could be a strongest union like a tariff community or a common monetary standard community, or it could be much more loose like a preferential union.

(2) Wider-territory economy and the international monetary standard

If such was the idea of wider-territory economy that was a new order of the world economy, we can easily guess how Predöhl thought about the international monetary standard system on which his idea of wider-territory economy was founded. That is, the shifting from the gold standard to the managed currency system. Formerly international exchange used to depend on free market mechanism based on the gold standard. As universally known, this system regulates the flowing of import and export through fluctuations in exchange rates that reflect the inflow or outflow of gold. The monetary as well as the credit policy of a country are confined within a narrow limit when this mechanism fully operates. However, this mechanism starts to give way the moment when any of the participating nations goes off gold

and adopts an independent price and credit policy of its own. An independent policy will necessarily be accompanied not by stable but by unstable foreign exchange rates. It is the foreign exchange control system that was devised to avoid the disturbance of foreign exchange rates arising from the adoption of an independent price and credit policy.

State monopoly capital calls for the foreign exchange control system for the management of wider-territory economy. Predöhl says that the foreign exchange control is a very effective measure to fit foreign economies to the objectives of the national economy.

(3) Wider-territory economy and economic growth

According to Predöhl, economic growth was made possible by economic expansion in old days. It was the so-called extensive growth. The extensive growth cannot but stop when we have no more frontiers of the world market. Then the intensive growth will come into question as a matter of course. The intensive growth can be attained on the national economy, but the growth will become even more strong when the scale is expanded from a national economy to a wider-territory economy. The greater the growth of a wider-territory economy becomes, the more the trades between nations in that wider-territory economy will be expanded. What Predöhl is trying to say is the advantages of the controlled world market resulting from economic growth. In that wider-territory economy, importation will no longer mean an undesirable competition as it did in the past, and exports will no longer be surplus products that are difficult to sale. Instead they will now be a counter-presentation to imports that are very much wanted. The industrialization of an agricultural country within a wider-territory economy does not harm the interests of old industrial countries, because the industrialization of an agricultural country creates new exchange relations. There will be created a greater demand for high-quality consumption goods instead of crude ones. There will also be created a demand for production goods like machines. Besides, industrialization has no end. That means, perfect industrialization is impossible, because technological progress has no end. These views of Predöhl remind us of a striking resemblance to the contention of EEC in present day Europe after the World War II. We of course admit that there are many points of difference between the two. But such a close resemblance probably comes from the fact that both are concerned with the ideology of the world market control under state monopoly capitalism.

III. Structural Change after the World War II

If state monopoly capitalism were simply a product of capitalism crisis such as a panic or a war, it is only too natural to assume that state monopoly capitalism must start moving back as soon as such a crisis is over. But in point of fact, the concentration of productive powers will be going on during the crisis, and once it goes beyond a certain limit, and brings on a change of productive relationships corresponding to it, it is too late for state monopoly capitalism to go backward. This change is what we call the structural change of capitalism. The definition of an East-German scholar Kult Zieschang (Zu einigen theoretischen Problemen des staats-monopolistischen Kapitalismus im Westchensland, 1957) may be regarded as a product of such a new stage. "All those works concerned with the problems of state monopoly capitalism justly begin with the essential definition of the subordination of a state to the power of the monopoly body. This was already pointed out by Lenin. But there is some deviation from the spirit of Lenin. Some people see in state monopoly capitalism only those measures taken by the state such as nation plans or policies designed to create economic effects in the interest of the monopoly body. Others regard state monopoly capitalism as a phenomenon of the capitalistic productive relationships. We hold the view that state monopoly capitalism represents a developmental stage of the capitalistic productive relationships."

"Depending on the progress of socialization of productive powers, the capitalistic productive relationships develop. A certain stage of development of the productive powers demands a certain stage of development of productive relationships. State monopoly capitalism is a necessary product coming out of such a development of productive powers. It represents the productive relationships at a certain stage of imperialism." (K. Zieschang: *ebenda* SS. 26-27)

Against the doctrine of Zieschang is directed the criticism that it discusses the change of productive relationships corresponding to the socialization of productive powers in the abstract and general terms in disregard of the international conditions of the crisis of the world capitalism. This is an important point. It is true that state monopoly capitalism has taken the constant shape of a change of the economic structure (a change of the whole productive relationships) after the World War II. But it is unpardonable to discuss it separately from the new stage of the general crisis of capitalism. That is as a result of the World War II, the number of socialist countries exceeds ten, and the socialist system has been established and is growing,

which fact makes the general and institutional crisis of capitalism worse. And this is the most fundamental factor, we must know, that did not allow state monopoly capitalism to move backward even after the immediate crisis of war was gone long ago. Of course, there are some periods of prosperity or relative stability even under state monopoly capitalism. And in those periods, the government supervision or control which is a favorite policy of state monopoly capitalism may temporarily withdraw and remain in the background while a liberalization policy is adopted. But this does not deny the fact that the structure of economy is founded on state monopoly capitalism.

Then, let us see how did state monopoly capitalism after the World War II affect international trade or the world market. First we must mention the names of the International Monetary Fund and the International Bank for Reconstruction and Development (the World Bank). These international instruments were established for the purpose of restoring the economic order of the world which was destroyed by the last war and expanding international trade and international investment, but it is obvious that they were not intended to help revive the nineteenth century free trade. To characterize them in one word, they were aimed at attaining controlled free trade. All member nations of these international instruments have the foreign exchange control system of their own, and co-operate closely for the realization of this goal. However, the unevenness prevailing among capitalist nations that has remained unconquered for more than ten years after the war and the shortage of dollars arrested the realization of controlled free trade aimed at by these international instruments. It was after 1958 that the first ray of hope for the liberalization of foreign trade has begun to gleam at last in this capitalistic world. The controlled free trade under monopoly capitalism has the following characteristics.

(1) Liberalization at this stage is not intended to accomplish complete removal of foreign exchange control. It can't be done even if it is so intended. For example, in the case of our country the so-called liberalization simply means an increase in the percentage of items on the automatic approval list payable out of the foreign currency fund. It is by no means the removal of the foreign exchange control itself.

(2) It is not aimed at effecting complete liberalization all at once like the restoration of the gold standard. Instead, it is intended to effect an imperfect form of liberalization step by step. For instance, Japan's lifting of the gold embargo in 1930 (the fifth year of Showa) meant her return to the international gold standard system, by which she carried out complete liberalization all at once. Not only the ordinary accounts but also the capital

accounts were all liberalized at once. On the other hand, the liberalization after the World War II leaves the foreign exchange control as it has been while it is expanding liberalization from the non-resident account to the resident account in the category of the ordinary accounts, and from the ordinary accounts to the capital accounts gradually.

(3) The liberalization at this stage is a kind that is being realized on the basis of regional economic integration and it is not intended to be a global liberalization program. It is a good example of the same kind that before they decided on liberalization, European countries had already finished organizing themselves into regional economic unions such as the European Common Market or the European Free Trade Association. Though a little bit different in form, we may as well consider it as having the same tendency that the liberalization of our country is based on the political and military relations named the new security system.

(4) The liberalization at this stage is discussed in complete disregard for the socialist world economy where liberalization is absolutely impossible. In that sense alone, the liberalization under state monopoly capitalism cannot be called perfect.

We assure you again that both stability and development are feasible even under state monopoly capitalism. When they come, the voice calling for liberalization will also be coming. Conversely, when a crisis or panic comes, control will be called for in a strong voice. But these are passing phases of state monopoly capitalism. So it is important to understand that the basic structure of economy is state monopoly capitalism. It is a positive evidence of this statement that the liberalization of today is being advanced on the basis of regional economic structures in rivalry with the socialist world economy.

The regional economic structure which is a subject of discussion in many parts of the world has many things in common with the bloc economy or wider-territory economy of prewar days. But at the same time there are considerable differences between them. For instance, a bloc economy was a strong industrial nation, her colonies and dependencies rolled into one, while a regional economic union of today is being formed among several industrial nations and several agricultural nations, presumably because one industrial nation, however strong, cannot be set up against the socialist regime, and also the concentration of production has expanded production to such an extent that no further development is likely to be made unless a capitalist country oversteps the bounds of her domestic market and gains a footing in a common market. The European Economic Community is the best example of it. The original idea of EEC may be traced back to the

Organization for European Economic Co-operation (O. E. E. C.) which was established in 1948 in preparation for receiving the U. S. foreign aids to Europe. The European Payment Union (E. P. U.) that was born in 1950 was designed to back it up from the side of currency. As the parent body of EEC, we must mention the name of Benelux Customs Union formed by Belgium, Netherland and Luxemburg in 1948. The European Coal and Steel Community (E. C. S. C.) that was formed in 1952 by Benelux with the addition of France, West Germany and Italy was the immediate predecessor of the present European Common Market that came into existence in 1958.

In the meanwhile, the United Kingdom established the European Free Trade Association with the participation of Sweden, Norway, Denmark, Switzerland, Austria and Portugal in 1957. Now in Europe there are two economic groups confronted with each other; the confrontation of EEC and EFTA or the inter-six and the outer-seven. However, the United Kingdom expressed her intention of joining EEC in 1961, and Denmark and Norway are showing positive signs of their following suit. Probably it won't take much time before they will get admitted. EEC is scheduled to be brought to perfection with a time limit of 12 years. The 12-years period is divided into three stages, and the first stage ending in 1961 has successfully passed already. We don't have enough space to discuss it in detail here, but we may at least brief it this way. Not only it is intended to be a community protected by such a foreign trade policy as the conclusion of the Customs Union within the region or the establishing of common duties outside the region, but also it has the objectives of freeing the movement of labor and capital, formulating a common economic policy, and even establishing a common currency system within the region.

Inspired by the development of the European Common Market, Latin America, Africa and Asia are moving toward creating a regional economic union of this nature in some form or other in their own areas. Unlike the European Common Market that has highly industrialized countries as the members, a common market to be formed by under-developed countries of these areas will undoubtedly be faced by many difficulties different in nature from those of the European counter-part. At any rate it is true that there is a definite tendency that the formation of regional economic union is becoming the fashion of the world today. And much discussion is now going on as to its nature and future prospect. I do hesitate to form any hasty conclusion concerning these points, but I do want to remind you that it is highly important for you not to miss the most fundamental understanding that it is nothing more than a changing phase of the world market at a new

stage of state monopoly capitalism without being awayed by short-sighted discussions.

PART TWO: Socialist World Market

I. Some Problems

When I discussed this subject sometime ago, a greater part of my discussion was centered around the "*Demokratische Weltmarkt*" (1955) by East-German scholar G. Kohlmei (*SHAKAISHUGI SEKAISHIJO*, translated by Matsui and Yoshinobu, Nippon Hyoron Shinsha Publishing Co.). A part of the reason for this is the fact that I had a chance to meet the professor personally and exchanged opinions with him on many different subjects in Berlin in September 1955. But the major reason was that there were few substantial works dealing the subject with a systematic approach excepting the said book by this professor. Of course we have, as universally known, J. W. Stalin's "Economic Problems of Socialism in CCCP" that was published in 1952, as a work that brought forward some of the problems. Although some development has been made on the study of these problems in the Soviet Union itself afterwards, a far greater contribution towards developing the study was made by scholars in socialist countries other than the Soviet Union. Perhaps this is a good reason why the final work of putting various views into a complete system was accomplished by Prof. Kohlmei of East Germany. It is not wrong to say that the Soviet Union has accomplished almost single-handedly the great work of building socialism since the Revolution of 1917 although she has had some trade relations with capitalist nations, the volume of which was negligible any way. Apart from her historical conditions such as these, the Soviet Union has such geographical conditions that the vastness of her territory has kept her dependency on foreign trade very low if we use today's terms. As a result, the theoretical interest in foreign trade or the socialist world market was not so high as compared with that in those socialist countries of Europe which came into being one after another after the end of the World War II, isn't that true? The situation is completely different in new-born socialist countries. These countries do not find it necessary to build socialism by their own efforts, but can expect assistance and co-operation from the Soviet Union and other socialist countries. Besides, socialist countries of Europe and Asia with a single exception of the People's Republic of China have a small territory so that their geographical conditions call for higher dependence on foreign trade in most cases. Quite naturally they had greater interest in foreign trade or the socialist world market. Of course it is true that with the

formation and growth of the socialist world market since the World War II, the Soviet Union has been showing an increasingly greater interest in the theory of foreign trade or the socialist world market. It is evident from the fact that the problems were brought forward by Stalin in his essay referred to above. Nevertheless we cannot deny that there is such a difference of nuance as to the degree of interest in these problems between the Soviet Union and other socialist countries.

After Prof. Kohlmey published the book in 1955, a good many books and articles have been written on the socialist world market one after another, and some of the important ones were introduced to our country by socialism or the soviet studies scholars. Here the author will try to touch on some of the problems by way of referring to some of these new studies. At first he wants to emphasize the importance of your attitude in approaching these problems. You must not think that you are discussing the problems of another which have nothing to do with your own. Most, if not all, of the socialism studies or the Soviet studies of our country took the form of introducing a society which is unknown or new to us. Even in those cases where our scholars are discussing these problems as our own, they are so doing at the very best only as the model cases of a future society into which our society is evolving, and not as the actual problems confronting us at present. It is due to our narrow field of vision that is limited to one nation or one-state capitalism. However, ever since capitalism came into the world, not a problem of one nation or one-state capitalism could possibly be called irrelevant to the world movement. Nobody can reach a correct apprehension of a problem if he disregards its relation to the world movement. The movement of the Soviet Union after the founding of this socialist country in 1917, and that of the socialist world after the establishment of the socialist world system as a result of the World War II have more or less influenced the movement of the capitalist world. In such a stage which is called the stage of general crisis of capitalism, problems of the socialist world should not be regarded merely as the external conditions, but as their own problems confronting one-state capitalism.

The first problem to be solved is how should we understand the historical process of formation of the socialist world in the womb of the capitalist world from the view-point discussed above. In regard of this point, I agree to Prof. Kohlmey's views in the main.

The second problem is how should we grasp the relationship between the so-called 'two world markets', namely the capitalist world market and the socialist world market. Prof. Kohlmey himself showed some differences in his opinion between his book of 1955 and the new one published in

1958 (G. Kohlmey: *Entwicklungsprobleme des sozialistischen Weltwirtschaftssystems*, 1958), and some of our scholars like Prof. Kinoshita are sceptical about the theory of 'the two world markets' that has been handed down since Stalin. I believe I have been successful in throwing some light on the problem by means of making some comments on Prof. Kinoshita's views, so I want to touch on the conclusion that has resulted from self-criticism and mutual criticism.

The third problem is concerned with the economic laws ruling the socialist world market. As universally known, there are the theory of relative costs of production and the theory of international value as the economic laws ruling the capitalist world market. It is an important problem for us whether these economic laws will be denied entirely or accepted as applicable, and if so, in what fashion. As to this question, we had an interesting controversy that was developed between Prof. Toichi Nawa and Prof. Kazuo Nonomura. Prof. Nawa took a position to affirm the theory of relative costs of production, while Prof. Nonomura held a negative stand. I published my own view on this question already, but I will touch on it briefly by way of explaining the progress that has been made in the discussion of the problem since that.

The fourth problem is to be sought in the trade relations between the East and the West, by which the capitalist world market and the socialist world market were brought into contact. Even those who believe in "the two world markets" can hardly deny the hard fact that the two world markets are unified through the East-West trade. As long as the East-West trade means the exchanging of commodities, too, it goes without saying that the law of value is governing the trade. However, it is a matter of course that the law of value governing a socialist society differs in the form of action from the one governing a capitalist society. The law of value governing a socialist society has only a limited scope of validity in regulating production. On the other hand, the law of value governing a capitalist society has the function of adjusting production. Prof. J. Kuczynski has once suggested in his letter addressed to me to ascertain the economic laws ruling the East-West trade. I want to discuss this problem at last briefly.

II. The Historical Process of Formation of the Socialist World Market

The first thing to be pointed out is the fact that the material foundation of the socialist world market is laid in the capitalist world market. Under an older mode of production preceding capitalism, there of course existed

international exchange of commodities and the world market. Especially the growth of the world market at the last years of feudalism paved the way for the establishment of capitalism. However, the circulation of commodities under an old mode of production was by no means an essential factor conditioning its existence. In a slave or feudal society, the circulation of commodities was going on only within a limited circle or in a corner of these societies. In a capitalistic community, on the other hand, the circulation of commodities is an essential condition of its existence. Here commodity production is everything. According to the nature of capitalistic production, commodity production tends to expand to every corner of the world, literally forming the world market. And once the world market has been completed, there will be no possibility of going backward. This does not mean of course that the domestic market for capitalism will be dissolved in the world market by this change. All these domestic markets and the international relations existing among them as a whole form the world market. When the growth of capitalism has reached the maximum height, and the partition of colonies in the world has been completed, that is, when capitalism has reached the stage of monopoly capitalism, this literally means that the world market has been completed. Chronologically speaking, it may be not very far from the truth to say that the world market has been completed after the turn of the twentieth century.

The second thing the author wants to point out is that the breaking-down of the capitalist world market will come by historical necessity, and will not be a passing phenomenon to be caused by international antagonism among capitalist countries or a war. We must think that the breaking-down of the capitalist world market has started when the Russian Revolution broke out in 1917 and the socialist country came into the world. However, the socialist world market has not yet been completed at that stage. Because the Soviet Union was the only socialist country that existed at that time. Although the process of breaking-down has already begun, the capitalist world market was enjoying an unchallenged position. It was a mistake, as Prof. Kohlmey himself corrected in his new book, that this East-German professor followed the example of Stalin in calling the capitalist world market of this stage the sole and comprehensive world market in his old book. It is true that it was the sole world market, but we must note that it was no longer comprehensive as it had been. The world market is formed by a whole lot of domestic markets and the international relations existing among them. Now that the Soviet Union was born, and a large socialist domestic market has been formed, we must say that the capitalist world market was not covering the entire world any longer.

Thirdly, perhaps it is proper for us to think that the socialist world market was established after the World War II when the number of countries advancing towards socialism was increasing in Europe and Asia, and the economic intercourse among themselves has started developing. It is too formalistic a logic, we must say, if one contends that because the Mongolian People's Republic had already existed before that, and it had some trade relations with the Soviet Union, we must not think that the socialist world market was established after the World War II. We will follow the popular view that after the World War II has socialism become an international system, and the socialist world market has been established. People call this stage the second stage of general crisis of capitalism. At this stage the capitalist world market and the socialist world market existed together, and as we have seen already, all the problems of any capitalist nation could not be discussed separately from there two world markets.

III. The Two World Markets

As was already pointed out, the theory of "the two world markets" originated with Stalin. It has been definitely shown by his critics afterwards that although there was a partial truth in his contention, the theory as a whole was erroneous. In order to determine where he was correct and where he was wrong, let us quote two passages which are rather long. "It is the breaking-down of the sole world market covering all nations that one has to regard as the most important economic result of the World War II and its economic consequences. This situation helped intensifying the general crisis of the world capitalist system" (Japanese translation of Stalin's *Economic Problems of Socialism in CCCP*, Gogatsushobo Book Publishing Co., Vol. I, pp. 41-2). "Under these circumstances, the scope of influence of major capitalist countries (the United States, the United Kingdom and France) over the resources of the world did not expand, but contracted on the contrary. The conditions of the seller's market of the world became more unfavorable for these countries, and enterprises in these countries were compelled to slow down operations more and more. To be honest, the general crisis of the world capitalist system following the breaking-down of the world market is getting worse." (op. cit., pp. 43-44) The views of this "Stalin Paper" have been accepted by many Marxists until the Twentieth Convention of the Russian Communist Party of 1956, and many papers based on the same idea have been published by scholars of the Soviet and other socialist countries. The old book of Prof. Kohlmey was also written along with this line. However, at the Twentieth Convention of the Russian Communist Party, the views were severely criticized by Khrushchev and

Mikoyan, and more Marxists of other nations followed suit. Prof. Kinoshita's criticism may be considered as one that falls under the same category. It was one of the two passages quoted above that the most severe criticism was directed to in such a successful fashion to defeat Stalin's views. Stalin contended that as a result of the break up of the world market, the capitalist world market would become small, and capitalist production would drop. But the experience we have had during some ten years following the World War II tells us that this prediction was wrong. It was this point that Khrushchev criticized most severely. "We must say that the idea that the general crisis of capitalism means the perfect stagnation or the suspension of production and technological progress has nothing to do with Marx-Leninists. Lenin pointed out that the general tendency of capitalism to collapse does not check the improvement of technology and the expansion of production at various periods" (*The Twentieth Convention of the Russian Communist Party*, published by Godo Shuppansha Publishing Co., Vol. I, pp. 10-11). I believe that this criticism is correct in all points. It is too sentimental a statement, and does not hold good as a theory nor does it coincide with the reality to say that the stage of the general crisis of capitalism where the capitalist world system and the socialist world system coexist will last over a fairly long time in our history, and that the stagnation of capitalism will continue throughout this period. Even if we admit that this conclusion is wrong, it is equally wrong to say that "the theory of the two world markets" itself is erroneous. As to this point, let us see Prof. Kinoshita's criticism of Stalin.

Prof. Kinoshita says as follows: "The formation of the two world markets had two qualifications. The first qualification was the advent of the socialist camp in opposition to the capitalist camp. The two world markets were a economic consequence of the co-existence of the two hostile camps. The second qualification was that the economic boycott started from the side of imperialist countries served to promote the formation of, and strengthen the growth of a new world market among socialist countries. Here the actual growth of trade connections was emphasized, and it was maintained that socialist countries and some people's democratic countries were shut out from the outside world market, which fact helped strengthen the economic tie among these countries." (Etsuji Kinoshita, 'Some Doubts about *The Theory of the Two World Markets, Study and Material*, 4, P. 44) This professor is critical about the first of these two qualifications, that is, the idea of emphasizing the socio-economic meanings of the world market, and he accepts the second qualification, that is, the idea of regarding the split of the world market as an outcome of the policy, and not as of intrinsic nature.

In regard to this opinion of Prof. Kinoshita, this author has expressed his own view in Volume 5 of the "Lectures on Modern Capitalism". He still maintains the same view, and therefore, he will only give an outline of it here. The author who insists on the existence of the two world markets attaches great importance to the socio-economic meanings of production lying behind the market as Prof. Kohlmey has pointed out. Perhaps it is true as Prof. Kinoshita said that no matter how important socio-economic meanings may production have, a market is a market, and has no other meaning than commodity exchange. But we must say it is all nonsense both in theory and in practice if one tries to find some solution to the market problems at the stage where the socialist system and the capitalist system live together by simply fixing his eyes upon this aspect. It is beyond doubt that the market problems at the stage where the capitalist world market existed alone differ greatly from those at the stage where the capitalist world market and the socialist world market coexist. And also it does not appear to be correct, as Prof. Kohlmey corrected his original idea in his new book, to say that there is only one market and no more and that it is the distinction between the capitalist world system and the socialist world system lying behind the market that we have to recognize. With the transmutation of the system, the nature of foreign trade and the market itself undergo a change. There, either the new view of Prof. Kohlmey or the view of Prof. Kinoshita is not an effective weapon to approach the problems of the socialist foreign trade or the socialist market. There would have been no problem of the law of value if one could so simply declare that no matter whether it is under the capitalist system or the socialist system, there is no change in commodity exchange, and that as long as it is commodity exchange, it is subject to the law of value. We all remember how fervently was the law of value under socialism discussed. Isn't it sufficient evidence for the fact that the problems of commodity exchange or the market under socialism are different in contents from those under capitalism. In spite of the conversion of Prof. Kohlmey or the contention of Prof. Kinoshita, the author still wants to rate high the positive meaning of the theory of the two world markets.

Neither can this author support the view of Prof. Kinoshita who holds that the split into the capitalist and the socialist world markets has resulted from such a policy as an economic bloc of the past or the regional economic integration of today. Of course it is true that such a policy or a war causes the world market to split. We also have to admit that the prohibition of export policy adopted by capitalist countries towards socialist countries today is helping to separate the two markets more and more. But as we have

stated already, it must be re-confirmed that the split into the two markets of the capitalist world market and the socialist world market has not resulted from such a general policy as that, but it is a work of historical necessity arising in the course of transition from capitalism to socialism. Therefore, assuming that the embargo on the export to socialist countries were lifted by capitalist countries completely, and the trade between the East and the West were expanded greatly, the coexistence of the two world markets will never be affected. Of course the existence of the two hostile world markets does not contradict with the good co-ordination of the two world markets through their trade relations. I admit that I made a mistake of belittling the importance of the co-ordination aspect as I was too eager to emphasize the antagonism of the two markets when I crossed words with Prof. Kinoshita. We must appreciate the contribution of Prof. Kinoshita who threw light on the aspect of co-ordination between the two markets. But it will be equally wrong to ignore the importance of the aspect of antagonism simply because one is too eager to stress the aspect of co-ordination. We must locate the actual problems in the stern fact that the two world markets are well co-ordinated in spite of the hostile feeling existing between them intrinsically.

IV. The Economic Laws of the Socialist World Market

As long as we attach importance to the contents of socialist economy lying behind the socialist world market, it is quite natural that the economic laws of the socialist world market become an issue in their relation to the basic economic laws of socialism. Contending that the economic laws of the socialist world market are subordinate to the basic economic laws of socialism, Prof. Kohlmei names the following two laws.

1) The socialist world market is always governed by the basic economic law of socialism that the growing material and cultural demands of the whole community shall be guaranteed the maximum satisfaction by means of constant development and improvement of socialist production based on high-standard techniques. This is the most fundamental characteristic of the socialist world market that distinguishes itself from the capitalist world market which is governed by the basic economic law of modern capitalism that the maximum monopoly profits shall be pursued.

2) Based on this basic economic law, a law of planned and well-balanced development of national economy is operating in the socialist world market. Here lies a distinct difference of quality between the socialist world market and the capitalist market which is governed by a law of blind and unbalanced development.

It is interesting to note that Prof. Kohlmei stated a view very similar to the theory of relative costs of production with reference to the economic laws of the socialist world market. As it has some connection with Nawa-Nonomura controversy on socialist trade, we shall see it briefly. Contending that it is to the calculation of the advantages of import and export from the standpoint of a national economy that we must attach importance in determining a national economic balance of a state economy or the earning power of that economy, Prof. Kohlmei mentioned the following example. Suppose Germany can produce machines A and B at cheaper costs than Porland. If in this case the conditions affecting the cost of B are extremely favoable, and an increased production of B is believed to enable her to import not only A but also very important raw materials, it is logical for her to give up the production of A. In many places dealing with the socialist division of labor and socialist foreign trade, Prof. Kohlmei stated a similar opinion. Paying his attention to this point, Prof. Nawa says as follows: "although it is not stated definitely that 'the theory of relative costs of production' is adopted, he affirms the economic rationality of specializing or concentrating on those items which can be produced to advantage on the basis of international comparison of costs and the productivity of labor from the standpoint of Germany as an advanced industrial country." (Toichi Nawa, 'Theory of Socialist Foreign Trade' in *Sekai Keizai Hyoron*, 1956, p. 77.) On the other hand, Prof. Nonomura emphasizes the differences between the basic economic laws governing capitalist foreign trade and those governing socialist foreign trade, and criticizes Prof. Nawa who attempted to apply Ricardo's theory of relative costs of production to the socialist world market.

To delve a little further into the subject, let us look back "The Conclusion of the International Value Controversy", written by this author. In expounding the theory of relative costs of production, and taking Portugal-England trade as an example, Ricardo assumed that although Portugal had an advantage of producing the two commodities cheaper, she produced B (wine) more advantageously than A (cloth), and that although England was inferior to Portugal in respect to the conditions affecting the costs of these two commodities, she had a relative advantage of producing A. Under these circumstances, both the countries would profit by international division of labor and foreign trade if Portugal specialized the production of B, and England the production of A. When we compare this view with that of Prof. Kohlmei mentioned above, it is true that theory of relative costs of production seems applicable to the socialist world market as Prof. Nawa says. However, we know very well, as we have already seen in "The

Conclusion of the International Value Controversy", that it would be through the medium of blind operation of the law of value that such international division of labor might be effected in the capitalist world market. In this sense, the theory of relative costs of production must be considered in its relation to the theory of international value. In other words, it is because the prices of these commodities are cheaper that B is exported from Portugal and A from England. In this case, the international division of labor is governed by the law of value perfectly. Then, how does the law of value operate in the socialist world market? In answer to this question, Prof. Kohlmey says that the validity of the law of value as an adjusting force is now very much limited. It is as long as the price movement in the capitalist world market has influence over agreements among socialist countries that the law of value acts as production adjusting force in the socialist world market. In other words, we must consider that in the socialist world market the cost conditions are fixed from the view-point of a planned and well-balanced development of national economy, and on the basis of such cost conditions are planned international division of labor and foreign trade. Such being the case, we must conclude that Prof. Nawa was in error in applying the theory of relative costs of production to the socialist world market on the ground of the formal resemblances between the capitalist world market without seeing the essential differences between them, while Prof. Nonomura's criticism of Prof. Nawa was correct as it pointed out this mistake. Then, you may ask how the cost conditions are fixed from the view-point of a planned and well-balanced development of national economy and in what fashion the socialist international division of labor and socialist foreign trade are conducted on the basis of such cost conditions. As to this question, we have nothing to learn from the papers of Prof. Nonomura, a scholar of socialism. To my regret, we cannot deny that it is this weakness that made Prof. Nonomura's criticism of Prof. Nawa an empty one. Some of the studies in the earning power of foreign trade that have recently been conducted in socialist countries are introduced to our country. There are many things we must learn from these studies. Mr. Shohichi Sugimoto's "A Study of the Earning Power of Foreign Trade in Socialist Countries" (*Keizai Ronso*, 1959, 8), and "The Developmental Process of the Theory of Earning Power of Foreign Trade in Socialist Countries" (*Kansai University Shogyo Ronshu* 1959, 6) are interesting papers from this standpoint.

V. The East-West Trade

Although we don't have much space left, it may be necessary for us to touch upon the East-West trade or the trade between capitalist countries

and socialist countries at least briefly. We have already discussed about the co-existence of the two hostile world markets. Although they are opposed to each other, they are not isolated from each other, but are closely related to each other. And the East-West trade is the most important link between the two markets. They are set up in opposition but co-ordinated with each other through foreign trade between the East and the West. This is the true picture of the actual world market. Perhaps we must expect that the world market involving two hostile capitalist and socialist world markets will survive a fairly long period of history that is called the general crisis of capitalism.

Then, what are the economic laws governing the East-West trade? It is beyond doubt that the trade is governed by the law of value as long as it is commodity exchange, but we must call it an argument of little substance if we do nothing more than point out that the economic laws of the East-West trade are subject to the law of value. Besides, it will be incompetent to solve many problems involved in the East-West trade. It may be equally wrong to think that there is governing a third economic law which is neither an economic law of capitalism nor an economic law of socialism. Prof. Kuczynski expressed the same opinion in his *An Inquiry into the Economic History of the World* as follows: "The question is whether or not there is a mixed economy, that is, a world economy formed of a capitalist sphere and a socialist or progressive sphere. The answer is no." Kuczynski, *An Inquiry into the Economic History of the World*, p. 10) If there is no third economic law, then what economic law governs the East-West trade? It may safely be said that nobody has ever answered this question properly. Prof. Kohlmey discussed the East-West trade in Chapter Nine of his principal work, but it was primarily a policy discussion, and not an attempt to probe deeply into the theory.

When I referred to this question in my 'Some Theoretical Problems of the World Economy' some time ago, I have pointed out that in the case of a socialist country the East-West trade would be governed by the socialist economic laws, and in the case of a capitalist country by the capitalist economic laws (P. 210). I did so because I was strongly opposed to the idea of a third economic law. In this case, you would say there will be no more economic laws to be discussed than those of socialism and capitalism. If we can say it so simply, there is no positive justification for our discussing the East-West trade specifically. So, I would rather like to take the East-West trade as a phenomenon subject to an economic law in the transition from capitalism to socialism. An economic law in a transition stage is anything but a third economic law of very unique substance. It is a law

respondent to the stage where the economic laws of capitalism have their validity attenuated by the real existence of socialist economy while the economic laws of socialism have not yet gained the full force and effect due to the existence of lingering capitalist economy—a transition stage in the literal sense of the word.

As the substance of this economic law, we may perhaps examine a long-term agreed price which is most common in the case of the East-West trade. In most cases, such a price is determined on the basis of the market price ruling in the capitalist world market. Those items that can be produced more advantageously by a capitalist country on the basis of the world market price will be exported from that country, while those which can be produced more advantageously by a socialist country will be exported from that socialist country. As long as the direction of international division of labor is determined on the basis of prices, it must be said to be subject to the economic laws of capitalism. The law of value is acting as an adjusting force. However, an agreed price in the East-West trade remains constant during the term of validity unless otherwise specified. The ordinary function of the law of value to adjust production to the market price that keeps changing according to the tone of the market is already limited to that extent. It is absolutely necessary for a socialist country that the prices of commodities are fixed over a long period of time if a planned and well-balanced growth of national economy is to be attained. But in the actual world where socialism is not predominant yet, even a planned price cannot be fixed independently from the market price prevailing in the capitalist world market. In this sense, we must say that the economic laws of socialism are functioning imperfectly.

Prof. Nowa once considered the East-West trade as one of the conditions necessary for the stabilization of capitalism in his discussion of modern capitalism. It is true that the East-West trade has such an aspect when we see it merely from a short-term economic view-point. To a capitalist country, the expansion of the East-West trade means an enlarged source of profits and will contribute towards the development of capitalism. This will explain eloquently why the demand for the expansion of the East-West trade becomes more strong as the economic depression in capitalist countries grows more serious. However, the more the East-West trade becomes important to capitalist countries, the smaller the scope of validity of the economic laws of capitalism will become. The expansion of the East-West trade which is encouraged for their own good undermines the grounds on which capitalism stands. Herein lies the distinguishing trait of the law of this transition period. I wonder how does Prof. Nowa see it.