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STATE AND ECONOMY IN HISTORICAL PERSPECTIVE*

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Introduction

State and economy, in the sense of "modern nation-state" and "modern capitalist economy," took their respective ways of growth and evolved characteristically into what they are today. It cannot be overlooked, however, that, in their historical processes, these two remained basically related in that they, some time united and another time separated, greatly interacted each other. In the meantime, both "unity" and "separation," as two possible aspects of relationship between state and economy, have expressed themselves in entirely different forms according to different ages and different nations. Therefore, what is important for us in considering the basic relationship between state and economy seems to be to confirm that relationship, not from an abstract or theoretical viewpoint as to what it "ought to be," but against the background of lively aspects of history where it "could not be anything else than what it was."

In considering the historical forms of relationship between state and economy, there is no denying the importance of the task of clarifying politico-historical, socio-historical and economic-historical facts about their inter-relation. Here I may set limits to our subject and only trace in the main the development of intellectual history with regard to state and economy. The schools of thought in intellectual history which I have taken up for discussion are five in number, namely, mercantilism, liberalism, historicism, Marxism and English socialism. I know that in discussing the five schools of thought mentioned above, the common indicators with which I have typified their views of state as well as economy might involve further questions to be answered. Our present attempt is, however, not to seek a comprehensive or an all-out answer to our question but to bring into relief the basic relationship between state and economy in their primary aspects by limiting our efforts to throwing a preferential side light on the question and further, through these reflections, to point toward what is the issue about a new basic relationship between state and economy in the world today.

I. Mercantilism as a "System of Power"

Generalization always involves a risk, and this is particularly true of mercantilism. Of

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* The present article was prepared originally as an introduction to a book published under my editorship in November 1953, Kokka to Keizai (State and Economy), Kawade Shobo, Tokyo, and has been slightly revised afterward. The co-authors of the book are Professors Noboru Kobayashi, Motokazu Kimura, Yoshitaka Sakaeda, Tanenori Sonejima, Masami Onda and Tokutaro Yagyu.
a number of interpretations so far given on mercantilism by scholars who tried to clarify its meaning, none has been accepted unconditionally. One reason is that the period commonly known in history as that of mercantilism lasted so long as to range from the beginning of the 16th century to the middle of the 18th century. Another is that such West European countries as Britain, France and Germany had different ideologies and systems of policy originating in their different political structures and stages of economic development. Therefore, as mercantilism changed with the progress of history, it went through the three discernible stages of bullionism, balance of trade, and balance of industry or labor. Also, seen nation wise, it was characterized by the three types of British mercantile system, French industrial system, and German populationistic-agricultural system. It is these circumstances that have made it more difficult to form a generally acceptable or a clear-cut, well-defined concept of mercantilism.

Nevertheless, in raising a specific issue of state and economy, I may point toward two distinct aspects essential to mercantilism. That is, mercantilism, generally speaking, sought after “unity of power” internally and “hegemony of power” externally. The word, “power” here is to be taken to stand for a politico-economic concept inclusive of “power and wealth, strength and richness,” not for a mere political concept. Mercantilism, as a “system of power” in this sense, was directed toward internal unity and external superiority.

The fact that the most characteristic features of mercantilism lay in its pursuance of the unity of power and superiority is attributable to the historical background and circumstances of the period when it came into existence. The period corresponded to the formative years of modern states and the times of “early nationalism.” Modern nationalism first completed itself only after going through the early and late stages, the former stage witnessing the establishment of “absolutism” in the 16th and 17th centuries, and the latter the development of “democracy” from the late 18th to the 19th century. The political characteristic of absolutism was “centralized unity,” while that of democracy was “democratic freedom.” By attaining these two basic aims of “unity and freedom,” the modern state could grow into a “nation-state” in the true sense of the word. Mercantilism was precisely the economic system of absolutism at the early stage of development of nationalism. It is in this context that mercantilism is called the economic system of nationalism, and it was also in this sense that J.W. Horrocks, in his definition of mercantilism, stated “Mercantilism is a regime of economic nationalism.” Just as absolutism sought after centralized unity in government, mercantilism pursued the same thing in economy. Also, as absolutism sought after a favorable balance of power abroad, mercantilism pursued a favorable balance of trade. Thus, absolutism and mercantilism were twins of early nationalism in the formative period of the modern state, and thus inseparable in their basic relationship. Accordingly we may regard the economic system of absolutism as mercantilism or the political system of mercantilism as absolutism.

If the modern state was to establish its autonomy and autocratic rule as a “centralized and unified state,” it had to fight two enemies, internal and external. On the one hand, it had to fight the catholic authority of the medieval Christendom which had maintained the

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single world order of the ancient Roman Empire, and, on the other, it had to overcome the local particularism of feudal lords and princes. It was to build up a centralized and unified state by carrying out a struggle, externally, against universalism and, internally, against particularism. The modern state tried to get rid of the medieval authority of the church and hold down the rule of lords, thereby laying the foundation for an absolute monarchy with political power centralized around it. To this end, it unified legislative, administrative, judicial and military powers under the throne, established an organized system of bureaucracy, created a powerful armed force, instituted a uniform legal system and seized the key to war and peace. In this process what provided political principles for such an absolute state were N. Machiavelli’s *Il Principe*, 1513 and Jean Bodin’s *Les Six Livres de la République*, 1576. Machiavelli’s political axiom on a secular, autonomous state and his principle of “state reason” justified the action of acquisition of power. Bodin’s “well-ordered commonwealth” was sought in a “royal and legitimate monarchy” (*monarchie royale et légitime: monarchia regalis*), in defiance of a “dominal monarchy” (*monarchie seigneuriale: monarchia dominatus*). Further, the theory of supreme, absolute, and perpetual sovereignty decided the nature of the modern state as a “sovereign state.”

The economic system of absolutism, mercantilism also sought economic centralization. Shaking off the yoke of the scholastic view of economy of the middle age, it began to take a bold step from natural economy to money economy. It crushed the local regulations of cities and guilds and the regional confinements of territorial economy, and thus expanded the scope of commercial activities to a nationwide scale. For these purposes, a great number of laws and ordinances were proclaimed. Efforts were made to unify the domestic systems of public finance, taxation and tariff, to establish monetary and weights and measures systems, and to increase national capital and productive power by regulating consumption and labor, encouraging domestic production and protecting industries. Imports from abroad were restricted or banned, protective tariff was imposed, colonies were incorporated into the monopolistic trade system of the metropolitan country, and navigations laws and treaties of commerce were made use of for the purposes of protecting and developing trade of the state. Through the implementation of all these uniform, domestic and foreign policies, the state endeavoured to build up a self-sustained economic community on a national scale. Of course, not all the mercantilist economic policies were successful in the task of unifying the national economy. But in spite of many blunders and contradictions, there is no doubt that every effort was made to shape an integrated national economy.

No one could more clearly point out that mercantilism stood for a system devised to unify national strength than Gustav Schmoller. According to Schmoller, mercantilism meant, in essence, modern-state making, and not merely state making but “state making and national-economy making at the same time” or creating an economic community out of the political community and turning the state community into a national economic community. It was to carry out an all-out transformation of society and its organizations as well as the state and its institutions, and to replace local and territorial economic policy by that of the national

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5 Bodin, Jean, *Les Six Livres de la République*, Lyon 1576. (I Liv., 1, 8 Chap.; II Liv., 3 Chap.).
state. Insofar as the historical significance of mercantilism is understood in this way, Max Weber’s view of mercantilism as “the building of a modern power state” and also Karl Bücher’s interpretation of it as the “creation of an externally closed state economy” will hardly be saved from one-sidedness, compared with Schmoller’s account. Mercantilism, as Schmoller says, sought a simultaneous creation of state and national economy or “power and wealth; strength and richness,” and it provided a pioneering goal, as we will see later, for what Friedrich List called “die politisch-ökonomische Nationaleinheit.”

It must be remembered that while the absolute state sought centralized unity internally, it, in the meantime, looked toward superiority obtaining from expansion abroad. This tendency, needless to say, is attributable to the structure of the historic world into which the modern state has been thrown. The modern state emerged from the ruin of the medieval unity and universal order in a plural number of separate units to assert its own raison d’être. It had to set a certain position that it should occupy within the “western state system.” The modern state, which was embroiled in “power pluralism” and the conflict of natural interests among antagonizing states, demanded every means that it deemed necessary for its independence and survival. In this sense, it was awake first of all to the sense of a “power-state” that it was. Machiavelli’s principle of “state reason” was in itself to give an expression to rules of action for the modern state in the character of a power-state. At the same time, as the modern state, out of its realistic nature, did restrain its will for power from an unlimited exercise by a rational assessment of advantages and disadvantages, it was bound to realize a rational limit of its political action. From this realization it devised the theory and policy of “l’équilibre politique” or “balance of power.”

The idea of balance of power, based on that of national independence and interests, is to aim at increasing the power of one’s own country while holding in check that of others. In the aspect of balance it represents a state of mutual neutralization of interests, but it is to achieve such a balance as would, while preserving for one’s own country a decisive freedom of power and the possibility of development, check or neutralize any development of the power of other countries. Hence the concept of balance now in question is not an absolute concept of relation but a relative one. It is not merely a relative concept of relation but a relative concept of relative advantage. The actual aim which the state pursues in balance of power is the relative superiority in the power position. The state cannot feel really security merely by maintaining a similar degree of strength to its potential rivals. The sense of security can exist only in a relative advantage. It was only natural that the modern state, in its relentless foreign relations, sought the balance of power in this sense and pursued “the constant

7 “Only he who thus conceives of mercantilism will understand it; in its innermost kernel it is nothing but state making—not state making in a narrow sense, but state making and national economy making at the same time; state making in the modern sense, which creates out of the political community an economic community, and so gives it a heightened meaning. The essence of the system lies...in the total transformation of society and its organization, as well as of the state and its institutions, in the replacing of a local and territorial economic policy by that of the national state.”

improvement of the state's own relative power position" or external power superiority.

Just as absolutism pursued external power superiority in conformity with the principle of balance of power, mercantilism followed this example. W. Cunningham precisely hit the point when he, in his definition of the essence of mercantilism, called it "an economic system of power par préférence" and declared: "mercantilism was not devised merely to increase national wealth itself but to do so in order to let England acquire or claim power superiority over other peoples." For mercantilists the only channel to increase national wealth was in foreign trade. As T. Mun said, foreign trade was the shortest cut to a wealthy nation and "the ordinary means to increase wealth and treasure." Although they did not simply equate wealth to money (gold and silver) as Adam Smith so criticized, mercantilists saw in the increase of money an important index to the increase of national wealth. The only "ordinary means" to increase money in a country which did not produce either gold or silver was to secure a favorable balance of foreign trade. The theory and policy of balance of trade thus provided the typical keynote of mercantilism.

Still, for those mercantilists of the day who combined "strength and wealth" in one concept, the balance of trade automatically meant the balance of power. The favorable balance of trade got connected with the relative superiority of power. The idea of balance is, as we have seen, a relative concept of relation. It calls into question, not absolute quantity, but only the relative proportion of quantity. Consequently, in the period of mercantilism when people had a static, not dynamic, sense of the concept of relation and were shackled by the idea of a fixed volume of wealth and trade in the world which the countries compete to divide and acquire, it was thought that an increase in one country's wealth or strength was caused by a decrease in others' wealth or strength. This was the thinking that one country could build up wealth and strength at the expense of other countries. "The profit of one man is the damage of another...no man profiteth but by the loss of others." (Montaigne). "No one ever loses without another gaining." (Montchrétien). Such an idea was predominant in the period of mercantilism, and, on that assumption, a country pursued its relative superiority and "favorable balance of trade."

II. Liberalism as a "System of Natural Liberty"

As made clear in the foregoing, state and economy, power and wealth were inseparably

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For the interpretation of mercantilism as a system of power, I owe much to suggestions by Heckscher. For the most concise and latest survey of mercantilism, see Wilson, Charles, Mercantilism, London, The Historical Association, 1958, 28 pp.
tied in mercantilism, and here the state played the role of a guardian itself to undertake the development of economy, while economy meant little more than a means to serve the expansion of state power. As E. Salin wrote, although economic thought was freed by mercantilism from the medieval yoke of Scholastic theology concerning usury and luxury and regained its autonomy in a sense, it still remained pent up in the sphere of state life.\textsuperscript{14} Mercantile economy was out-and-out a “state economy” and all economic acts were subject to the state. It is true, such a relationship between state and economy underwent some changes in the course of transition from the “fundamental” absolutism of the 16th and 17th centuries to the “enlightened” absolutism of the 18th century, and the political concept of “welfare state” was introduced only to make up for some defects of the ancient régime which had been removed from the well-being of the people. But such changes were never capable of providing for the regime any inner force to check permanently the popular impulse for free will.

The people’s will for freedom, opposed to both the absolute state and the mercantile economic systems, grew unshakable with two revolutions in the late 18th century, the French Revolution and the Industrial Revolution, as a turning point. The emergence of civil society, which started asserting itself with the support of political freedom and economic freedom, fundamentally inverted the old relationship between state and economy. This meant the separation of economy from state, on the one hand, and the assertion of superiority of economy over state, on the other. The two basic ideas of economic freedom and economic autonomy, supported by the idea of natural law and the individualistic utilitarian view of society, built up a new, unshakable position of economy vis-à-vis the state. As well known, the theory of economic liberalism in the late 18th and 19th centuries first appeared to criticize mercantilism as a system based on the artificial control of economy by the state. Its theoretical basis was in two philosophical currents. One was the thought of natural law and natural rights, and the other the thought of utilitarianism descending from D. Hume to J. Bentham. Although these two philosophical schools were essentially contradictory in genealogical tradition, they supplemented each other in playing an important role in their respective pursuit of the common objective of economic liberalism. This objective was, of course, to establish a system of autonomy and freedom for the economic community.

The 18th century thought of natural law, which is characterized by rationalism and individualism, was convinced of, more than anything else, the existence of an eternal and unchangeable “natural order” (l’ordre naturel) of things. This natural order was the ideal one which was approved by the God as normal and predetermined, and society should be operated in conformity with the general rule or the primary principle inherent in that order. According to this thought, the natural order meant the most favorable state of things to human society, and a society which would not accept it must be regarded as handicapped. The founder of physiocracy, Fr. Quesnay set to himself the task of discovering such a structure of economic community as would conform with that natural order. When, in his famous Tableau Économique (1758)\textsuperscript{15} he tried to reveal the orderly cycle of annual reproduction of

\textsuperscript{14} Salin, Edgar, Geschichte der Volkswirtschaftslehre, vierte erweiterte Aufl., Bern u. Tübingen 1951, pp. 51-52.

\textsuperscript{15} Quesnay, François, “Analyse du Tableau Économique” (1766); “Maximes générales du gouvernement économique d’une royauté agricole et notes sur ces maximes” (1767); “La liberté”—Extrait de l’Essai physique sur l’économie animale, tome III (1747). In these treatises of his, Quesnay gave a clear-cut explanation of the concepts of “l’ordre naturel” and “le droit naturel”. Oeuvres économiques et philosophiques de F. Quesnay, publiées avec une introduction et des notes par Auguste Oncken, Francfort sur M. et Paris 1888.
national wealth, Quesnay meanwhile gave expression to the circumstance where he imagined annual reproduction could be brought to the greatest possible “produit net” in uttermost freedom. He sought the natural right as “propres à sa jouissance,” which nature endowed man with, in private property and freedom of individuals, and found the indispensable basis for the natural order of economy and society in ensuring the right of complete freedom of ownership and trade. Therefore, for Quesnay, the primary function of the state at work could be nothing but to protect freedom and property of individuals against all infringements so that economy could develop freely in accordance with the natural rule of its own. The state should not interfere in the complete freedom of competition. Nothing other than the motto of “laissez-faire, laissez-passer” and the physiocrats’ well-known proposition, “for better government, less government” (pour gouverner mieux, il fauxdrait gouverner moins) could give a more accurate expression to the spirit of economic liberalism.

The classical school of liberalism founded by Adam Smith also emphatically developed its fundamental thesis on autonomy and freedom of the economic community. Without laying stress on the metaphysical elucidation of natural order as Quesnay did, Smith presupposed individuals’ right of freedom and property, and put full confidence in the primary social function of individual self-interest in the sphere of economy. He sought the original nature of man in primary urge of self-interest. This instinct of self-interest in the sense of “the natural effort which every man is continually making to better his own condition” was by no means a destructive factor to society, but, on the contrary, a constructive one which, “in conformity with the generous principles of freedom, equality and justice,” was shaping the whole of economy and society into order. It is true, at the basis of the thought that every man’s pursuit of self-interest “naturally or rather necessarily” leads him to realize the interest of his society as a whole, there is apparently lying a metaphysical belief in “pre-destined harmony.” Smith’s famous phrase, “led by an invisible hand” is telling of the point. Note must be taken, however, of what Smith means, as Lionel Robbins comments: “The invisible hand... is not the hand of some god or some natural agency independent of human effort; it is the hand of the law-giver, the hand which withdraws from the sphere of the pursuit of self-interest those possibilities which do not harmonize with the public good.” In other words, the invisible hand means the “laws of justice” which have been approved by the “sympathy” of “impartial spectator” in Smith’s Theory of Moral Sentiments, (1759). Things can be harmonious in their natural course, because there exist the laws of justice which they need for their proper functioning. It should be noted that what Smith meant by self-interest was not unbridled self-interest, but “enlightened self-interest” which does not infringe the laws of justice.

We can find the true meaning of autonomy and freedom of the economic society as depicted by Smith in his philosophy of self-interest in the sense understood above. Smith maintained that unless man’s artificial institutions block the natural course of things, then, the “obvious and simple system of natural liberty establishes itself of its own accord.” The

core of Smith's criticism of mercantilism did lie, not in his critical arguments against the mercantilists who confused money with wealth, but in his attempt at demonstrating that the government's artificial intervention to encourage exclusive monopoly and protected privileges was the real infringement of natural liberty. The duty of the government should be limited to unobstructed working of the system of natural liberty, and the government should only give heed to the maintenance of national defense, judicial administration and some types of public works. Such was the logical postulate of Smith's civil economy and society as a "system of natural liberty."

Although Smith used the terminology, natural law, of course, his arguments are essentially in agreement with the current of English utilitarianism. It should be considered that his principle of complete freedom was advanced from the viewpoint of, not an abstract right, but of "general expediency." English utilitarianism originating in Hume and Bentham has considered about both individual freedom and proprietary rights that public utility is the sole origin of justice. Bentham refused to accept the idea of freedom and equality as man's natural rights and rejected the thought of natural law and the theory of social contract. For Bentham, a natural right was just "simple nonsense, rhetorical nonsense upon stilts." The theory of social contract, which traces the rise of political society to an "original contract", was merely fictitious. An institution was not bound to be natural in itself, but it was natural because it conformed with the principle of utility. "The principle of utility" or "that principle which approves or disapproves of every action whatsoever, according to the tendency which it appears to have to augment or diminish the happiness of the party whose interest is in question" rules us in every matter. Both "the standard of right and wrong" and "the chain of causes and effects" base themselves on the principle of utility. This is the greatest happiness or greatest felicity principle which is based on the calculation of pleasures and pains. Neither individual behaviour nor government action can have any other purpose than the greatest happiness.

For Bentham, the sole and whole reason for government making lies in the principle of utility. Accordingly the function of government is how to increase the greatest happiness of society. For him, however, society is a "fictitious body" comprising individuals, and hence the happiness of society lies in the total happiness of individuals who form society. It follows that "the only right and justifiable end of Government is the greatest happiness of the greatest number." One thing worth noticing in this connection is that since the happiness of society is a simple total of the happiness of individuals and since the ultimate judge for the happiness of an individual is that individual himself and not government, the maximum of happiness of society can be achieved only by maximizing the happiness of individuals. If the maximum of happiness of an individual can be secured by his free activity and his judgment of it, government intervention in individual economic activity will hamper not only the greatest happiness of individuals but that of society. Here is the reason why Bentham strongly disapproved of government intervention, based on the principle of utility.

A utilitarian, Bentham was the most thoroughgoing economic liberalist. With his economic thought given in his A Manual of Political Economy, (1793), he was in essence a

21 Robbins, op. cit., p. 48, footnote.
faithful expounder of Smith's economics and indeed ran ahead of him in respect of the idea of economic freedom. Bentham claimed that free economy would be most productive, and demanded that the state take a strictly passive attitude in every aspect of economy. He writes: "According to the principle of utility in every branch of the art of legislation, the object or end in view should be the production of the maximum of happiness in a given time in the community in question." "With the view of causing an increase to take place in the mass of national wealth, or with a view to increase of the means either of subsistence or enjoyment, without some special reason, the general rule is, that nothing ought to be done or attempted by government. The motto, or watchword of government, on these occasions, ought to be—Be quiet." He also states, "The request which agriculture, manufactures, and commerce present to governments, is modest and reasonable as that which Diogenes made to Alexander: 'Stand out of my sunshine.'

The reason why Bentham demanded "quietism" of government was, of course, that government intervention for economic purposes was "needless and pernicious."

Of course, Bentham did not oppose all government intervention but he recognized its role to preserve security, remove obstacles and spread knowledge to be necessary and useful. Even so, he believed that since government intervention could not do without coercion and since coercion could not be applied without creating mischief, efforts must be made to maximize the net amount of happiness by deducing the expenses of mischief from the total of happiness sought for, or, in short, to minimize the expenses. Here lies Bentham's idea of "government at a much cheaper rate." It must be recollected in this connection that writing in the same year 1776 when Smith's Wealth of Nations and Bentham's A Fragment on Government were prepared. Thomas Paine, in his Common Sense devoted to the defence of American independence, states that the most preferable form of government was one which would bring about the greatest benefit at the least expense, and also said, "the government, even in its best state, is but a necessary evil; in its worst state, an intolerable one." The foregoing may well have explained how economic liberalism, confident of the autonomy and freedom of economy, demanded the minimum of state activity and sought an ideal of state in the "night-watchman state."

III. Nation and Social Classes

Economic liberalism could praise the blessing of free competition and laissez-faire and repel all state intervention in economy that it deemed more injurious than beneficial, primarily because the idea of "natural harmony" was underlying that thought. Under economic liberalism, unless there is any obstacle, the individual, through his self-interested action, promotes unwittingly all others' pursuit of interest.

25 Bentham, Ibid., p. 35.
All interests run parallel to one another, and get together to realize the interest of the whole society. The well-being of an individual is a good to himself, and the well-being of society as a collective result of it is regarded as a good to all. Furthermore, what is important, the idea of natural harmony not only meant a harmony of interests among individuals but was taken to hold true between classes and even between nations. Nevertheless, the fact that domestic free competition and international free trade were not unconditional blessings had to be brought to light in the 19th century by the creation of social problems out of contradictions within capitalist economy, on the one hand, and by the rise of German nationalism following the war of liberation, on the other. Capitalist economy proved to be far from ensuring a harmony of class interests between capital and labor, bourgeoisie and working class, while "the great mercantile republic"\(^{29}\) rationally built up on international division of labor and free trade turned out to hold true only of such an industrially advanced nation, as Britain. It did not mean unconditional prosperity for such less industrialized countries as Germany, France and America. It is therefore not without reason that socialism, making an issue of classes, and historicism, of nations came to the fore. Now, confronted with the real existence of classes and nations, economic liberalism hit a limit, and thus the relationship between state and economy was to come up to a new turning point.

1. Nationality and Making of Nations—State and Economy in Historicism

Historicism arose and followed a particular course of development in Germany. True, German historicism made a start directly from the criticism of the English classical school of economic liberalism, but it is also safe to say that it primarily fought to solve problems strictly particular to Germany. The origin of historicism, in this sense, lay far deeper than a foundation for mere reaction. The original foundation of historicism was nothing but the particular state of mind prevailing in the Germany of late 18th and early 19th centuries, or, in other words, it was the historicist view of world fostered by German idealism and romanticism.

One of the fundamental characteristics of the historicist view of world is to grasp everything in existence in its "totality" (Ganzheit). This totality of existence reveals itself to be a "unity of life" (Lebenseinheit) in terms of place and time, and in reality it forms a national community (Volksgemeinschaft). The national community is a "moral total" (das sittliche Ganze) in that it has its own inherent object and direction of development because of its historical individuality. All human behaviour and practice are given meaning and value only when they work as part of that moral total. Such understanding was underlying historicism when it defied self-interest and sought to find the basic motivation of economic activity in public spirit (Gemeinsinn).\(^{30}\) The national community as a moral total must be the unity of life, as well as the system of order of life. It is no abstraction of human society, or rather it is a form-giving (gestalthafte) entity including unity and order in itself. While some economists from the historical school regarded it as an "organism," Fr. von Gottl-Ottilienfeld took it as a "Gebilde." He was reasonably justified to reject the idea of organism which he deemed to include an incomprehensible enigma in itself, but if that idea is taken to indicate organic order which makes a meaningful interrelation of all parts instead of


understanding organism to have the ground of its existence in itself, such analogy will be admitted. In any case, historicism, grasping a total understanding of existence by nationality, regards state and economy as two different spheres or aspects of the order of national life. To put this into other terms, both state and economy cannot be meaningful in themselves: they acquire meaning only by serving the continuance and development of nationality.

The second characteristic fundamental to historicism lies in that it grasped existence not only in its totality but in its "historicity" (Geschichtlichkeit); not merely as something moral but as something historical and growing. This is seen in the idea of "development" and the concept of "relativity" inherent in the historicist view of world. What did matter to historicism was not an order of natural law in the economic community but how to grasp an understanding of the historical development of economic community conditioned by time and place. Among all types of scholars from the historical school, some were without coordination in defining the essence of things historical and in establishing a methodological position, and left many problems to be solved as to whether the form of development should be grasped as "stage" or "type." It must be noted, however, that the common indicator to identify the school was their deep cognitive concern in historicity.

As historicism focussed its cognitive concern on how to grasp the totality and historicity of existence, the historical school sought to grasp relationship between state and economy with, more than anything else, "national economy" as a coordinate. That is, if the coordinate of mercantilism was "state economy" and that of liberalism "individual economy," that of historicism was "national economy" in the true sense of the word. For historicism national economy was neither a mere fictitious concept nor a working concept. It should not be viewed outwardly as a mere accumulated total of individual economies nor as a whole of interaction among them: it should be viewed inwardly as a meaningful total of order and as a unity of life. It is a moral and practical agent structurally united with the national community. In this connection, it will be useful to examine the views of Fr. List and Gottl, two typical exponents of the historical school.

In grasping the basic concept of totality, List employed the terminology of "nationality" (Nationalität) instead of national community. He found the universal problem of history in his day in the total formation of nationality and placed this at the basis of all his thinking as the most essential event. For List, the total formation of nationality meant that the national-state as a political unity of nationality and the national economy as an economic unity of the same were formed into an unseparable one or a living structure where state and economy were interrelated. His idea of "political and economic national unity" was an expression of the total formation of nationality as understood in this sense. If, as Schmoller said, mercantilism saw its historical task in the simultaneous formation of nation-state and national-economy, List was, in this sense, the most outstanding mercantilist. Of course, List did not simply wish to give new life to mercantilism, for mercantilists had never had so firm cognizance of nationality as he had. At the basis of his thinking, List had the realization that nation, state and economy were so closely combined together that they could not be considered separately. The economic process is by no means a mechanical or self-regulating one but it is fundamentally affected by state direction, and economy has always to be formed "on a national scale." List did not believe in a law-providing process of economy, nor did

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he think all state intervention in economy to be a disturbing factor. Rather he had the fundamental realization that the national economy could not develop unless it included in itself the constructive factors of national scale and policy. He saw the essence of national economy in that power and wealth, state and economy, are closely combined together in national unity. He writes: “The object of the economy of this body [a nation] is not only wealth as in individual and cosmopolitan economy, but power and wealth, because national wealth is increased and secured by national power, as national power is increased and secured by national wealth. Its leading principles are therefore not only economical, but political too.” “Government has not only the right, but it is its duty, to promote every thing which may increase the wealth and power of the nation, if this object cannot be effected by individuals.”

Grasping the development of productive power in national economy by a national, not social, scale, List laid stress on not only division of labor but combination of productive forces, and pitted “national productive power” (die Nationalproduktivkraft) against Smith’s “productive power of labour”. National productive power is a concept on a higher level including not only physical productive power producing products but spiritual productive power producing productive power itself. “When, in the nation, spiritual production keeps in a proper balance with physical production and, when in the nation, agriculture, industry and commerce are developed proportionally and harmoniously, division of labor and combination of productive forces exist on a national scale.” List called such a state of things “equilibrium or harmony of productive power” (das Gleichgewicht oder die Harmonie der produktiven Kräfte) and he further considered not only the inter-related balance of national productive power at present but a developing balance of it in the future, in the light of “the principle of continuity and working continuation” (das Prinzip der Stetigkeit und Werkfortsetzung). List’s protectionist theory was to clarify the formative principle of national productive power against the background of the stage theory of economic development. Smith’s theory of indiscriminately free trade and easy-going natural harmony was thus denied its universal validity by List.

In the case of Gottl, the relationship between state and economy is not so clear as it is with List. As List gave the first place to nationality, Gottl placed this at the basis of his argument. The central idea of economics as the science of life (Lebenswissenschaft), as Gottl called it, lies in “thinking in formations” (Denken in Gebilden) freed from “thinking in goods” (Denken in Gütern). Economy must be studied not from the viewpoint of material presentation such as satisfaction of maximum wants or the greatest quantity of social products, but from the viewpoint of collective life, i.e. the “formation of men’s collective life in the spirit of continuous harmony of needs and fulfilment” (Gestaltung menschlichen Zusammenlebens im Geiste dauernden Einklangs von Bedarf und Deckung). Gottl grasped men’s collective life as a meaningful body of unity and order, and called this reality of life in his special sense “Gebilde” (a formation). Further, he considered that the structure of men’s collective life was characterized by the Daseinsgebundenheit existent in it by which the three uppermost components of national community (Gemeinschaft), state (Machtchaft) and economy

33 List, Das nationale System der Politischen Ökonomie (1841), Werke VI, p. 51.
34 List, ibid., p. 196.
35 List, ibid., p. 310
(Wirtschaft) were closely combined together. For, according to him, the collective life of men comprised three basic aspects of human desire, namely, "concord of life" (Lebenseintraacht), "discord of life" (Lebenszwretracht) and "need of life" (Lebensnot).

Gottl went further to discuss relations among these three components. He called the formation of national community "basic formation" (grundlegende Gestaltung) and the formation of state and economy "additional formation" (zusätzliche Gestaltung), and placed the latter of these two in a position to serve the former. According to him, the primary root of life is the national community, while state and economy bring the national community into continuance and persistence by putting in order the "discord of life" between men and the "need of life" between man and nature. Although he does not always give a clearcut description of the mutual relation of state and economy, he recognizes an unseparable interaction between the discord and the need of life. Gottl is therefore interpreted to have thought that the reason of state puts the "discord of life" into order, while the reason of economy puts the "need of life" into order, and that the former, also pursuing the object of the latter, contributes to the concord of life, i.e., the continuance and persistence of national community. In other words, the state is to be regarded as a mediator between nation and economy which functions to unite the morality of national community and the technicality of economy in statecraft. It is not that the state does intervene in economy, but it merely effects "guiding regulation" (Leitregelung) to elevate the technical rationality of economy to the moral totality of a true national economy. Such was the definition of the relations of state and economy in German historicism which Gottl's theory of formation (Gebildenlehre) reached by its ontological approach.

2. Classes and Class View of State—State and Economy in Marxian Socialism

Historicism, centering around the problem of nations, claimed a limit to economic liberalism, while socialism, taking up the problem of classes, threw scathing criticism upon the liberalistic theory of harmony.

In the period capitalism was rising, based on economic liberalism, the main body propelling that development was civil society, and this could be a homogeneous society involving no contradiction. In the 1830's when the industrial revolution made substantial progress, the so-far homogeneous civil society began to disclose contradictions between social classes with different interests and thus proved heterogeneous. This gave rise to the "social problems" which essentially concerned social justice regarding the question of poverty and income distribution. Although Malthus, Ricardo and J.S. Mill had been all aware, from their respective points of view, where the problem lay, they failed to make a thorough inquiry into it. The "Communist Manifesto" of 1848 undoubtedly exposed that capitalist society is in the nature of class composition. It declared that the whole of human history (excluding the period of primitive communism) was the history of class struggle and of constant strife between the ruling and the ruled classes, between the exploiting and the exploited classes. The foundation for civilized society lies in the exploitation of one class by another. The ancient slavery, the medieval serfdom and the modern wage-labor system, which represent three important periods of civilized society, typically illustrate the division of society into classes.

Among Gottl's works, more important are:
A class is a product of the production and exchange relations in the given period, and its existence is related primarily to a certain stage of historical development of production.

According to Friedrich Engels, at a certain stage of economic development which was inevitably linked to the division of society into classes, the state became a necessity due to that division. For when society has become hopelessly divided and has entangled itself in irreconcilable contradictions and conflicting economic interests, the state is necessary as a power to hold “order within certain bounds” and to “keep down” the conflict of classes. “The state is a product and expression of the irreconcilableness of class antagonism” (Der Staat ist das Produkt und die Aeusserung der Unversdhnlichkeit der Klassengegensatze) and an organ in the hands of the economic ruling class to “oppress and exploit” the subdued class. The state cannot stand aloof from classes, and it is, “without exception, the state of the ruling class,” “in essence, the organ to oppress the subdued and exploited class,” “the organ of exploitation” and the apparatus of “class rule.” The state can never be a “moral total” in the sense of realization of reason as the philosophical exponent of historicism, Hegel, preached. Such an idealistic view of state is a canard of idealism entirely blind to the fundamental conflict of real class interests.

If the Marxian view of class state is determined by such ideas underlying the material-istic view of history as class division, class conflicts, class struggle and class rule, its logical corollary is that the state is bound to die out in the society where classes have become extinct. The state is doomed “into the Museum of Antiquities by the side of the spinning wheel and the bronze ax.”

However, since the state will completely die out only in a completed communist society, it is still needed in a socialist society, i.e., at the first stage of communism. The socialist society is one in the period of revolutionary transformation from the capitalist to the communist society, and this political transition needs a state held under the “dictatorship of proletariat.” The dictatorship of proletariat means “oppression of the minority or the exploiting by the majority or the exploited” in that “it makes use of the power of the proletariat in order, first, to crush the resistance of the overthrown exploiters and consolidate its achievements and, second, to lead the proletarian revolution to a complete victory of socialism.” This dictatorship is only a transition to a classless and stateless society. Accordingly, the state in this political transition or under socialism is no longer “the state in the original sense” but, so to speak, a “transitional state” which functions as a “special mechanism for oppression” as long as the minority of the former exploiters remain. That is, in the socialist society, there still must be the state in the sense different from the organ of class oppression of the majority by the minority in the capitalist society or, in other words, in the sense of oppression of the minority class by the majority class. Even such a state is, however, to die out in the circumstance where nobody is left to be oppressed as a class, i.e., in the communist society. In this sense, the Soviet state today is regarded as a transitional or dying state.

In the foregoing, we have seen the fundamental characters of the state in the capitalist as well as the socialist society by quoting from the representative works on the views of state.

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by Marx, Engels, Lenin and Stalin, and learned that in any of these, the problem of state and economy amounts to that of state and class. We cannot make clear the essence of the latter problem without focussing arguments on the reality of classes.

On the other hand, as already stated, historicism resolved the problem of state and economy primarily into nationality. Hegel grasped his understanding of the economic community by "civil society" in the sense of a "system of desire." This meant that civil society was subjected to the state or the bearer of national spirit. Nation, state and economy were reconciled, without any contradiction among them, into a harmonious total. This was, at the same time, a "moral total" (das sittliche Ganze) and, as such, "self-subsistent and concrete whole" (das sich in sich befriedigende, konkrete Ganze) and "perfect, independent total" (vollkommen selbständige Totalität). It therefore stood externally as "an exclusive being for itself" (das ausschliessende Für-sich-sein) opposed to other nations and states as they were naturally so conditioned and was to take upon the nature of a power-state which seeks to carry through its particular will and interest for itself. Historicism in Germany, a backward country where civil society was still to attain maturity and capitalist economy was just getting under way, was not necessarily contrary to the economic liberalist view of harmony in England. Historicism gave credit to freedom and harmony in the national economy, in the name of nation. Only in the matter of foreign economy, it, also in the name of nation, sought to reject a natural harmony of interests among national economies.

On the contrary, Marxian socialism, based on its analysis of the most advanced capitalist economic community of England, explained how the free competition as well as laissez-faire under economic liberalism intensified conflicts rather than harmonized. It disclosed the class division of civil society, the conflict between the capitalist class or the monopolistic owners of the means of production and the working class which had no means of living other than selling its labor power as a commodity to the capitalists, and the mechanism of capitalist state devised to effect class oppression and to justify the existing order of the exploiting and the exploited. For the capitalists who were the ruling class, a state which guaranteed the security of private property would no longer be a "necessary evil" but rather even a "necessary good." Both freedom and equality in civil society were meaningful only for the ruling class. For the ruled class, either civil liberty or equality was merely legal and formal, and actually meant little more than decreasing freedom and increasing inequality. Consequently Marxian socialism was to break with the harmonious order of natural law as set forth by economic liberalism and to declare that the capitalist society would collapse of historical necessity, and give its place to a communist society, thereby basing its movement on a natural rule.

On reflection, however, when Marxian socialism was confident, in accordance with the natural rule of its movement, that the communist society was bound to come and bring class and state to an end, and when it set forth the assumption of a society of "every one, on the basis of his ability, and for every one, as his needs demand" or, so to speak, a "millennium," it was optimistic enough to fall into a cult of harmony. It is rightly said, "Marxism indeed destroyed the illusion of harmony of the classical theories, for the present time, it

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39 Karl Marx und Friedrich Engels, Manifest der Kommunistischen Partei (1848); Engels, Der Ursprung der Familie, des Privateigentums und des Staats (1884), besonders Kap. IX.; Lenin, Staat und Revolution (1917), besonders Kap. 1.; Stalin, Die Grundlagen des Leninismus. (1924).
instead transplanted the same illusion in the future." Also it is interesting to note that neither Marxian socialism nor historicism, though in different senses, could be entirely free from a type of metaphysical view of social harmony.

IV. "Welfare State" and English Socialism

While German historicism and Marxian socialism launched thorough criticism of economic liberalism and the capitalist system from the viewpoints of nation and class, the intellectual world of England, the fatherland of liberalism and capitalism, was witnessing a rising tide of reflection on these thoughts which the country produced. This reflection had the aspect of romantic criticism, say, by Carlyle and Ruskin, of abuses and injustice brought about by the capitalist system itself, on the one hand, and, on the other, it took the form of internal criticism of the utilitarian and liberalistic view of world as the ideology of capitalism. It was the reflection in this second aspect that carried great weight as the sole answer from ever growing English liberalism to criticism made by historicism and Marxian socialism.

Utilitarian liberalism, with Bentham as its radical advocate, as we have already seen, provided the guiding star for economic liberalism. It was theoretically perfected by J.S. Mill's *Utilitarianism*, 1861. Mill was, however, not a mere adherent to Bentham, but he advanced the latter's ideas a step forward, while succeeding to and developing it. In that work of his, Mill introduced the viewpoint of quality into the assessment of pleasures, and also emphasized "that the happiness which forms the utilitarian standard of what is right in conduct, is not the agent's own happiness, but that of all concerned." Also, in his *On Liberty*, 1859, Mill modified Bentham's naturalist view of man and brought under review the essence of individual freedom and the validity of social control at the end of it. Nevertheless, he was a "man of transition," who could not advance farther beyond the limitations of liberalism in the early 19th century.

English liberalism underwent a decisive internal change in the 1870's and 1880's when the philosophy of idealism rose with T.H. Green, B. Bosanquet and Fr. H. Bradley of Oxford University as its central advocates. Under the influence of the German idealist school of Hegel, they opposed the Bentham type of utilitarian view of world and planted idealistic and moralistic elements of thought on the traditional soil of English liberalism. Idealistic moral philosophy, political philosophy and social philosophy brought about remarkable changes to the traditional ideas of individual freedom, state function and economic equality. Of course, moralistic idealism, political idealism or economic idealism did not fundamentally change the spiritual climate of traditional individualism and liberalism, but at least it introduced a fresh air into the climate with a rejuvenating effect. That reflection on liberalism was conducted internally rather than transcendentally made it possible for idealistic liberalism to advance.

The theoretical exponent of idealistic liberalism who contributed more to its development than others was, of course, Thomas Hill Green. Green, based on his philosophy of idealism, transformed the traditional, passive concepts of freedom and state in utilitarianism into

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positive ones. He developed the passive freedom or “freedom from...” into the positive freedom or “freedom toward...”; the passive view of state as “a necessary evil” into the positive view of state as “a system to promote the moral good of perfecting the personality of the members of society.” What were then the bases on which Green advanced such arguments?

The starting point of all the theories of Green was in his moral philosophy. Green, first of all, understood man to be “a moral being.” The essence of man does not lie in that, as Bentham said, he pursues happiness in the sense of merely seeking pleasures and avoiding pains. Human conduct is not limited to the satisfaction of such natural impulse. Above all, it is the realization of his will. “By ‘will’ we mean the effort of a self-conscious subject to satisfy itself,” and this is based on the “self-realising principle.” This principle does not end in the “self-satisfaction” of natural impulse like mere pleasures, but satisfies itself only with the achievement of a certain purpose beyond that or “self-perfection.” In this connection it goes without saying, “It [the self-realising principle] must overcome the ‘natural impulses’, not in the sense of either extinguishing them or denying them an object, but in the sense of fusing them with those higher interests, which have human perfection in some of its forms for their object.” The self-realisation principle is thus not one of utility concerning sensible pleasures and pains in the sense Bentham understood. Nor is it the principle of practical reason as taken by Kant to mean that human will itself conforms to the rules which it makes autonomously. Rather, it involves and fuses both of these principles.

It must be noticed here that this self-realising principle is strictly one of process. The idea of self-perfection is not to achieve an object at once, but it is at work constantly in the infinite pursuance of self-realisation. To give an expression to this meaning, Green did call it “the idea of a possible self-perfection.” The self-realising principle is thus the idea of self-perfection or “a principle that is determined to action by the conception of its own perfection, or by the idea of giving reality to possibilities which are involved in it and of which it is conscious as so involved,” or more precisely, “a principle which at each stage of its existence is conscious of a more perfect form of existence as possible for itself, and is moved to action by that consciousness.”

In this way, for Green, the will of human conduct came from the self-realising principle, and the idea of self-perfection working within this principle was the origin of “moral goodness.” Man’s mission was to realize that moral goodness including here not only individuals’ good but “common good.” Green called common good “social good,” either, and considered that the individual has the capacity of regulating one’s own action in relation to good acceptable on the part of the rest or through mutual acceptance, or, in other words, the capacity of conceiving common good to be good for himself. Both individual good and common good, insofar as they are moral goodness, must have it as the common objective to promote self-perfection. “Freedom” should be taken as a necessary condition to achieve the very moral goodness, i.e., self-perfection. Freedom is not sufficient if it means freedom from a restraint. It must be “a positive power” which provides the opportunity of self-perfection; it must be “freedom in the positive sense” which “liberates the energy of every.

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Green, op. cit., p. 327.

Ibid., p. 326.

Ibid., pp. 353-54.
man in order to contribute to good conceived by oneself to be shared with the rest, or common good.” This is the “true freedom” in the sense properly understood.

From such a concept of positive freedom, Green viewed the values and functions of all social institutions. For him, the social institution must be the expression of and condition to the consciousness of self-perfection. Such a social institution as would hamper the growth of its members’ own selves is against the purpose of its very existence. Accordingly this institution must be removed or reformed, or institutions needed for the growth of their members’ selves must be established. Herein Green found the true function of the state, which he thought was to create social and economic conditions for the citizens’ moral perfection. Of course, “it is the business of the state, not indeed directly to promote moral goodness, for that, from the very nature of moral goodness, it cannot do, but to maintain the conditions without which a free exercise of the human faculties is impossible”48 Such was Green’s idealistic view of state. For him, freedom is not opposed to the state. Moral freedom as a requisite to self-perfection can be achieved only under fitting social and economic conditions. So the state functions to maintain and create these conditions in order to increase freedom, not to intervene in it. Thus good, freedom and the state are not opposed to each other but in harmony, and unite together in the system of objects and means. It must be emphasized, however, that the state is in the position of what the means is to the object: although it is no doubt a very important means, it can be meaningful as far as it serves to promote moral goodness and moral freedom. Here lies the characteristic of Green’s view of state which, though from the same current of idealistic philosophy, distinguishes him from Bosanquet who held a Hegelian view of state.

Green’s positive view of freedom and state, as seen above, naturally led him to criticize actively all social and economic institutions. He fundamentally reconsidered the “freedom of contract” and the “private property system” which are prerequisite to economic liberalism, and as far as these hinder the realization of common good and moral goodness, he expected that there should be positive state control. The state must function in such a manner that “nobody of men should in the long run be able to strengthen itself at the cost of others’ weakness,” that “the apparent elevation of the few is founded on the degradation of the many,” and that the rights of its members are upheld, on the whole, more perfectly and harmoniously.49 Green then advocated a legislative reform of labor, health, property and education. Recognizing the abuses and defects of capitalism, he attributed the economic distress of the proletariat basically to the feudalistic system of landownership and advocated a radical reform of it. He, however, did not go farther to make fundamental criticism of private property in general, and remained a social reformist, not a socialist. It must be remembered, however, that English socialism in later years followed a particular course of development, based on Green’s idealist philosophy.

The terminology of socialism has been used in diverse senses, and it is not without reason that we deliberately distinguished English socialism from Marxist socialism referred to in the preceding section. English socialism is a general term for the ideology, policies, platforms and accomplishments of the British Labour Party. But it has not established itself as a system in the sense understood about the Soviet Union, and it is in existence merely

as a movement, so to speak. According to Paul M. Sweezy's *Socialism*, the fundamental difference between the capitalist and the socialist systems is found in that the former tolerates a comparatively unrestricted right of private ownership of means of production, while the latter denies this right and insists upon public ownership of means of production. Both systems accept the principle of private property, but they differ in dealing means of production. If we adopt this interpretation, we will be allowed to characterize English socialism to be a movement devoted to the realization of socialism in that sense, under capitalism. Accordingly English socialism is not socialism in the sense of a system until its movement has run its course. Here is the reason why English socialism at the present state is regarded as nothing but revised capitalism. The fact remains, however, that English socialism certainly exists as a movement. The 1945 program of the British Labour Party, *Let Us Face the Future*, reads in part, "The Labour Party is a Socialist Party, and proud of it. Its ultimate purpose at home is the establishment of the Socialist Commonwealth of Great Britain."

Now what we call into question is not the accomplishments or future prospects of the British Labour Party's socialist experiments. It is the intellectual foundation which has made English socialism into what it is today. First, English socialism, in its philosophical structure, has nothing in common with Marxian socialism. The latter is, as already stated, based on the formulistic system of theory including materialistic dialectic, materialistic view of history, labor theory of value, class view of state, revolutionary dictatorship of the proletariat. These Marxian doctrines did not move the spirit of English socialists to any significant extent. In rare cases, there were some who, like Laski, accepted the class view of state. Still Laski himself (who was not a thorough Marxist who believes in materialistic dialectic or the labor theory of value) recognizes the value of Green's idealistic view of state in his *The State in Theory and Practice*, and the theorists of the Labour Party are generally more profoundly influenced by Mill and Green than anyone else in their view of state.

In the platform of the Labour Party referred to above, "the Socialist Republic of Great Britain" is defined to be "free, democratic, efficient, progressive, public-spirited, its material resources organized in the service of the British people." Such a state will really deserve the name of "welfare state." A welfare state does not only concern social security, full employment or welfare merely in the economic sense. It is to realize as its unseparable part welfare in the political sense of being "free and democratic." The idea of welfare state, as aimed at by English socialism is and should be compatible with that of "revolution by consent" and of "planned democracy" with which Laski concluded his *Reflections on the Revolution of Our Time*. The new significance of welfare state must be appreciated to provide a vision of the so-called democratic socialist state based on freedom and democracy.

V. Conclusion

The problem of state and economy in the present century is not only internal but

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51 *Let Us Face the Future*, Published by the Labour Party, London, April 1945, p. 6.
53 *Let Us Face the Future*, p. 6.
international in its character. What should the modern nation-state and the national economy be vis-à-vis world peace and world economy? This question already led to a grave issue in the period of imperialism at the end of the 19th century, and eventually found a tentative solution in World War I. The postwar crisis in world economy, however, brought economic nationalism to rise, and this finally led to World War II. It was proved that as far as the problem of state and economy was basically tied to the idea of nationalism in the sense of nation-states and national economies, it had to jeopardize, in the international scene, the world order in the sense of world peace and world economy. A closer examination, however, will show that to approach the problem simply from the political viewpoint of nationalism is to look on one side of the matter. If then an economic viewpoint must be adopted to approach the nation-state as a capitalist state and the national economy as a capitalist economy, it follows that the the problem will turn out to be not merely one of nationalism but one of capitalism. The core of the problem of world peace and world economy should therefore be sought in the nature of nationalistic capitalism or capitalist nationalism.

A universal trend which became apparent during World War II is the shift of both thought and movement from nationalism to internationalism, from capitalism to socialism, a change which has been creating far-reaching as well as serious effects. The problem of "capitalist nationalism" vs. "socialist internationalism" has led to an issue which urges one to make a choice of basic principles on which order should be built in the contemporary world. Also it is requiring us to have deep consideration.

We may not dwell on this fundamental problem. We may limit discussion to capitalist nationalism and consider what internal changes and functional modification it should undergo. It is true that capitalist nationalism is a great obstacle to the establishment of world peace and the development of world economy. Nationalism is shackled by "power politics" centering around the independence of sovereignty and balance of power, while capitalism is suffering from unemployment, depression and the structural imbalance of world economy. Here certainly lie the political and economic causes of war. However, if it is impossible to transform nationalism into internationalism and capitalism into socialism all at once, to any "substantial" extent, the only solution will be a "functional" one or achieving a new form of political and economic cooperation along the line of internationalism. It will mean to follow the course of, so to speak, "conditioning nationalism and capitalism." By "conditioning" is meant a functional transformation aimed to settle internal and international questions of state and economy—in the final analysis, the questions of balancing world economy on an expanding scale by full employment and economic development and of raising living standards both internally and internationally—through the medium of "community of power" known as internationalism. That is, the nation-state acquires "the character of a world state," the national economy "the character of world economy" and capitalism "the character of socialism," in terms of their respective functions. A "functional approach" to political and economic conditions for world peace will lead to a new form of internationalism, not by a sole world state, a sole world economy or a sole socialist system, but through cooperation and confederation of states which take part in the "functioning" of world state, world economy and socialism. It is here that we must find a new orientation for state and economy in the present-day community of nations.