

The Role of Merchants in the Market Economy

With Special Reference to
Werner Sombart and John Hicks

Yasuhiro Sakai

Shiga University / Professor Emeritus

I | John Hicks on Theory and History: An Introduction

The purpose of this paper is to systematically discuss the role of the merchants in the exchange economy from a historical perspective. In particular, Werner Sombart and John Hicks will be taken out as two giants in studies of such relationship, and will critically be evaluated and carefully compared from various angles.

John Hicks (1904 - 1989) was one of the most outstanding economists in the 20th century. While he led a scholastic life somehow detached from the real world, he was definitely a man with wide knowledge and deep insight. While he was not an economic historian in its strict sense, he had long been interested in economic history. In fact, in his young days when he was working for a university in South Africa, he lectured on English medieval economic history. Back in the United Kingdom, Hicks (1941) changed his subject to labor economics, thus publishing a nicely written book *The Theory of Wages* (1941), in which useful theoretical tools including the concept of the elasticity of substitution were invented and applied. Just after the Second World War, Hicks (1946) published a masterly theoretical work *Value and Capital* (1946), which was widely regarded as one of landmarks in economic theory in the 20th century.¹⁾

Even after Hicks succeeded in establishing himself as a world famous theorist, he seemed to never forget his 'first love' for history. After all, the first love of a young man would be remembered until his death! In 1969, the year in which I myself was a graduate student majored in mathematical economics at the University

1) For a detailed discussion on the life and work of Sombart, see Backhaus (1996a), Volume I, Introduction, pp. 13-18..

of Rochester, Hicks decided to publish "a small book on a large subject — an enormously large subject" (Hicks, 1969, p. 1). It had a modest yet interesting title *A Theory of Economic History*. Ironically enough, in 1972, the year when I began to teach general equilibrium theory at the University of Pittsburgh just after receiving a Ph.D. from Rochester, he was given a Nobel Economic Science Prize for his classical work on general equilibrium and welfare economics. To tell the truth, he was not so happy to receive the Nobel Prize for his old subject of general equilibrium rather than for his new field of economic history. For this point, he once remarked:

They gave me a Nobel prize (in 1972) for my work on 'general equilibrium and welfare economics,' no doubt referring to *Value and Capital* (1939) and to the papers on Consumers' Surplus which I wrote soon after that date. ... But it was done a long time ago, and it was with mixed feelings that I found myself honored for that work, which I felt myself to have outgrown.

(Hicks 1977, Preface, p. v)

If I am allowed to simplify the matter, the New Hicks was awarded the honorable Nobel Prize for the past work by the Old Hicks. So, a kind of mixed feeling derived from such a mismatch seemed to be occurred in his mind.

The late Professor Michio Morishima (1923-2004) was one of the greatest Japanese economists after the Second World War. We had great respect for Morishima, who in turn had great respect for Hicks. Morishima once remarked:

When I read *A Theory of Economic History*, I asked Professor Hicks, "Would you like to continue such a history work a la Max Weber from now on?" Taking a pause, he replied to me, "Well, I would not think so." After several days, however, he confessed his honest opinion, "If I was given a Nobel Prize for my recent work on Economic History rather than Pure Theory, I surely would have felt much happier." This may clearly demonstrate that he himself evaluated his work on History much higher than the one on Theory. (Morishima 1994, p. 74)

Personally speaking, Sakai has ever met Professor John Hicks on several occasions. Sakai's last and most impressive meeting with him occurred in Summer 1988, when Sakai was in Bologna, Italy to present his technical papers first at the World Congress of Econometric Society and then at the Annual Meeting of the European Economics Society held at the University of Bologna, one of the oldest universities in the world. We should add that the Special Memorial Conference in Honor of John Hicks was also organized at a separate place in Bologna. Very fortunately, Sakai was also invited as a special guest at the Hicks memorial conference because of the kind invitation of the late Professor Hirofumi Uzawa (1928-2014), another great Japanese economist. When Sakai met with John Hicks at the conference, he was very old and used a wheelchair. Yet he looked lively and always in good spirits. One year after the conference was over, however, Sakai was informed that Hicks suddenly passed away. So, it seemed that Sakai was one of the last persons who could talk to Professor Hicks in an academic meeting. In

retrospect, Sakai left his heart in the Hicks Conference aforementioned. Still keeping it in our fond memory, we would like to write this paper in order to carefully investigate the relation between History and Theory, a very favorite subject in the late years of Hicks.

According to Toshihiro Fukuda (2011), both Max Weber (1904) and Werner Sombart (1902, 1911, 1912, 1938) were regarded as those shining stars in the famous German Historical School who did outstanding contributions to comparative economic studies. Although Weber is still academically alive, it is quite unfortunate that Sombart is now an almost forgotten scholar in the academic profession around the world. Sombart's serial works such as Sombart (1902, 1911, 1912, 1938) became more or less neglected. It is my real intention here to make a bridge between the later work of Hicks and the forgotten work of Sombart. As far as we know, such a bridge has been never attempted to build. We strongly believe that it should be of much value at the Second Age of Uncertainty we face today.²⁾

The contents of this paper are as follows. In Section 2, the important problem of "capitalism versus socialism" will be reinvestigated in new perspectives. Section 3 will explore the comparative economic theory of Sombart, with an intensive discussion of its important part to be played in modern times. Section 4 will turn to the synthesis of theory and history by Hicks, comparing the Hicks doctrine with the Sombart view. Final remarks on the relation between the Sombart-Hicks approach and the Ohmi merchant theory will be made in Section 5.

²⁾ Toshihiro Fukuda is one of leading authorities on the German Historical School. In recent times, he has developed his own ideas in line with the so-called "Third Way", namely the midway between Capitalism and Socialism. For details, see Fukuda (2011).

II Capitalism Versus Socialism: The Powerful Rivals in the 20th Century

In historical perspective, the 20th century could rightly be called the Century of Socialism. In 1917, Vladimir Lenin (1870 - 1924) and his company overturned the old Russian regime, thereby succeeding in establishing the socialist government first in human history. Since then, capitalism and socialism had become powerful rivals for a long time until 1989, when the Berlin Wall fell and immediately later the socialist Soviet Union disintegrated into the more market-oriented Russian Federation and many other countries.

2-1. The Two Different Views of Seiji Kaya and Shigeto Tsuru

In the 1960s when Sakai was a student at Kobe University, Japan, the world politico-economic map was by and large divided into the two power blocs. One bloc was called the "blue bloc" or the "capitalist bloc" containing Western Europe, North America, and Japan. The other bloc was named the "red bloc" or the "socialist bloc" consisting of the USSR, China, and East Europe.

Capitalism versus socialism — this rival relation was also apparent in all Japanese universities. In Japan in the 1960s, *Das Kapital* (1867) written by a noted socialist Karl Marx (1867) was so powerful in Japanese academia, clearly overpowering any other economic books in terms of selling volumes and influential scopes. In this connection, let us recall that Professor Seiji Kaya, a noted natural scientist and then the Chairman of the Japan Science Council of Japan, wrote in a newspaper:³⁾

On reflection it is really ridiculous that mankind cannot live in this globe peacefully with each other when they possess the knowledge and know-how even of making a round-trip to the moon. The most important thing from now on seems to be to join our efforts in making the time nearer when we can all visit the moon as friendly tourists, instead of being involved in the clash between communism and capitalism.

(Quoted by Tsuru 1961, p. 1)

In response to Kaya's opinion, Professor Shigeto Tsuru, a famous social scientist and then the President of Hitotsubashi University, quickly wrote:

There are some among the experts in the field who would regard such terms as "capitalism" and "socialism" as emotional expressions and prefer not to use them in technical discussion. I would not agree with them. ... The distinction between capitalism and socialism as a social system is not due to emotional antagonism of politicians or to doctrinaire rigidity of academic people. Dr. Kaya's wish for a harmonious world is everybody's wish; but he should be aware that there does exist here a scientific problem of differentiating different social systems by an objective criterion and that the difference between them cannot be wished away.

(Tsuru 1961, pp. 2-3)

It was very likely that the difference in their views over the distinction between capitalism and socialism reflected the differences of their research areas. On the one hand, Kaya as a nat-

ural scientist always sought universal natural laws such as the universal law of gravitation which were applicable at any place and at any time, regardless to possible differences of histories, cultures, skin colors and so on. In his mind, the heated debate on the choice of capitalism or socialism as a social system seemed so highly emotional that it had nothing to do with those technical discussions which were rather common among natural scientists. On the other hand, Professor Tsuru did not agree with Professor Kaya, and emphasized the influences of cultures and ideologies on individual behaviors. Although Tsuru personally might have wished to make a round-trip to the moon together with Kaya, the former believed that any theoretical compromise between capitalists and socialists was almost impossible because the gap between the two socio-economic systems could not be wished way overnight.

In our opinion, John Hicks, a noted economist and Nobel prize winner, seemed to be in general agreement with Tsuru. Interestingly enough, Hicks (1979) took one more step forward to write a small yet important book titled *Causality in Economics* (1979) on a very fundamental problem on the cause-and-effect relationship. According to his opinion, unlike natural sciences, economic knowledge is far from perfect. There exist very few economic laws we can know with exact precision. These laws are by and large subject to errors and ambiguities, which would be thought of as intolerable nonsense by natural scientists. To sum up, Hicks came to the conclusion that economics gave us a leading example of uncertain knowledge.⁴⁾

3) *The Asahi Shimbun*, a leading Japanese newspaper, 6 November 1957. Incidentally, Professor Kaya also served as the President of the University of Tokyo.

4) For a detailed discussion on this point, see Sakai (2016), pp. 16-17.

2-2. The Official Textbook of Economics by Soviet Science Academy

In the 1960s when Sakai was young and an ambitious student at Kobe University, the most fashionable topic among students was about the sustainability of the capitalist regime as a socio-economic system. Among our fellow students, there were a lot of debates over the pros and cons. Will capitalism survive for many years to come? When and how will socialism overtake capitalism? What is on the earth the best socio-economic system from the viewpoint of ethics and justice?

To find the right answers for those difficult questions, the Japanese young students needed a set of nice guide books. Among those books was the official *Economics Textbook, the third edition* (1959) published by the Soviet Science Academy. (1959). It was a very bulky book nicknamed the "Red Text" by young and diligent students. It was often compared to the "Blue Text", namely *Economics: An Introduction, the seventh edition* (1955) written by a very influential American economist Paul A. Samuelson (1955). When we carefully read and compared both books, we had to confess that we were overwhelmed by the strong messages and passions of the more exciting Red Text, thus more or less underestimating the cool logic and elegant exposition of the less exciting Blue Text. After all, in young days, human passion tends to overwhelm reasoning!

More exactly speaking, the Red Text consisted of four volumes and totally around 800 pages, which far outnumbered any textbook of modern economics available. Its general outline is evidently seen in Table 1. We still remember how much we were moved by the

very powerful sentence in the very first page of the Red Text:

Since the Publication of the Second Edition of the Official *Textbook of Economics*, in the Soviet Union and other People's Democratic Countries as well, the socialist mode of production has constantly promoted and thus attained uninterrupted growth until today: indeed, not only has the planned leadership of the nation economy greatly improved, but also both the administration methods and the open discussions by the general public have been made better than ever before. In contrast to the flourishing socialist bloc, the capitalist bloc is now moving into the process of the overall crisis of capitalism. While every colonial system is eroding more rapidly than ever before, both domestic conflicts and international contradictions are surfacing more drastically than ever before.

(Soviet Science Academy 1959, Preface, p. 1)

The rivalry between capitalism and socialism is on the top agenda of the Red Text. The way in which one economic system changes into another must a rigid one-way street. We must see a one-directional change from pre-capitalism to capitalism, and still further to socialism, but not other way around. Consequently, no matter how a capitalist society appears to be thriving now, it gradually loses a growth power, thus finally being doomed to disintegration.

According to the Red Text, communism will eventually be reached as the culmination of socialism, thereby guaranteeing the final victory of socialism over capitalism. In this

**Table 2.1 The Soviet science academy (1959) :
the contents of the official textbook of economics**

The textbook of economics : preface
Chapter 1 The subject of economics
Chapter 2 The production mode before capitalism

The capitalist production mode
Part 1 Capitalism before monopoly
From Chapter 3 to Chapter 14
Part 2 Monopoly capitalism: imperialism
From Chapter 15 to Chapter 19

The socialist production mode
Part 1 The transition period from capitalism to socialism
From Chapter 20 to Chapter 23
Part 2 The national economic system of socialism
From Chapter 24 to Chapter 36

Conclusion

connection, the following sentence at the very end of the bulky text must be very impressive:

In the above, we have carefully and thoroughly investigated all the processes of economic development of a society. Consequently, we have come to the most important conclusion of economics that in historical perspective, capitalism is doomed to collapse whereas the victory of communism over capitalism will be unavoidable. The historical tendency that a modern society is moving toward communism must have a very solid foundation from which the objective laws of social development is surely derived. The communism, which is led by the communist party and supported by the Marx-Leninism, must be produced as the natural outcome of consciously creative activities of almost one hundred million working mass. Our society has a built-in mechanism of going forward communism. This is definitely the historical tendency

which cannot be changed whatever by any means around the world.

(Soviet Science Academy 1959, Conclusion, p. 1050)

Both the first page and the final page of the Red Text are decorated by exactly the same message, namely the final victory of socialism over capitalism. We must remember, however, that a powerful trumpet may sometimes sound very hollow.

Although the debate between capitalism and socialism has been hot and exciting, it has somehow sounded hollow and neglected the historical truth. It is true that as Karl Marx noticed, the rise of capitalism is important and must carefully be explored for full understanding of economy history. We would like to say, however, that there exists a more fundamental transformation in human history, which is even precedent to Marx's concept of the Rise of Capitalism. This is what we may rightly call the Rise of the Market or the Rise of the Mer-

cantile Economy. Although there are relatively few scholars who have pointed it out, there are some conspicuous exceptions. The Old Werner Sombart and the New John Hicks belong to the exceptional group, which should be the next topic of my investigation in this paper.⁵⁾

III | The Sombart Renaissance Revisited

In hindsight, Werner Sombart seemed to be a man in paradox. Before the First World War, he was a famous professor at Berlin University, being widely regarded as a great economist belonging to the German Historical School. After the war was over, however, his fame fell down quickly and became an almost forgotten economist. Only recently, just after the Fall of Berlin Wall in 1989, his destiny took another turn. According to Jürgen Backhaus (1996a, 1996b, 1996c), the classical work of Sombart saw a considerable comeback: in fact in 1991, a distinguished group of many scholars around the world gathered in the City of Heilronn, Germany, to intensively discuss the work of Sombart and its modern implications. In what follows, we will critically reevaluate the so-called Sombart renaissance and its true significance.⁶⁾

3-1. Werner Sombart versus Max Weber: Friends and Rivals

Both Werner Sombart (1863 - 1941) and Max Weber (1864 - 1920) were the two tower-

ing figures belonging to the German Historical School originated by Gustav von Schmoller (1838 -1917). They were contemporaries; more exactly, Sombart was only one year older than Weber. They were close friends, serving as co-editors of the leading German journal *Zeitschrift für National Ökonomie*, yet sometimes becoming fierce rivals. The very significant difference between Sombart and Weber laid in the fact that Sombart outlived Weber by 21 years. On the one hand, Weber was periodically mentally ill for a long time and passed way in 1920 when he was 56 years old: this was the time when Germany was just defeated in the First World War, and the rise and dominance of the German dictator Adolf Hitler (1889 - 1945) was not be seen yet. On the other hand, after Sombart was appointed a full professor to the most important economic chair in Germany, he dared to write a very controversial book *Deutschr Soecialismus* in 1938, which was grossly interpreted as a work paying a tribute of praise to Nazis Germany. Without the 1938 book, Sombart would have somehow retained his prestige as a respected representative of the German Historical School. With its publication, however, he grossly seemed to be taken as a sort of war criminal, thereby being destined to be a defeated man.⁷⁾

After the death of Sombart in 1941, so many years have passed. We are in the new 21st century. Since the Sombart conference held in 1991, Sombart's classical work has seen a remarkable comeback. As Backhaus (1996a,

5) This was already pointed out by John Hicks (1969). While we agree with him in this respect, we wonder why he failed to refer to Werner Sombart as one of his pioneers. Now, it is high time to do equal justice to ignored economic historians in the past.

6) At present, the three volumes evaluating the work of Werner Sombart are available. Backhaus (1996a, 1996b, 1996c) as an organizer of the Sombart Conference did an outstanding contribution to the timely return of Sombart to the world academia today.

7) Before the Sombart Renaissance took place, Galbraith (1987) uncharacteristically criticized Sombart's work in a very bitter fashion : "Its principal exponent was Werner Sombart (1863-1941), the German historian-economist, a diligent but not completely reliable scholar. Intuitively and perhaps even openly anti-Semitic, Sombart sought in his later years to give a measure of theoretical sanction to National Socialism." (Galbraith, 1987, Footnote 2, pp. 22-23) It seems that the "theoretical sanction to National Socialism (or Nazi)" and the "anti-Semitic" stance are a sort of taboos which must be avoided at all cost in the western world. Let us recall that

1996b, 1996c) rightly told us, Sombart may be thought of as one of founders of the economics of comparative systems. Now, the return of the old masters including Sombart should urgently be needed.

3-2. The Demand Side Approach Versus the Supply Side Approach

We are now in a position to draw a historical chart of interdependence among economists. As is seen in Fig. 1, there are fundamentally two different ways — horizontal

and vertical ways. On the one hand, if we look at the figure horizontally, we can classify the economists into two groups; namely, the group of the "demand side approach" and the one of the "supply side approach". Needless to say, a market economy consists of two sides; namely, the demand or consumer side, and the supply or producer side. In historical perspective, the demand group, which emphasizes the demand side more than the supply side, contains Mercantilism (led by Daniel Defoe (1728) and James Steuart (1767)), Werner Sombart (1902,

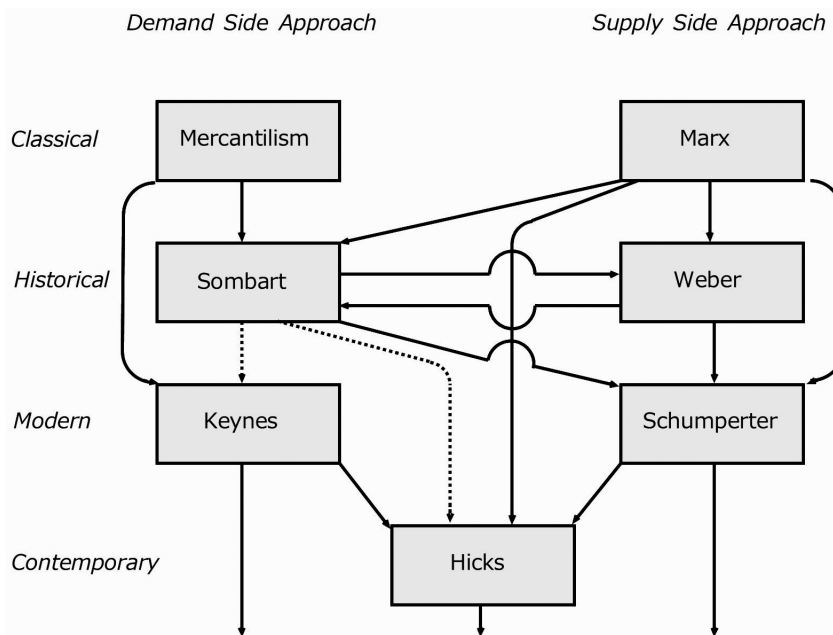


Fig. 1 Alternative theories of comparative economic systems: the demand side approach versus the supply side approach

Schumpeter (1954) said harsh things about the German Historical School, and especially spoke bitterly of Sombart. "The only work of Sombart that needs to be mentioned here, his *Der Moderne Capitalismus* (or *Modern Capitalism*, 1902) shocked professional historians by its often unsubstantial brilliance. They failed to see in it anything that would call real research—the material of the book is in fact wholly second hand – and they entered protests against its carelessness." (Schumpeter, 1954, Footnote, pp. 816-817) We belong to the oriental world, thus do not quite agree with Galbraith and Schumpeter. We would sincerely wish that the creative,

but not dogmatic, Sombart would rightly come back into the academic world.

1911, 1912, 1938), and J.M. Keynes (1936). The supply group, which attaches more importance to supply side than the demand side, includes Karl Marx (1867), Max Weber (1904), and Joseph Schumpeter (1926). Since the New Hicks is an open-minded man who intends to integrate the demand side and the supply side into a grand new system, his position should be located somewhere between the two groups. On the other hand, now by looking back at Fig. 1 vertically, we may classify the economists into four schools; namely, the Classical School, the Historical School, the Modern School, and the Contemporary School.

In Fig. 1, the solid line arrow (A→B) shows that A strongly influences B whereas the dotted line arrow (C⋯→D) means that the influence of C on D is rather weak. For instance, while Mercantilism as a demand side approach in the early days strongly influences Sombart and Keynes, the influence of Sombart on Keynes looks rather weak and requires a further investigation. Perhaps against the current stream of thinking, we are nevertheless inclined to believe that Sombart's impact on Hicks is fairly substantial.⁸⁾

3-3. Sombart on the Capitalist Spirit

The word "capitalism" is now very popular and so frequently used together with its rival word "socialism". Remarkably, the former word was not seen at all in *the Wealth of Nations* by Adam Smith (1776), the Father of Economics. Although Karl Marx (1867) in his main work *Das Kapital* eloquently discussed the dominance of the "capitalist class" over the "worker class" along with the characteristics of the "capitalist production mode", he never employed the

keyword "capitalism." It is Werner Sombart himself who first invented and regularly employed the word "capitalism" (or Kapitalismus) and its companion "capitalist spirit" (or kapitalistische Geist). Unfortunately, this historical fact has been almost forgotten in the economics history literature. We might add that unlike his close friend Max Weber, Werner Sombart lived long enough (perhaps too long!) to be involved in the darkest episode of fascist Nazi Germany with anti-Semitism. A longer life may not guarantee a better life!

In his most important book *Der moderne Kapitalismus* (or modern capitalism), Sombart (1902) gave a very important characteristics of the capitalist economy in the following way:

Capitalism is an exchange economic organization, in which normally two different groups of people exist. They are the people who own the means of production, being responsible for the management and thus being economic subjects, and the people who are mere workers (as economic subjects) and are united together and interconnected through the market, being motivated by the earning principle and economic rationalism.

(Sombart 1902, p. 319)

Apparently, Sombart's view of capitalism was different from Marx's one. First of all, concerning the definition of capitalism, Sombart adopted a more flexible stance than Marx. Sombart differed from Marx in the sense that capitalism should be regarded as an exchange economy organization rather than a production economy organization. Second, while Marx argued that the rich capitalist who monopolized the means of production had a

⁸⁾ Keynes strongly argues that there is "the element of scientific truth in the mercantilist doctrine" (Keynes, 1936, p. 335) that is designed to maximize the export of a nation and minimize its import so as to increase the aggregate demand.

power to exploit the poor worker, Sombart argued that both capitalists and workers were engaged in reciprocal relations in the market economy. Third, all the people including capitalists and workers were economically rational men, whence being motivated by the earning principle and economic rationalism. To sum up, Sombart's view of capitalism should be very akin to the market exchange economy, which could be interpreted widely enough to include any kind of commercial trading in the pre-capitalistic feudal economy.

Der moderne Kapitalismus (or modern capitalism), consisting of huge three volumes, was a historical and systematic portrayal of the economic life of all Europe from its beginning to the present time, no doubt represented the life work of Werner Sombart. Those three vol-

umes of Sombart (1902) could be compared to the bulky three volumes of *Das Kapital* (1867) by Karl Marx (1867). Although the views of Sombart and Marx looked similar, they were fundamentally different.

Seeing is believing! Sombart's view on the history of economic systems may be depicted in Fig. 2. The key concept played in the history of economic systems was the capitalist spirit, being located in the center, which intermediated between the pre-capitalist era and the era of capitalist economy. The importance of the capitalistic spirit for the Sombart world could not be overstated. Sombart without the capitalistic spirit looked like Hamlet without the prince. According to Sombart, the spirit of capitalism was describable by three factors: monetary transactions, competitive trading,

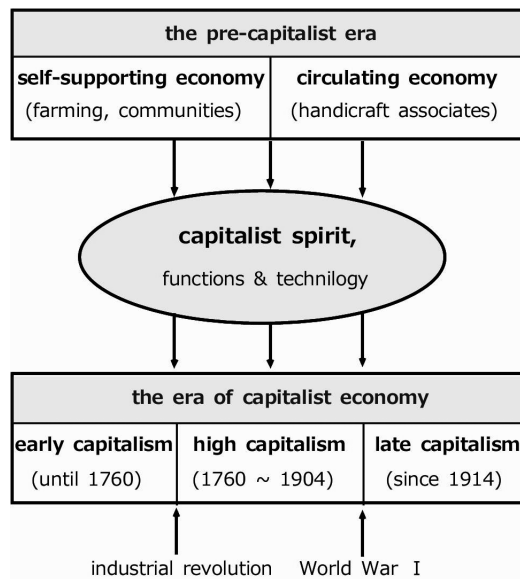


Fig. 2 Sombart on the history of economic systems, with focus on the capitalist spirit

and economic rationality. All trades were carried out by means of money, and must be free from outside regulations. Traders or merchants behaved as profit seekers in the sense that they maximized revenues and minimized losses.⁹⁾

Historically speaking, any economic organization could largely be divided into the two: namely, the non-capitalist economy in an earlier era and the capitalist economy in a later era. Moreover, the non-capitalist economy consisted of the two subgroups; namely, the self-supporting economy with farming and local communities, and the circulation economy with handcraft masters and associates. Unfortunately, the vital capitalistic spirit did not come to light yet. The critical factors which contributed to the transformation of the non-capitalist economy into the capitalist economy consisted of the three — the rise of the capitalist spirit, the capitalist functions and the capitalist technology. In contrast to Marx who mechanically emphasized the irreconcilable contradictions between ever-socializing productive power and antagonistic private relations in big enterprises, Sombart shifted his interest to various human factors such as individualism, rationality, scientific knowledge, freedom of movement and active marketing. In short, let the capitalist spirit decide ! This was really the essence of Sombart's concept of the capitalist economy.

According to Sombart, the era of capitalist economy has so far developed through three stages. The first stage, called *Frühkapitalismus* (or early capitalism), covered the long period from trading activities in the 13th century to the Industrial Revolution in the 1760s. There emerged many specialized merchants with lively spirit on the scene. Although some were

actively engaged in speculation and even military activities, they could be regarded by Sombart as the bearers of the capitalist spirit.

The second stage, named *Hochkapitalismus* (or high capitalism), contained the period from the Industrial Revolution to the break of the First World War in 1914. This period was characterized by the high development of capitalist system all over the world. The third stage, called *Spätkapitalismus* (or late capitalism), corresponded to the period after 1914 until the present day. This late period is in a sense the beginning of the end of capitalist economy, in which Sombart bravely predicts the eventual return of the non-capitalist economy. Although this seems to be a bit strange argument, I believe that by and large, Sombart's analysis on the capitalist spirit remains to be very important even today.

IV | Hicks on the History of Economic Systems

When Hick's new book *A Theory of Economic History* was published in 1969, Sakai was a graduate student at Rochester. Sakai was taking a sequence of courses in economic theory, with Professor Lionel McKenzie being the outstanding leader of the theory group. Although Richard Thaler, Sakai's good friend at Rochester, recommended Sakai to attend econometric history classes of Professor Robert Fogel, Sakai himself was then much more impressed by the power and beauty of pure mathematics than the seemingly odd mixture of econometrics and history. To our deep regret, neither McKenzie nor Fogel seemed to refer to Hicks' new approach to economic history, which will be

9) For this point, see Stehr and Grundman (2001), Chapter 1.

the topic to be discussed in the following subsections.¹⁰⁾

4-1. The Rise of the Market

Hicks was a multifaceted man. His research interests were wide enough to cover philosophy, theory, and history. Quite unfortunately, however, so many people tended to refer only to the Old Hicks as a theorist, thus thinking light of the New Hicks as a historian. We have to mend such unbalanced view of Hicks' academic achievements. For this point, we recommend to see Hicks (1979).

In our opinion, Hicks' position in the theory of economic history is quite unique. First of all, he was not fond of employing rigid terms such as the rise of capitalism and its transition to socialism, but rather felt a strong affection for gentler expressions such as "*the rise of the market*" and "*the role of the merchant*." For this point, he once remarked:

Where shall we start? There is a transformation which is antecedent to Marx's Role of Capitalism, and which, in terms of more recent economics, looks like being even more fundamental. This is the Rise of the Market, the Rise of the Exchange Economy. It takes us back to a much earlier stage of history, at least for beginnings.

(Hicks 1969, p. 7)

Hicks started his historic inquiry with the rise of the market or the emergence of the exchange economy. This could be compared very well to Sombart's idea of capitalism as a distributive economic organization. Indeed, Sombart's capitalism was very akin to Hicks' market economy; both of them were well-il-

lustrated in the activities of merchants in the Mediterranean trade and those at the Age of Discovery, covering for the long period from 13th century to the 18th century.

Second, Hicks also avoided the use of hard idioms such as mercantilism and the Industrial Revolution, and instead liked to employ softer expressions such as mercantile economy and industrialism. According to Hicks, mercantilism sounded too political to be academically usable, and unlike the riotous French Revolution, the key players of the Industrial Revolution were far from well-defined. Third, he did not want his theory to rely on any form of Historical Determinism including Marx's materialistic interpretation of history. He did not think that a socio-economic society was forced to change one-sidedly by way of the "conflict between expanding productive power and stiffening productive relations". His historical stance was very flexible to accept the interactions between economic and non-economic factors, also observing the possibilities of backward movements, cycles, and many other non-regular movements.

In my opinion, the second and third points aforementioned clearly demonstrate the flexibility and open-mindedness of the "Hicksian theory of economic history," thus distinguishing itself from the German Historical School including Marx, Weber, and Sombart.

Hicks' view on the history of economic systems may be depicted in Fig. 3. The key concept played in the Hicks system is the rise of the market with regular trading, which is located in the center of the figure. According to Hicks, the history of economic systems began with the primitive non-market organization, which contained two types of economies;

10) Several years later, the great teacher Robert Fogel moved from Rochester to Harvard and was awarded Nobel Economics Prize for his contribution to econometric history. Sakai's good friend Richard Thaler also moved from Rochester to Chicago, and later was awarded Nobel Economics Prize for his contribution to behavior economics.

namely, the "custom economy" with local communities, and the "command economy" with military order such as the Mongol control by the strong man Genghis Khan (1162-1227).

Historically speaking, the primitive non-market organization was destined to fade out and even vanish by the rise of the market, in which many specialized merchants appeared and engaged in regular and permanent trading. According to Hicks, the mercantile economy had the three phases of development. The "first phase" was characterized by the continuation and expansion of market trading in the city state. In the "second phase" of mercantile development, market centers emerged and flourished, with insurance and stocks being the items of trading. The "modern phase" began with the Industrial Revolution with modern

technology and industries. This modern phase of Hicks was quite analogous to the concept of "high capitalism" dealt with by Sombart in his analysis on the history of economic systems. As mentioned above, Sombart preferred to employ a light phrase of "industrialism" rather than a heavier idiom of "industrial revolution". So, the "capitalist production mode", which was heavily favored by Marx, was merely regarded by Hicks as "just one phase of the bigger framework of mercantile economy."

The question which would naturally arise here is how Sombart's view on the history of economic systems is similar to, and different from, Hicks' view. No doubt, it constitutes the core of this paper. Fortunately, a good answer to this question would be given by comparison of the last two figures, namely, Fig. 2 and Fig. 3.

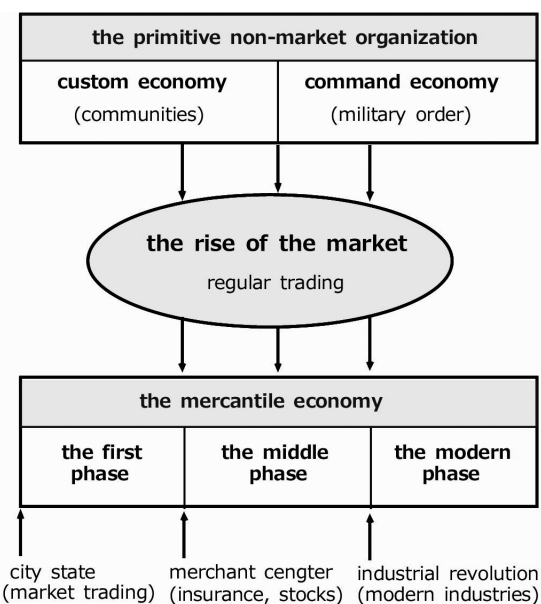


Fig. 3 Hicks on the history of economic systems, with focus on the rise of the market

It is quite apparent from a structural viewpoint that those two figures look alike. So, they should have a lot of things in common. First of all, as far as the historical structure of economic systems is concerned, Sombart's view is very akin to Hicks' one. On the one hand, as is seen in Fig. 2, Sombart argues that the economic history starts with the pre-capitalist era with self-supporting and/or circulating economies, later acquires the strong capitalist spirit, functions and technology, and finally gets into the era of capitalist economy which in turn consists of the three stages of early capitalism, high capitalism, and late capitalism. On the other hand, as Fig. 3 tells us, Hicks thinks that the economic history begins with primitive non-market organization with custom and/or command economies, later faces the remarkable rise of the market with regular trading, and finally reaches the mercantile economy which contains the three stages of first, middle, and modern phases. If we are allowed to identify Sombart's capitalism with Hicks' market economy, then the fundamental structures of Sombart and Hicks doctrines become very similar.

Second, both economists — Sombart and Hicks — attach the greatest importance to the role of merchant in the market economy. On the one hand, Sombart observes the strong capitalist spirit in external activities of adventurous Italian and Dutch merchants. On the other hand, Hicks pays special attention to the rise of the market in which regular trading occurs among high-spirited merchants. In either case, both Sombart and Hicks adopt demand-side economics, thus being different from Marx and Weber as the believers of supply-side economics. We should add that comparing

Sombart and Hicks, Hicks' position is more balanced than Sombart. After all, the Hicks theory should be regarded as the magnificent synthesis of the demand-side and supply-side approaches.

Third, those two economists do with all their strengths for the "grand integration of history and theory", also taking account of economic and non-economic factors. The abstract-minded economists Marx and Weber are apt to think light of the real economy, thus dreaming of "ideal types" and "abstract economic men". In contrast, the empiricists Sombart and Hicks attach the greatest importance to the real economy with ordinary men.

To sum up, Sombart is an ambitious economic historian who has put his heart and soul into the project of "actualization of economic history". In contrast, Hicks in his later years has done everything in his power to finish the job of establishing "theoretical economic history." Hopefully, we would like to combine the works of Sombart and Hicks toward a new grand synthesis of history and theory.

4-2. Slavery in the Mercantile Economy

Hicks was known as a man of honesty and good conscience. In his history book, Hicks (1969) candidly remarked:

The darkest episodes in the history of mercantile slavery (putting aside the horrors of slave-catching) are a matter of the large-scale employment of slaves such as the cotton and sugar plantations of Americas and the West Indies. (Hicks 1969, p. 126)

As was eloquently argued by Thomas (1997) and Sakai (2018, 2019), the mighty British Empire had long thrived on the foundation of slave trade and many colonies overseas. Its most famous trade route was known as the triangular trade route, connecting three ports; namely, Britain (Liverpool, Bristol), West Africa (Slave Coast), and the Caribbean (Jamaica). Among the three possible passages connecting any two of those port, the Transatlantic Passage from West Africa to the Caribbean was best-known among the traders. In his popular book, the novelist and polemic Daniel Defoe (1728) once described the enormous amount of money the greedy merchants brought about to Britain by the slave trade. And at present, in his bestseller, the French rising star Thomas Piketty (2013) eloquently discussed the historical importance of slavery in the New World and the Old World.

I [Piketty] cannot conclude this examination of the metamorphoses of capital in Europe and the United States without examining the issue of slavery and the place of slaves in US fortune. (Piketty 2013, p. 158)

The importance of slave trade in the mercantile economy should not be underestimated. Now, it seems that Piketty can be thought of as another Hicks. We would sincerely hope that, following Piketty's lead, many other successors will cheerfully come out.

V | **Koji Egashira on the Ohmi Merchant: Final Remarks**

The late professor Koji Egashira (1900-1978) was a noted authority on Ohmi

merchants. In his lifework, Egashira (1959) remarked:

The controversy between Werner Sombart and Max Weber in Germany was once passionately introduced to Japan, becoming among economists one of fashionable topics in Japan. It remains to be unsolved even today, however. The Ohmi merchants, which have been best representatives of Commercial Capital in Japan. I have no doubt that thorough studies in those merchants may greatly contribute to an inquiry into the development of Japanese commercial capital. I have so far exerted all my energy to examine the famous *Ohmi* chants in many possible ways. As a result, I have reached the conclusion that I am in a position to fully support neither the Weber doctrine nor the Sombart doctrine. (Egashira 1959, Preface)

It was so remarkable to see that Egashira paid special attention to the controversy between Sombart and Weber on the part of merchants played in a capitalist economy. He also argued that Ohmi merchants greatly contributed to the development of Japanese commercial capital. He was not so sure, however, how and to what degree the economic activities of those merchants could be explained by either Sombart or Weber, or possibly both. We are inclined to support Sombart more than Weber. We believe that the capitalist spirit a la Sombart can be compared very well to the ethic and moral of Ohmi merchants. Such comparison is very important, requiring a further examination.

The related question of importance is how and to what degree the old stage of "commer-

cial capitalism" was transformed to the new stage of "industrial capitalism". As was mentioned above, the demand side economist Sombart argued that such transformation should have been gradual and continuous because changes in people's demand were always slow and steady. In contrast to Sombart, his contemporary economist Weber sided with the supply side approach, thus pointing out the "wide mental gulf" between commercial and industrial capitalisms, which was caused by the uplift of the Protestant ethics. Then, we would like to ask the following question: which should be the right doctrine, the continuous transformation doctrine of Sombart or the discontinuous transformation doctrine of Weber? In Japan in the 1950s and the 1960s, Weber supporters greatly outnumbered Sombart supporters. Thus, it was unfortunate to see that Sombart's theory almost vanished along with the defeat of the Nazi Germany. Now, however, so many years have passed after the Second World War. We strongly believe that it is high time to say farewell to the defeatist doctrine, thereby reevaluating the Sombart-Weber controversies aforementioned from new angles.

In our opinion, Hicks' new approach to the theory of economic history can give us a useful guide to solve the Sombart-Weber antagonism. As was mentioned above, concerning the history of economic systems, Sombart's doctrine is based on a demand side approach whereas Weber's view is a supply side one. Needless to say, the working and performance cannot correctly be explored by one side only: both demand side and supply side approaches must be integrated into a grand new synthesis. For such integration, we still require a further investigation.

As Hicks (1969) has repeatedly stressed, the rise of the "mercantile economy" constitutes the very core of his inquiry. Now, the problem of choice between capitalism and socialism becomes a secondary issue because only capitalism, and not socialism, can be associated with the mercantile economy.

We strongly believe that Ohmi merchants of Japan may give us good examples of the Hicks-type mercantile economy. To our deep regret, Hicks hardly referred to Ohmi merchants, or the Japanese merchants who had strong forward-looking natures. We also would like to add that those Ohmi merchants acted as lively players with capitalist spirits a la Sombart. For this point, see Ogura (1980).

Remarkably, Hicks has emphasized that the trade should obey the "principle of all-round advantage." In other words, the trade should produce the advantage of all the parties; namely, the advantages of merchants themselves and the 'surrounding' people with whom they trade.¹¹⁾

Such principle reminds us of the "principle of *sampo-yoshi*" obeyed by Ohmi merchants of Japan; namely, the principle of "being good for a seller, good for a buyer, and good for the society". How exactly and to what extent the Hicks principle and the Ohmi merchant principle are similar or different remains to be an open question. We need to do a further investigation.¹²⁾

References

- ⊙ Backhaus, J.G. (ed.) (1996a) / *Werner Sombart (1863-1941) – Social Scientist, Volume I: His Life and Work* / Metropolis-Verlag, Marburg, Germany
- ⊙ Backhaus, J.G. (ed.) (1996b) / *Werner Sombart (1863-1941) – Social Scientist, Volume II: His Theoretical Approach Reconsidered* / Metropolis-Verlag, Marburg, Germany.

11) See Hicks (1969), p. 51.

12) For details of Ohmi merchants, see Egashira (1959) and Ogura (1980).

- ⊙ Backhaus, J.G. (ed.) (1996c) / *Werner Sombart (1863-1941) – Social Scientist, Volume III : Then and Now* / Metropolis-Verlag, Marburg, Germany.
- ⊙ Defoe, D. (1728) / *A Plan of the English Commerce Being a Complete Prospect of the Trade of This Nation, as well the Home Trade as the Foreign* / Charles Rivington, London.
- ⊙ Egashira, K. (1959) / *On Ohmi Merchants* (in Japanese) / Shibundo Publications, Tokyo.
- ⊙ Galbraith, J.K. (1987) / *A History of Economics: The Past as the Present* / Hamish Hamilton, UK.
- ⊙ Fukuda, T. (2011) / *The Economic Thought of the Third Way: How to Deal with the Age of Crisis* (in Japanese) / Koyo Publishers, Kyoto, Japan
- ⊙ Marx, K. (1867) / *Das Kapital* (in German) / Volume I.
- ⊙ Morishima, M. (1994) / *Modern Economics as Economic Thought* (in Japanese) / Iwanami Publishers, Tokyo.
- ⊙ Hicks, J. (1941) / *The Theory of Wages* / Macmillan.
- ⊙ Hicks, J. (1946) / *Value and Capital, 2nd edition* / Oxford University Press.
- ⊙ Hicks, J. (1969) / *A Theory of Economic Theory* / Oxford University Press.
- ⊙ Hicks, J. (1977) / *Economic Perspectives: Further Essays on Money and Growth* / Oxford University Press.
- ⊙ Hicks, J. (1979) / *Causality in Economics* / Basic Blackwell, Oxford.
- ⊙ Keynes, J.M. (1936) / *The General Theory of Employment, Interest and Money* / Macmillan.
- ⊙ Ogura, E. (1980) / *Ohmi Merchants: A Historical Perspective* (in Japanese) / Nihon Keizai Publishers, Tokyo.
- ⊙ Piketty, T. (2013) / *Le capital au XXI siècle* (in French) / Éditions du Seuil. English Translation by Goldhammer, A. (2014) / *Capital in the Twenty-First Century* / Harvard University Press.
- ⊙ Sakai, Y. (2016) / "J.M. Keynes on Probability versus F.H. Knight on Uncertainty,". *Evolutionary and Institutional Economic Review*, 13 (1): 1-21.
- ⊙ Sakai, Y. (2018) / "Liverpool Merchants versus Ohmi Merchants: How and Why They Dealt with Risk and Insurance Differently." *Asia - Pacific Journal of Regional Science*, 2(1): 15-33.
- ⊙ Sakai, Y. (2019) / "The Role of Merchants in the Exchange Economy, J.R. Hicks versus W.R. Sombart," A Paper Read at the International Workshop on Regional Economics, the University of Tsukuba, January 2019.
- ⊙ Samuelson, P.A. (1955) / *Economics: An Introduction*, the Seventh Edition / McGraw-Hill.
- ⊙ Schumpeter, J.A. (1926) / *Theorie der Wirtschaftlichen Entwicklung* (in German) / Berlin.
- ⊙ Schumpeter, J.A. (1954) / *History of Economic Analysis* / Allen & Unwin.
- ⊙ Smith, A. (1776) / *An Inquiry into the Nature and Causes of the Wealth of Nations* / U.K.
- ⊙ Sombart, W. (1902) / *Der Moderne Kapitalismus* (in German) / Verlag von Duncker & Humblot. Berlin.
- ⊙ Sombart, W. (1911) / *Die Juden und das Wirtschaftsleben* (in German) / Berlin.
- ⊙ Sombart, W. (1912) / *Liebe, Luxus und Kapitalismus* (in German) / Berlin.
- ⊙ Sombart, W. (1938) / *Deutscher Socialismus* (in German) / Berlin.
- ⊙ Stehr, N. and Grundman, R. (2001) / *Werner Sombart: Economic Life in the Modern Age* / London.
- ⊙ Steuart, J. (1767) / *An Inquiry into the Principles of Political Economy* / U.K.
- ⊙ Thomas, H. (1997) / *The Slave Trade: The Story of the Atlantic Slave Trade, 1440-1870* / Simon & Schuster, New York.
- ⊙ Tsuru, S. (ed.) (1961) / *Has Capitalism Changed?: An International Symposium on the Nature of Contemporary Capitalism* / Iwanami Publishers, Tokyo.
- ⊙ Soviet Union Science Academy (1959) / *The Official Textbook of Economics, Third Revised Version* / Japanese Translation, Godo Publishers, Tokyo
- ⊙ Weber, M. (1904) / *Die Protestantische Ethik unter der 'Geist' des Kapitalismus* (in German) / Berlin.

The Role of Merchants in the Market Economy

With Special Reference to Werner Sombart and John Hicks

Yasuhiro Sakai

This paper aims to discuss the relationship between economic theory and market economy from a new historical angle. Historically speaking, Werner Sombart seems to be a man in paradox. Although he was once a famous professor at Berlin, he became an almost forgotten man after the Second World War. In the 1990s, however, we saw a remarkable comeback of Sombart, named the Sombart Renaissance; his work on the role of capitalist spirit played in the three stages of capitalism is now worth serious investigation. In contrast, John Hicks has mainly been regarded as an important theoretician of general equilibrium and welfare, but his later work on economic history is also worthy of vital consideration. Hicks pays special attention to the role of merchant played in the exchange economy. By comparing the works of Sombart and Hicks in many ways, we can shed new light on the immortal problem of the relationship between Theory and History. We strongly believe that Ohmi merchants of Japan give us very good examples of the Hicks-type mercantile economy. Hicks has emphasized that the trade should comply with the "principle of all-round advantage." Certainly, it corresponds well to the "principle of *sampo-yoshi*" obeyed by Ohmi merchants: namely, the principle of being good for a seller, good for a buyer, and good for the society." We

also would like to add that Ohmi merchants acted as lively players with capitalistic spirits à la Sombart. In short, we can learn a set of new lessons from the old teachings of Sombart and Hicks.

Keywords : theory and history. W. Sombart, capitalist spirit, John Hicks, exchange economy, Ohmi merchant, principle of all-round advantage