

Discussing Adam Smith in Chinese journals in the 1920s - 1930s

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The paper focuses on three landmark publications in the periodicals of Republican China dedicated to Adam Smith and *The Wealth of Nations*.

In 1923 two journals commemorated the bicentennial of Adam Smith. *Dongfang Zazhi* (The Eastern Miscellany) journal published a special section on Smith in its issue in September. By the end of the year *Xueyi* (Wissen und Wissenschaft) published the special issue completely focused on Adam Smith and his ideas.

In 1936 *Shihuo* (Food and goods) semimonthly published a series of articles dedicated to the 160th anniversary of *The Wealth of Nations*.

Western perspective: Smith bicentennial section in *Dongfang Zazhi* (1923)

In 1923 *Dongfang zazhi* magazine (Vol. 20, № 17) published a collection of articles in occasion of the bicentenary of Adam Smith's birth. In the introduction to the special section Pu Zhi noted that scholars worldwide have celebrated Adam Smith's bicentenary. "Only we in China have academic starvation, there was nothing related to this occasion, and we are very dissatisfied with it. Therefore we will elucidate Smith's biography and doctrine to express gratitude to the predecessor" (Pu Zhi 1923: 1). The bicentenary of Adam Smith was in June, 1923 and the special section was published only in September; it seems that the preparations for the Chinese publication started only after getting related materials from other countries.

Dongfang zazhi indicated on two purposes of the special publication. First, is to express admiration to Smith's great knowledge. Smith was deeply engaged in economic science, he is also known also for contributions in literature and philosophy, among his known books except *The Wealth of Nations* there was also *The Theory of Moral Sentiments*, after Smith the economists did not reach this level of knowledge. Secondly, is to bear in mind Smith's noble human character. His moral properties of modesty and not chasing for the glory are not easily attained by others (Pu Zhi 1923: 1).

This image of Adam Smith corresponds quite well to Chinese ethical tradition that strived for mutual correspondence between academic achievements and high personal qualities. The magazine noted: "We consider that Smith's knowledge and human qualities not only can serve as an example for the later generations of economists, academics from other sciences also can take him as the example, therefore not only those studying economic science, anyone should approach the bicentenary of the ancestor of economic science with due respect" (Pu Zhi 1923: 1).

The special section of *Dongfang zazhi* consists of five articles including the critique of Adam Smith teaching by Li Quanshi, the general outline of Adam Smith's doctrine by Ye Yuanlong, economic thought before and after Adam Smith and his biography.

Li Quanshi (1895-1979) graduated from Qinghua University (then it was Qinghua School – Qinghua Xuetang) and continued his education in the United States. He received master degree from Chicago University, in 1922 he received doctorate degree in finance studies from Columbia University (Chuan Shih Li. Central and Local Finance in China: A Study of the Fiscal Relations between the Central, Provincial, and the Local Governments. New York, Columbia

University, 1922). After returning to China in 1922 he became a professor of economics in Shanghai, he headed the School of Commerce of Fudan University.

In 1923 Li Quanshi's lengthy article based on doctorate thesis appeared in the *Dongfang zazhi* (Vol. 20, № 15). His article "The Critique of Adam Smith's Teaching" was published in the bicentennial section in the same volume in number 17. Li Quanshi mentioned that the editor-in-chief of *Dongfang Zazhi* invited him to contribute an extensive article about Smith's ideas. It is possible to assume that the editor was impressed by the previous contribution of young economist with American educational background.

Li Quanshi started with comparing doctrines of Adam Smith and Karl Marx. He explained that those years in China it was popular to talk about socialism. But those who believe that only socialism corresponds to the trend of epoch do not possess much knowledge about economic doctrine of socialism. The majority of supporters of socialism promote the teaching of Karl Marx that was based on the labor theory of value. However they do not realize that this theory was elaborated by Smith who wrote a lot about it. While everyone wants to propagandize Marx's doctrine and admires it, they are silent about the ideas of the founder of economic science Adam Smith and they have rather vague understanding of it. Li Quanshi commented that that human nature was inevitably inclined to the new and rejected the old, in such a situation the editors of *Dongfang zazhi* felt obliged to introduce Smith's teaching that was "accessible and close to people" (Li Quanshi 1923: 64).

Li Quanshi accented the importance of studying the ideas of predecessors. Smith gained recognition in scholarly circles because he accumulated the achievements of preceding doctrines and made generalizations on this foundation. Smith was familiar with mercantilist doctrine, he was well versed in physiocratic teachings of Quesnay and Turgot and understood their one-sidedness. He has grown in the period of decline of natural order and of expansion of the ideas of rationalism, he was exposed to influences of English philosophers Hume and Hutcheson, therefore he had remarkable erudition.

Publishing of *The Wealth of Nations* in 1776 had paved the path for the independent development of economic science separated from legal science, political science and ethics. "The epoch creates not only heroes, but also scholars," – observed Li Quanshi. The value of Smith's doctrine is evident, but it does not completely correspond to contemporary realities, for that reason it is necessary to see both its merits and deficiencies.

The Chinese author started from the strong points of Smith's doctrine. On the first place he put Smith's theory of naturalness (*ziranlun*); the doctrine of natural order emerged from negative reaction to mercantilist doctrine of interference and resulted in the theory of laissez-faire. Under the concept of non-interference (*fangren*) due to individual pursuit of self-interest the nation achieve economic prosperity. On the contrary, interference prevents humans from manifesting their individuality; as a result the nation becomes poor and weak.

Li Quanshi noted that Smith supported the theory of a natural order and laissez-faire with some reservations. Functions of national defense, law enforcement, transportation belong to the state, that also supervises over the banking sphere, provides compulsory education, and also imposes protective duties.

The author wrote that later the socialists in the West and the East claimed that Smith's laissez-faire policy led to polarization between the rich and the poor. Li Quanshi has raised the question about the effect of the theory of intervention which basically undermined the principle of liberty. Evidently the Chinese author raised his voice in support of liberalism. He observed that liberty was the foundation for development of human individuality; pleasures of material prosperity were not equal to true happiness. He invoked English expression "it is better die standing than live kneeling". According to Li Quanshi, supporters of extreme socialism did not think about it (Li Quanshi 1923: 65).

The Chinese author proposed a compromise "eclectic" solution that repeated Smith's path of combining the best from the policies of non-interference and interference. The individual needs a society and in this respect it is possible to use the policy of interference. But society

without individuals turns into “body without soul”, to protect individuals it is possible to use laissez-faire policy. Li Quanshi declared that China’s economic policy should follow individualism and use Smith’s laissez-faire; but in case of adaptation to circumstances by means of socialism it is possible to use Marx’s policy of interference.

The second is Smith’s concept of self-interest (*zilixin*). Li Quanshi has disagreed with those who labeled it the source of thousand troubles. According to the Chinese economist, that was the achievement of Smith’s doctrine and the manifestation of its scientific character. The Chinese Confucians never spoke about benefit, they aimed too high and were unreasonable, therefore there was no science in their reasoning.

Li Quanshi underlined the inconsistency of the argument that pursuit of self-interest created conditions for doing evil. Smith spoke about long-term self-interest instead of short-term. For example, those who betray their nation for the sake of quick enrichment could get massive wealth in short-term perspective but later they lose all standing and reputation at once. It is “suicide” instead of pursuit of self-interest. In human society there is no real self-interest that brings no interest to masses (*qun*). Ancient Chinese Confucian philosopher Mencius said: “The man of humanity love others. The man of propriety respects others. He who loves others is constantly loved by others, and he who respects others is always respected by them” (Mencius, 4B: 28).

We can observe a subtle contradiction in author’s interpretation of Chinese cultural tradition. On the one hand, the Confucians were “unscientific” because they ignored self-interest. On the other hand, Li Quanshi cited from Mencius to demonstrate the importance of social relations and of traditional ethics of reciprocity. Possibly this contradiction could be connected with an initial attempt to establish an “eclectic” combination of laissez-faire with government interference.

The author turned his eyes to the intellectual trends in China of the first decades of the twentieth century. He observed that many Chinese were aware of Darwin’s “survival of the fittest” and this idea was dear to hearts of many patriots. But it is possible to advance from love to the nation to love to the world and the humankind, sometime in future mankind will live in Great Unity (*datong*). Li Quanshi has noticed that since Kropotkin wrote *Mutual Aid* it has become fashionable to blame those who strive for self-interest. However the goal of so-called mutual aid consists in self-interest; popular ideology of mutual aid is no more than method or tool. The author suggested thinking calmly about the incentives of actions of world’s rulers.

The third achievement of Smith is his recognition of human ability to exchange as the main reason of division of labor, while the division of labor is the main reason of increase of wealth. Smith concluded that division of labor could advance machinery, save time and promote inventions. Sources of this theory of division of labor can be found at Plato and in *The Fable of the Bees* of Bernard de Mandeville, Hume and Hutcheson also addressed this theme.

The fourth achievement is Smith’s labor theory of value. Socialist parties used this doctrine to oppose capitalists. But Li Quanshi specified that Smith introduced some conditions which have been rejected by socialist parties. If land and capital are not plundered, they are acquired by labor. The source of accumulation of capital is cutting down on consumption of products of labor; therefore the capital also represents labor. Plans of socialists to introduce public or state ownership on land and capital are not different from public or state ownership on individual labor, for Li Quanshi these plans were practically unreal and theoretically imperfect.

The fifth positive aspect is Smith’s theory of wage that bears an impact of supply and demand theory but also support the correspondence of wages to the principle of justice. High wages conform to humaneness and help to increase labor productivity. Chinese author raised the question about fair wages. Smith proposed the subsistence theory of wage, later the leaders of workers’ parties demanded to adjust wages to the cost of living, this demand corresponded to Smith’s wage theory.

Li Quanshi addressed the wage theories after Smith. Supply and demand theory of wages and wages fund theory are beneficial for capitalists; Marx’s exploitation theory supports workers.

To a lesser degree productivity theory of wages of J.B. Clark side with capitalists and the bargaining theory side with workers. He claimed that the fairest concept was the cost or standard of living theory (Li Quanshi 1923: 66).

The sixth aspect accents that Smith gained “immortal glory” by treating consumption as the final point of all economic activities. Though in the world there is production for the sake of production (Li Quanshi named the oil magnate Rockefeller), such example is not widespread and should not be applied universally.

The seventh statement points out that Smith considered consumption as the purpose of economic activities of all humans and due to this reason suggested to treat consumable wealth as criterion of wealth of a nation. If a nation consumes large amount of wealth, its wealth increases, and if it consumes a small amount of wealth, its wealth diminishes. Therefore Smith opposed bullionism and mercantilist recipes for maintaining favorable balance of trade. He considered gold and silver as non-consumable wealth. Under favorable balance of trade consumption of a nation decreases and under unfavorable passive balance it increases (Li Quanshi 1923: 67).

That was Smith’s basic idea of free trade, its development leads to the concept of the international division of labor. Smith considered that the nations like the individuals had their strong points, they could compensate their deficiencies and use their advantages to bring benefits to all. Li Quanshi wrote that Smith’s doctrine should be extended for the whole world. Free trade is the purpose of economic life and protective duties are no more that temporary measures. Nevertheless Smith outlined some exceptions when protective duties could be applied.

The eighth aspect is Smith’s doctrine that rate of population growth depends on the funds available for human sustenance. His ideas about the proportion between population increase and available foodstuff preceded the pessimistic doctrine of Malthus. Li Quanshi commented that woes of workers were created by themselves and to improve the life of the poor it was necessary to begin with control of population growth.

The ninth aspect outlined by Li Quanshi is Smith’s doctrine of the rent of land. Smith’s doctrine was simple and close to the people, Smith spoke directly about laziness of the majority of the landowners.

Smith’s method of connecting induction with deduction, along with his methods of realism and historicism are also important. They are devoid of shortcomings of inductive method that is connected with ineffectual work and also of deductive method that leads to conclusions without content (Li Quanshi 1923: 67).

Li Quanshi has listed the shortcomings of Smith’s doctrine.

First of all, though his theory of production is not that narrow as the physiocratic one, Smith has not completely got rid of physiocratic influence. Quesnay claimed that except the peasants all others including craftsmen, traders, landowners and officials were parasites. For Smith the labor of the merchants and the craftsmen was “productive”, but the occupations such as teachers, priests, soldiers, officials, actors and servants were not “productive” in the sense of increasing the material wealth of a society. This criticism was very similar to the arguments of Yan Fu elaborated in his commentaries to the translation of *The Wealth of Nations*.

Smith’s division between productive and unproductive labor was based on two criteria. First, one engaged in productive labor produce a concrete commodity. And teachers, priests, soldiers and officials provide services instead of producing commodities. Services have no form and sound, therefore it is unproductive labor.

Secondly, those engaged in productive labor can sustain their lives for a long time, and those engaged in unproductive labor can not do that. Services provided by teachers, priests, soldiers and officials cannot be embodied in a concrete commodity, they cannot sustain their life and “disappear like mist and smoke”. A shortsighted view suggests that unproductive labor creates no value. But this concept tilts too much toward material point of view and neglects mental labor that has no form. Li Quanshi noted that from the standpoint of our days Smith should be criticized for tending too much to the material side of the production and neglecting

such scientific factors of production as organization and entrepreneurship (Li Quanshi 1923: 67-68).

Secondly, Smith sometimes speaks about labor as the source of value and sometimes as the measure of value of commodities. It is difficult to understand what is cause and what is effect. Li Quanshi noted that Ricardo had indicated on this problem.

Thirdly, Smith's doctrine of business cycle states that prices are low in the epoch of abundance and they are high in hungry years. When the prices are low landowners and workers receive benefits and traders have difficulties. When the prices are high, traders receive benefits and landowners and workers have difficulties. But recently the researchers of economic cycles came to the opposite opinion that high prices corresponded to the epoch of abundance and low prices - to the hungry years. Traders welcome periods of abundance; landowners and workers oppose the high prices, but they also welcome the rise of rents and wages after the hike of prices. In difficult years traders are unhappy; landowners and workers welcome low prices, but with the fall of prices wages and rents also go down. The prices do not render an immediate influence on the people, Smith's theory was not so comprehensive as the later doctrines.

Fourthly, Smith worried that in joint-stock companies managers and employees worked for the sake of profit, they did not care about common interests. Li Quanshi commented that Smith did not know that managing directors and managers invested big money into their companies. Abuse and neglect of common interest will make the company bankrupt, thus the managers will lose their investment.

The fifth and last critical observation was related to Smith's four principles of the taxation. Li Quanshi commented that actually there were only two: moral principle and principle of tax administration. The first focuses on justice and proceeds from ethics, it is an important aspect in tax policy. Smith's understanding of equality contained internal contradictions. He considered that there could be proportional and progressive taxation, taxes determined by revenue and taxes determined by the ability to pay. Smith's last three principles were the principles of tax administration, and he did not mention any of the economic principles of taxation (Li Quanshi 1923: 69).

Another key contributor of *Dongfang zazhi* bicentennial section was **Ye Yuanlong** (1897-1967). In 1915 he entered private Datong University in Shanghai; in 1918-1922 he studied in the USA. He received master degree in economics from Wisconsin University, he was greatly influenced by John Roger Commons who was a professor there. Later Ye Yuanlong studied at London school of economics and in France, he returned to China in 1927.

Ye Yuanlong contributed two articles for the bicentennial section. "The General Outline of Smith's Economic Doctrine" started from short introduction into the biography of Adam Smith. The author mentioned that Smith visited France and his doctrine has a flavor of French Physiocrats. Ye Yuanlong used traditional Chinese expression to characterize *The Wealth of Nations* as great work destined for posterity (*ming shan shi ye*, literally means book protected in hidden place in mountains for future generations) (Ye Yuanlong 1923: 59).

Chinese author started his account of Smith's doctrine from philosophy and methodology. He mentioned the claim that Smith paid attention to the facts and gave no attention to theory, focusing on describing the actual economic situation. In reality Smith uses assumptions in economic theory no less than other scholars. Smith says that there is natural order and that this order is good. This statement was completely based on induction and it is a pure assumption. Smith regards self-interest as central point of economic order, thus self-interest brings good results and no bad results. It shows that Smith uses the method of deduction. Ye Yuanlong commented that Smith gave less attention to the method of induction, so his primary method was deduction.

Chinese author also mentioned that many scholars regarded Smith as a materialist, but some of them argued that he was an idealist. Two different judgments emerge from interpretations of two books of Smith – *The Theory of Moral Sentiments* and *The Wealth of*

Nations. In the first book Smith spoke about morality and sympathy, in the second book he spoke about utility. Therefore there is nothing strange that there are opposite two opinions.

According to Ye Yuanlong, Smith's economic system is constructed completely upon the concept of production, its main precondition is that "labor is the source of wealth", therefore labor is the most important element of production. The wealth of nation depends on productive efficiency of labor, the amount of labor (*laodong rongliang*) determines the amount of the wealth of a nation.

Ye Yuanlong observed that in Smith's doctrine the division of labor was the unique element that determined the productive efficiency of labor. Higher degree of development of division of labor of a nation leads to higher productivity and increases the amount of wealth. Division of labor is a natural product of human society that is not introduced by laws. The degree of its development is connected with density of population, development of transport communications etc.

Further Smith wrote that equal capitals were capable of putting into motion different quantity of labor. He assumed that at the initial stage the capitals employed in the agriculture would allow to put into motion a greater quantity of labor, then it goes into the industry, and then into the trade and finally into foreign trade.

In *The Wealth of Nations* Smith discusses how to direct labor into correct path of production. There are two ways to do it: by state regulations or by laissez-faire policy. The second way Smith considers as the best (Ye Yuanlong 1923: 60). The state has other interests besides economic interests; sometimes the state sacrifice economic interests, but it is necessary to know the reasons of this sacrifice.

Ye Yuanlong concluded that Smith's paid much attention to the problem of production, division of labor and the free policy should increase production; Smith did not contemplate much on the problem of distribution, one can find systematized theory of distribution in Ricardo's book (Ye Yuanlong 1923: 61).

Ye Yuanlong made detailed account of basic components of Smith's doctrine (value theory, wage theory, interest theory, rent theory, finance theory). He has noticed that though Smith supported the free policy, it conflicts with his suggestion to tax the land's rent.

Chinese author characterized Smith's doctrine as "extreme individualism" which blossomed in the end of the eighteenth century. Therefore Smith's book had a big circulation; Englishmen, Frenchmen, Americans and Germans were among his followers, English, French and American took an important place. The English school was pessimist, and French and American schools tended to optimism. Mills made a generalization of ideas of English school thus completing its system (Ye Yuanlong 1923: 63).

Another article of Ye Yuanlong introduced Western economic doctrines from Adam Smith till the twentieth century. He reminded that the economic works published before 1776 were not systematic, lacked coherence and carried no concrete point of view, all these books were "fragmented and incomplete" (*posui buwan*), even "empty", for that reason "speaking frankly, contemporary economic science started in 1776".

Once again Ye Yuanlong underlined the importance of *The Wealth of Nations* by comparing it to a "high mountain" and a "big river", its "mountainsides" and "river flows" spread everywhere, and "this comparison was not exaggeration". "If one looks from 1776 to our days, books on economic science produced in this one and a half century are so numerous that can not be moved by carts and stored in a house. But who of these authors did not read *The Wealth of Nations* and was not exposed to its influence?". Those who say that they want to study economics and do not read *The Wealth of Nations* (Yuan fu) demonstrate a huge narrow-mindedness. Their economic views have nothing to lean upon and they need more time to mature (Ye Yuanlong 1923a: 78).

In the main section of the article Ye Yuanlong made an attempt at classification of economic schools after Smith.

According to Ye Yuanlong, classical school was featured by use of method of deduction, support of extreme individualism, philosophy of utilitarianism, materialistic concepts and strong pessimistic bias (for example, the law of decreasing return) (Ye Yuanlong 1923a: 79).

The critical school of “accusers” (*pengjipai*) consists of theorists of the state (James Lauderdale, Adam Müller, Friedrich List), historical school (Schmoller, Roscher, Knies, Hildebrand), optimists (Bastiat in France, Carey in the USA), socialists (Godwin, Sismondi), its sources go back to St. Simon, Owen, Blanc, Proudhon. The ideas of the representatives of these groups differ, however all of them disagree with the opinion of classics on policy, economy and ethics.

The Austrian school criticized the classical school, but basically was dissatisfied with its methodology. Representatives of the Austrian school of economics believed that they have created a new doctrine and wanted it to replace the doctrine of classical school. However in practice they have only filled in the blanks of classical school. It is an exaggeration to say that they have created a new school.

Ye Yuanlong also observed recent trends of the late nineteenth – early twentieth century, that was essentially the period of development of existing schools. In classical school in England there was Marshall (the Austrian school also was reflected there), in the USA there was Taussig who merely copied Mill’ *Principles of Political Economy*. Historical school was developed in Germany, in England it was represented by William Ashley and William Cunningham, in the USA by Richard T. Ely (disciple of Knies). The Austrian school gained no great respect in Europe but prospered in the USA. Leaders of this school were Fisher and Clark.

Ye Yuanlong also mentioned his teacher John Roger Commons who under the influence of psychological and behavioral theories and legal theory has created new theory of value that overturned former doctrines. According to Ye Yuanlong, his forthcoming book about the legal foundations of capitalism will be a revolution in economics (Ye Yuanlong 1923a: 88).

Since the publication of *The Wealth of Nations* economic doctrines are updated every day and they are inexhaustible like the sources of Yangzi river. Ye Yuanlong declared that the reason was that in the West people thought freely and did not follow old doctrines blindly. For more than hundred years the situation in industry and commerce has changed. Economic doctrines are based on the observations over economy and society of their time, the history of development of economic doctrines confirms that (Ye Yuanlong 1923a: 88).

The thematic bicentennial section of *Dongfang zazhi* included two more articles which were not sufficiently indigenous. **Zhu Pu**’s article “Economic Thought before Adam Smith” was produced upon the basis of two western works: *History of Economic Thought* by Lewis H. Haney and *Outlines of economics* by Richard Theodore Ely (Zhu Pu 1923: 89).

Huang Weizhi’s “Adam Smith’s Biography” was compiled from fragments of Walter Bagehot’s *Adam Smith as a Person* (1876). Huang Weizhi commented that Li Quanshi and Yuanlong exposed Smith’s doctrine, Chinese translation of *The Wealth of Nations* (*Yuan fu*) was available for a long time and there was no need to retell it. Only Smith’s biography remains rather unknown in China, however it is difficult to understand Smith’s book without knowledge about his life (Huang Weizhi 1923: 70).

Japanese perspective: Smith bicentennial issue of *Xueyi* journal (1923)

In the end of 1923 *Xueyi* journal published special issue (Vol. 5, № 7) dedicated to the bicentennial of Adam Smith. The issue collected 14 articles covering the theme from different aspects, including basic economic ideas of Smith, his theory of value, wage theory and his principles of taxation. Explanations of Smith’s laissez-faire policy were supplemented by analysis of its practical applicability under conditions of monopoly capitalism. The authors compared the ideas of Adam Smith with the views of Karl Marx and Chinese Confucians. There was an article analyzing Smith’s vision of the economy of Imperial China.

Thematic issue also included biographical and bibliographical data on Adam Smith. The biography of Smith written by Japanese Marxist Hajime Kawakami has been translated into Chinese and published in the journal. Another translated article about the sources of economic ideas of Smith was extracted from *The History of economic doctrines* by Charles Gide. An Unpublished Letter of Adam Smith was also included into the special issue. Though the letter was published in 1923 in Britain in *The Economic Journal* (Vol. XXXIII, № 131), it was translated into Chinese from Japanese language.

The group of authors of the special issue of *Xueyi* have carried out comprehensive analysis of Smith's ideas and attempted to relate them to Chinese reality. The most prominent specific feature of this journal was its Japanese intellectual background. That journal belonged to Academic society, founded in December, 1916 in Tokyo by Chinese students studying in Japan. Their interest in the achievements of Western natural and social sciences was shaped in the academic atmosphere of the Eastern nation which had embarked on a path toward rapid economic modernization. Japanese professors served for them as intermediaries in assimilation of modern knowledge, including economic science. The authors of the special issue of *Xueyi* studied in Japan, this experience has influenced their perceptions of Adam Smith.

In April 1917 the Society has published the first issue of *Xueyi* (Knowledge and Art). Journal cover also carried the German version of its name *Wissen und Wissenschaft* (Knowledge and Science). Many Japanese professors of those years have received knowledge of Western science not in the USA but in continental Europe, this scholarly background could have influenced the choice of their Chinese student in favor of German translation instead of English one. In the first issue of the journal the Society member Yang Shiyi explained that German name of magazine is literally translated as "Knowledge and Science". But the meaning of Chinese name is not limited to it, because "Xueyi" implies an aspiration to find the truth by means of science and achieve beauty by means of art. The nourishment of sense of beauty has been added to the searches of scientific knowledge (See: Fan Dainian 2004: 69; Yang Shiyi (1917) *Xueyi*. Vol. 1. № 1: 3-4).

The journal has proclaimed a broad approach to science, including philosophy, history, literature and other humanities. It has been aimed at complex studies in the fields of natural and social sciences. The opening foreword to the first issue of the journal (which was published in Japan) has specified that since the eighteenth century natural sciences in the West were on the rise, application of their research methods to sciences about spirit made them more clarified. The foreword especially praised Kant, Hegel, Rousseau and Descartes. The basic idea was the claim that interconnection of knowledge about nature and knowledge about human being had greatly accelerated the development of Western culture: in a half of century Europe underwent the evolution that was equal to one thousand years. This example has inspired the Chinese students to launch a journal for the sake of assistance in flourishing of science (*xueshu*) and in propagating the achievements of culture (*wenming*) (See: Fan Dainian 2004: 69; Jun Yi 1917: 1).

In 1922 *Xueyi* moved from Tokyo to Shanghai. During the years of growth of the revolutionary movement in China from 1923 to 1926 four volumes of *Xueyi* (vols. 4 - 7) were published. These years the Chinese intellectuals were especially attracted by social sciences and philosophy. The journal introduced the ideas of Marxism and socialism, published articles about materialism, about the theory of value in economics, about the critics of Marxist doctrine. Adam Smith bicentennial issue published in 1923 was also impacted by socialist ideas that were borrowed by Chinese students from the Japanese intellectual circles.

The journal paid much attention to philosophy due to its understanding as the foundation for interconnection between humanities and natural sciences. In 1924 *Xueyi* published a special issue for the bicentennial of Immanuel Kant, the width of coverage and depth of analysis were comparable with the issue on Adam Smith. Such detailed and comprehensive introduction of German philosopher in China has taken place for the first time. (See: Fan Dainian 2004: 72).

Historically the Chinese *Xueyi* Society and its journal were not trailblazers in the field of popularization of modern science in China. In 1915, one year prior to establishment of *Xueyi*

Society the Chinese students that returned after training in the USA have founded in Beijing the Science Society of China (*Zhongguo kexueshe*). They have created the first scientific Chinese journal *Kexue* (Science) to propagate knowledge in natural and applied sciences. The content of *Xueyi* was much broader than that of *Kexue*, because it included natural and applied sciences, social sciences, humanities and arts.

The history of the Science Society of China is well-studied in China. Academic interest to the heritage of the Chinese Xueyi Society has appeared only in the beginning of this century. Fan Dainian indicated on the essential world outlook differences between the activists of the Chinese Xueyi Society and the Science Society of China: “The majority of members of the Chinese Xueyi Society studied in Japan, the Western culture which they have absorbed has been sifted and explained by Japanese academics. In the field of philosophy they tended to continental European theories of rationality, vitalism and intuitivism instead of Anglo-American empiricism, realism and pragmatism. In the field of social theory they tended to socialism and Marxism, instead of individualism. While the members of the Science Society of China aspired to save the nation by means of science and industry, the members of the Chinese Xueyi Society welcomed the revolution in literature and aspired to save the nation by means of education and social reforms” (Fan Dainian 2004: 84).

These comparisons can be applied to the sphere of economic science where the Chinese Economic Society created by Chinese graduates of American universities became a stronghold of Anglo-American mainstream in Chinese economic circles in the Republican period. They have made a decisive contribution to the process of formation of professional economic science in China in the first half of the twentieth century. Those who studied economic science in Japan have gained popularity first of all due to their contribution in propagation of socialism and Marxism in China. In most cases former students of Japanese universities did not become a part of economic mainstream in the Republican China.

Nowadays the history of the Chinese Xueyi Society attracts a great deal of positive interest because some of its members made considerable contribution to the development of science and education in China. On the other hand, among them also there were the collaborators who joined hands with Japanese invaders during the war. For example, among the authors of the Adam Smith bicentennial issue was Zhou Fohai, who in the first half of the 1940s took the posts of vice-president and the Minister of Finance in pro-Japanese puppet government of Wang Jingwei.

Till the end of the 1920s Japan served for the Chinese intellectuals as the example of modernization and effective absorption of the achievements of Western science, that mood had indirectly increased the influence of the Chinese Xueyi Society and its members. In the early 1930s with the aggravation of military and political contradictions between China and Japan historical links of the Society with Japan have turned from valuable intellectual asset into political liability.

Defection of some members of the Society to the enemy camp has affected the image of whole organization. Though in 1935 the Society has made decision to exclude several “traitors” from its membership, it has not helped to save reputation. During the of War of resistance against Japan (1937-1945) the Society was labeled as a body of “enemies and puppets” (*di wei*). By the time of end of War the public influence of the Society has been strongly undermined, that situation caused the unwillingness of the authorities to provide it with financial support (Xu Fenghua 2015: 285).

Fan Tequan (Hebei University) also noted that in the period of War the Chinese Xueyi Society was subjected to attacks as “Pro-Japanese” organization. As a result its position became lower than that of the Science Society of China, which had the students trained in the USA as its backbone (Fan Tequan 2016: 76).

Adam Smith's Basic Idea

In *Xueyi* bicentennial issue **Ruan Xiang** published article on “basic idea” of Adam Smith. He focused on relations between ethical doctrine of *The Theory of Moral Sentiments* and economic doctrine of *The Wealth of Nations*. He treated moral and economic life as two aspects of a single whole.

Ruan Xiang wrote that movement of the Solar system was supported both by centrifugal and centripetal forces. Application of this analogy to Adam Smith’s doctrine led to the statement that sympathy was comparable to centripetal force and self-interest was comparable with centrifugal force, interaction of two these forces influences human behavior.

In the text of the article Chinese author made two references to the dissertation of German researcher Richard Zeyss *Adam Smith and Self-interest (Adam Smith und der eigennutz. Eine untersuchung über die philosophischen grundlagen der älteren nationalökonomie. Tübingen, H. Laupp, 1889)*. Ruan Xiang was attracted by the idea of unity of two books of Adam Smith and Zeyss’s thesis that only in case philosophical study of these books it is possible to understand that they represent one system. He also referred to Japanese ethics scholar from Kyoto Imperial University Prof. Kendziro Fudzii (1872-1931) who also maintained that two books have same objective. *The Theory of Moral Sentiments* is based on sympathy but it does not reject self-interest; *The Wealth of Nations* is based on self-interest but it raises high the banner of justice. Hence the sympathy and justice can join together and form one theory (Ruan Xiang 1923: 2).

Such approach added a philosophical dimension to Ruan Xiang’s arguments and extended them far beyond the frameworks of discussion on Smith’s contribution into the development of economic science. Chinese author immersed into discussion on categories of ethics: what is moral judgment; what is appropriate and what is inappropriate; what means the utility of human actions in relation to oneself and to the others.

Ruan Xiang noticed that in *The Theory of Moral Sentiments* not only the sympathy but also the utility serves as basis for judgment about good and evil. Though the sympathy occupies central place in the book, it does not describe all aspects of human behavior of the person as a whole. Pursuing self-interest is also an important side of human behavior: for the sake of satisfaction of own desires a person can sacrifice the interests of the others. Ruan Xiang referred to Smith’s remark that in England many people would be more seriously disturbed by the loss of a guinea than by enemy attack on their national territory. Chinese author meant Smith’s words “There is many an honest Englishman, who, in his private station, would be more seriously disturbed by the loss of a guinea, than by the national loss of Minorca” (island fortress that was taken by French forces in 1756) (*The Theory of Moral Sentiments*, IV.I.22). Ruan Xiang made parallel statement that “though the Chinese at first would grieve after the death of hundreds of millions, however after a short time everyone would live and work in peace” (Ruan Xiang 1923: 4). The image of person suffering because of the loss of a coin more than about the fate of the nation resembles the classical image of Chinese egoist Yang Zhu that was mentioned by other contributors of the bicentennial issue.

It is remarkable that the second part of Smith’s sentence about honest Englishman, “who, had it been in his power to defend that fortress, would have sacrificed his life a thousand times rather than, through his fault, have let it fall into the hands of the enemy” - caused no interest from the side of Chinese author. He also ignored Smith’s reasoning on the assessment of human action from the standpoint of imagined “impartial spectator”.

Ruan Xiang has declared that strong sense of egoism was an important motive of human actions. He also has noticed that the idea of egoism underlies Smith’s both books. In English (without accompanying Chinese translation) he has listed the concepts of “self-interest”, “self-love”, “private interest”, “own-advantages”, “desire of bettering our conditions”, “effort of every man to better his own condition”, borrowed from *The Wealth of Nations*.

Chinese author has underlined that in Smith’s doctrine egoistic feelings that work as the engine of economy and the idea of natural liberty mutually generated each other (Ruan Xiang 1923: 5). Liberty gives humans a chance to use advantages of own mind and various ways of

self-interested behavior. However if each person pursues his own interest there may be conflicts among the people. To avoid collisions people calculate their interests according to principle of non-interference into the sphere of liberty of other people. As a result the balance of interests in society is created naturally. Ruan Xiang has noticed that when the liberty was not constrained the wealth of society increased. However at the stage of “commercial society” the political forces and the forces of law interfere and limit human activity, thus bringing only damage and generating no benefit. “For this reason *The Wealth of Nations* is named the “canon” of free trade” (Ruan Xiang 1923: 5).

Ruan Xiang has raised the question why people did not interfere with the liberty of others. He explained that Adam Smith believed that the “laws of justice” commanded that; the respect of the sphere of liberty of other people meant respecting these laws. Chinese author cited the opinion of German economist Wilhelm Hasbach (1849-1920) who studied history of English political economy. Hasbach claimed that English philosopher Francis Hutcheson applied the idea of natural law to ethics and has created *The System of Moral Philosophy*, and economist Adam Smith applied the idea of natural law to the economy and has created *The Wealth of Nations* (Ruan Xiang 1923: 5). It is important to notice that Wilhelm Hasbach and Richard Zeyss (both mentioned by Ruan Xiang in his article) were among Western academics who did not recognize the existence of the so-called “Adam Smith’s problem” of contradiction between *The Theory of Moral Sentiments* and *The Wealth of Nations*.

Ruan Xiang sought to underline that the theme of self-interest was present at Smith’s both books, there was a parallel between the methods of *The Wealth of Nations* and *The Theory of Moral Sentiments*. In other words, self-interest is an element of both economic and moral views of Smith. Human life is based on two great principles of sympathy and justice. They do not possess a common nature, therefore in order to connect sympathy-based concept of *The Theory of Moral Sentiments* with justice-based concept of *The Wealth of Nations* it is necessary to find the third principle that acts as the intermediary between sympathy and justice. According to Ruan Xiang, this connecting principle is happiness; therefore it is necessary to outline the relations of sympathy and justice to happiness in Smith’s doctrine (Ruan Xiang 1923: 6).

To fulfill this task Ruan Xiang has put on the first place the principle of utility (*liyong*). *The Theory of Moral Sentiments* explained happiness as tranquility and enjoyment. Enjoyment (*xiangle*) means satisfaction of desires, therefore without the notion of satisfaction of desires the happiness has no foundation to arise. One could have an impression that sympathy-driven behavior is not linked with personal happiness. However the first part of *The Theory of Moral Sentiments* tells about sympathy and the second part of the book describes the objects of rewards and punishments (*gongguo*), thus sympathy and utility were skillfully incorporated. In the first part of the book Smith explained in detail the meaning of pleasure, it shows that a connecting link exists between morality and happiness. (Ruan Xiang 1923: 7).

The Wealth of Nations characterized happiness as health, no debts and tranquility of mind. *The Theory of Moral Sentiments* considers health and no debts as pleasures without which there is no happiness. *The Wealth of Nations* indicated one more important condition of happiness that is the tranquility of mind, without it an individual cannot become happy. A person can attain a tranquility of mind only if he does not violate the law of justice (Ruan Xiang 1923: 7).

Thus in *The Theory of Moral Sentiments* the concept of sympathy aimed at finding of happiness develops into complete moral theory. The concept of justice in *The Wealth of Nations* also has happiness as its object, and then becomes a complete economic theory. “Sympathy and justice have the concept of pursuing happiness as their intermediary, thus the two books are connected, and Smith’s view of life centered on happiness was formed” (Ruan Xiang 1923: 7).

Ruan Xiang admits that Smith made no implicit statements about happiness as the purpose of human actions. In *The Theory of Moral Sentiments* the behavior appeals only to the feeling of sympathy, in *The Wealth of Nations* it appeals only to the self-interest, people do not care about the results of their actions. Nevertheless Chinese author claimed that it did not refute his pervious analysis. Smith explained than human actions corresponded to sympathy on the one

hand and followed justice on the other hand; due to good luck, fortune (*zaohua*) and their skilful use the happiness is reached contrary to expectations. Though Smith does not speak about happiness as the purpose of behavior, the concept of happiness lives in the head of each individual.

Ruan Xiang cited the saying from the *Analects* of Confucius: “person with humaneness necessarily possesses longevity” (*ren zhe bi you shou*) (VI, 21). It is an inevitable principle in Smith’s doctrine. The exception is the case when the happiness is completely ignored, that is also represented in the *Analects* (I, 1): “Is he not a man of complete virtue, who feels no discomposure though men may take no note of him?” (English translation by James Legge).

Ruan Xiang has concluded that from Adam Smith’s understanding of happiness and equality of individuals it is possible to judge about the basic idea expressed in *The Theory of Moral Sentiments* and *The Wealth of Nations*.

However the ideas change with the changes of epoch. *The Wealth of Nations* presented economic science of individualism based on the idea of equality of people. Soon it has been undermined by the representatives of the historical school, and in the middle of the nineteenth century it was replaced with an economic science of Marx’s school that analyzed the society. In the nineteenth century equality-based individual ethics was replaced by individual ethics based on recognition of difference among individuals, at the same time started the propagation of the ideas of corporatism (*tuantizhuyi*).

Ruan Xiang concluded that the understanding of connection between two books of Smith was not enough to solve contemporary problems of relations between economics and ethics. Nevertheless clear knowledge about the relations between individual ethics and economic teaching about individual in the past helps to understand present relations between social ethics and economic teaching about society (Ruan Xiang 1923: 8).

The non-capitalist teaching of Adam Smith

Huang Dianyuan’s article in *Xueyi* underlined that the economic doctrine of Adam Smith was “non-capitalist” (*fei zibenzuyi*). Huang Dianyuan noted that he saw many works of modern economists who propagandized socialism and extolled Marx’s achievement, they also attacked Adam Smith for his individualist and capitalist doctrine that did not correspond to modern epoch.

Huang Dianyuan has urged to take balanced attitude to the works of predecessors. Smith was a great economist and his merits should not be forgotten. His position was “clear and fair”, it makes him different from narrow-minded scholars who reflected the opinion of one party or group. Smith’s views deserve studying and it is impossible to reject their value completely only because some authors criticize him for supporting capitalism.

The first part of the article focused on theoretical ideas of *The Wealth of Nations*.

On the first place the Chinese author has put Smith’s thesis that “the annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes” (I.I.1). This is “the basic idea” of Smith. Wealth produced by labor is measured against the number of consumers, increasing proportion between the produced wealth and the number of consumers means that material happiness progresses. To illustrate this idea Huang Dianyuan quoted from ancient classical canon *The Great Learning* (Da xue) [II, 10.19]. “If there are many producers and few consumers, and if people who produce wealth do so quickly and those who spend it do so slowly, then wealth will always be sufficient” (Huang Dianyuan 1923: 2-3; Wing-Tsit Chan 1973: 94).

The question is how to produce more goods with the same amount of labor, or how to increase its productivity. To solve this problem Smith suggested to resort to division of labor and use of machinery.

Huang Dianyuan has turned to exchange problem (the second thesis). As the result of division of labor there is a necessity to exchange produced goods. Smith described this problem with the concepts of “value of use” and “value of exchange”.

Using the terminology introduced by Yan Fu in the first Chinese translation of *The Wealth of Nations*, Huang Dianyuan has noticed that initial sources of any income were rent (*zu*), wages (*yong*, literally – fee for hiring) and profit (*li*) (the third thesis). Any income comes from these sources. (Huang Dianyuan 1923: 3). Interests of landowner (receiver of rent) and worker (receiver of hiring fee) usually coincide with the interests of the society. Only the interests of capitalist (receiver of profit) run into conflict with the interests of the society. Therefore respecting the interests of consumers is more important than respecting the interests of manufacturers. Huang Dianyuan explained that Smith named as capitalist the entrepreneur (*qiyejia*, in *The Wealth of Nations* “the creditor”), therefore income includes profit (*li*) and interest (*xi*).

The fourth component is Smith’s treatment of the nature, accumulation and employment of stock in the Book II of *The Wealth of Nations*. Smith explained that property (*caichan*, in *The Wealth of Nations* “stock”) is divided in two parts. One part is for consumption and another is for increase of income of its owner: it is the capital that consists of fixed (*guding*) capital and circulating (*liudong*) capital, the last one is used for sustaining lives of workers and therefore it is especially important. Thus, according to Huang Dianyuan, concepts of constant (*bubian*) capital and variable (*kebian*) capital from Marx’s writings are similar to fixed and circulating capital of Smith.

The fifth component of Smith’s economic doctrine was the problem of different employment of capitals. Smith noticed that equal capitals were capable of putting into motion different quantity of labour.

“No equal capital puts into motion a greater quantity of productive labour than that of the farmer” (WN, II.5.12); therefore the capitals employed in the agriculture are most beneficial for the society. “After agriculture, the capital employed in manufactures puts into motion the greatest quantity of productive labour”, “that which is employed in the trade of exportation has the least effect of any of the three” (WN, II.5.19). The capital employed in these spheres yields smaller results, however such investments are profitable and necessary for the society, therefore it is impossible to neglect them in favor of agriculture. Smith’s laissez-faire principle means that if the state does not interfere with the economy and allows the enterprises to operate freely, than the employment of capital in the country will be reasonable.

Huang Dianyuan has declared that the above-stated five principles formed “the basic concept of economic science of Smith, they were also the creed of the English school, the central point for the later changes in economic doctrines after Smith” (Huang Dianyuan 1923: 5).

The second part of the article was concentrated on the basic content of Smith’s economic policy.

The Book III of *The Wealth of Nations* raised the theme of progress of national economy in different countries. If development goes naturally, the capital at the first stage will be concentrated mainly in agriculture, then it will go into the industry and after will be employed in foreign trade. According to Huang Dianyuan, this scheme of development of branches of economy corresponds to the ideas of the school of trade protectionism of Friedrich List.

The Book VI focused on “various systems of national economic science” (in *The Wealth of Nations* – “systems of political economy”) and on studies in economic policy. Smith gave primary attention to the criticism of doctrines of physiocrats and mercantilists. The theory of physiocrats and especially, Quesnay, despite all its imperfections, Smith considered as the “most the nearest approximation to the truth that has yet been published upon the subject of political economy” (WN, IV.9.38). Smith criticized severely the doctrine of mercantilism, he claimed that it had “hundred faults and no advantage” and believed that blindly following this doctrine would inevitably lead the state to perish (Huang Dianyuan 1923: 5).

Huang Dianyuan, as well many other contributors of *Xueyi* special issue, recalled in detail the fragment of Chapter II, Book I about the butcher, the baker and the brewer. Many people live in a city, but they do not need to coordinate with each other because they are supplied with bread, meat, vegetables and beer by those who act in their own self-interest instead of benevolence. If each person does not pursue his own interest, even if we assume that there is a great man who carefully plans everything, he will not be able to satisfy human desires so fully (Huang Dianyuan 1923: 5-6). We should note that no “great man” neither his skills in economic planning were present in the original book of Adam Smith.

Huang Dianyuan concluded that Smith’s ideas were not “utopian” and “unsubstantiated”, Smith’s argument were based on the history and the facts from various countries. The basic idea (*zhuyi*) of Smith was not that natural liberty was given by Heavens and individual liberty was the highest manifestation of the ideal as the doctrine of natural law said. Smith’s main idea was the interests of people and his purpose was the increase of public wealth. Individual self-interest was considered by Smith as the best way of achieving this goal, therefore there was a widespread opinion that Smith was supporting individualism or capitalism. Nevertheless Smith considered labor as a source of production, the same idea can be found in the theories of socialists - they put labor at the center of public ethics and declare that under socialism those who do not work receive no clothes and food (Huang Dianyuan 1923: 6).

Smith proposed to respect interests of consumers, and here is the key difference from modern capitalist system which cares only about the interests of manufacturers. “He (Smith) gives no preference to any class, how it is possible to tell that his doctrine is individualism or capitalism?” (Huang Dianyuan 1923: 7).

Smith maintains that self-interest is the heart of human economic activities and pursuit of self-interest is the principle of the economy. On this base the public economy develops, self-interests of individuals are coordinated with public interests. Those individual interests which cannot be coordinated with public interest quickly fall into decay, and only those individual interests which can be coordinated with public interest blossom and flourish.

Huang Dianyuan has asked a rhetorical question if Marx who supported socialism did not recognize this principle of self-interest? According to the Chinese author, Marx has added only one phrase - “mankind is an animal that moves to progress” (*original source of this citation not identified*). Marx pointed out that though the individual was self-interested, when he encountered fetters on production, he necessarily aspired to break them to avoid degradation and destruction. Referring to the book of Kawakami *The History of Economic Thought of Modern Times* (1920), Huang Dianyuan noticed that this thesis was the starting point of Marx’s economic doctrine. “If we refer to Smith’s recognition of self-interest to say that he supports individualism, do we have reasons to say that Marx supports individualism too?” (Huang Dianyuan 1923: 7).

Huang Dianyuan has underlined that Smith wrote *The Wealth of Nations* before the industrial revolution, those days capitalism had not been developed yet and its flaws were not as obvious as they were now. Huang Dianyuan concluded that Smith’s basic requirements of free competition could also fit the needs of modern society because Smith’s theory of free competition opposed monopolies and corresponded to the socialist theory of public ownership of all capital (Huang Dianyuan 1923: 7). Therefore it is impossible to claim that Smith is the founder of capitalist economic science (Huang Dianyuan 1923: 8).

Similar line of arguments can be found in the article of Zi Yaohua in the same issue of *Xueyi*. Its origin could be traced to *The History of Economic Thought of Modern Times* by Hajime Kawakami. Japanese economist focused attention on Smith’s words about “completely free competition” and suggested that so-called “theory of free competition” of Smith was directed against “monopolism”. “If this ideal is consistently put into practice, it will embrace the meaning of “socialism”” (Kawakami 1920: 30, 32).

According to Huang Dianyuan, though the Book I of *The Wealth of Nations* said that the interests of capitalists and public benefit contradicted each other, it is impossible to find in the text of *The Wealth of Nations* a single word in defense of capitalists. Chapter X of Book I listed

five reasons of difference in wages determined by character of employment. However Smith started with the precondition of free competition, therefore it is wrong to name him the apologist of capitalists. Even if Smith's followers Malthus and Ricardo supported capitalists, it cannot be used as a basis for labeling Smith the "founder of capitalism" (Huang Dianyuan 1923: 8).

To illustrate this thesis Huang Dianyuan addressed ancient heritage of Chinese culture. Confucius said, "By nature men are alike. Through practice they have become far apart" (Analects. XVII, 2). His follower Mencius held the opinion that human nature was good and ancient sage Xun-zi asserted that human nature was bad. However proceeding from their statements it is impossible to draw a conclusion that Confucius said that human nature was good or bad. Similarly the views of Smith's followers give no reasons to treat Smith as the supporter of capitalism (Huang Dianyuan 1923: 8).

In the first paragraph of the first lecture in *The History of Economic Thought of Modern Times* Kawakami asserted that Smith was the founder of economic science of capitalism. Huang Dianyuan noted that Kawakami did not provide convincing citations to confirm his conclusion. At the same time Kawakami noticed that Smith considered the economic organization of society of his days as the inevitable result of historical evolution. On this basis it is possible to assume that when the development of this system will reach its utmost, the socialist economic organization also becomes possible.

In the second paragraph of the lecture Kawakami specified that Smith has described an amazing economic organization in which all people pursued their self-interest but total benefit of whole society increased and distribution of wealth became fair (Kawakami 1920: 13). Huang Dianyuan commented that these thoughts of Smith proceeded from the real social situation of his time. When Smith wrote *The Wealth of Nations* the diverse machinery was not invented yet, there was no polarization of classes in the society. In Smith's epoch manufactory production blossomed, the master and his assistants earned for living together, if they received additional profit they divided it among themselves. Now at large factories capitalists and workers do not meet each other, workers do hard work day after day for a wage, prosperity and losses in factory operations are not connected with them in any way, therefore there are classes of capitalists and workers. At Smith's time such situation has not developed yet, therefore he thought that individual benefit would lead to the enrichment of all society.

Huang Dianyuan concluded that Smith was not an apologist for capitalism. Unlike his followers Malthus and Ricardo, Smith was impartial, he soberly looked at the negative sides of society of his time and exposed them. Though there was inconsistency in his theory, it did not harm the whole doctrine. "Therefore I dare to say that irrespective of the degree of changes of social and economic organizations, Smith's doctrine still has value and deserves research" (Huang Dianyuan 1923: 9).

Huang Dianyuan's arguments reveal the patterns of understanding of Smith's doctrine and Western economic science by Chinese students of Kyoto Imperial University shaped by the influence of Hajime Kawakami. Despite the authority of Kawakami, Huang Dianyuan disagreed with some of his conclusions and criticized him.

Difference between the economic ideas of Adam Smith and the economic ideas of Confucians

Sa Mengwu contributed to *Xueyi* bicentennial issue the article "The Difference Between the Economic Ideas of Adam Smith and the Economic Ideas of Confucians". He opposed economic liberalism of Adam Smith that stimulated economic activity in the West to Confucian ambition to limit human desires that pushed Chinese economy into decline.

This opposition was visibly embodied in two quotations that preceded the text of the article. On the first place Sa Mengwu put the fragment from the English text of *The Grumbling Hive* by Bernard Mandeville who made a poetic account of economic failure of society that dared to undertake a drastic cut of consumption. The second quotation came from the "Qu li"

(Minute Rites) chapter from the classical Confucian *Book of Rites* (Li ji): “Pride should not be allowed to grow; the desires should not be indulged; the will should not be gratified to the full; pleasure should not be carried to excess”.

Sa Mengwu started his analysis of economic ideas of Ancient China from referring to the theory of historical materialism of Karl Marx that maintained that social superstructure (law, politics, religion, morality) evolves after the changes in the economic foundation of the society. He claimed that Marx was the “pioneer of political economy of socialism” and referred to the book by Ludwig Pohle *Kapitalismus und Sozialismus* (1919, 1921) to prove that the goal of socialism was “to guarantee economic existence of humankind”. He stated that Marx treated the economy as the true foundation that supports human existence.

Though the teachings of early Confucians were filled with problems of morality, they were unable to ignore the importance of economy in state governance. Confucius recommended to make people rich and then make them educated (Analects XIII, 9); Mencius said that material wealth serves as starting point to become the true king of the empire in political governance (Mencius 1A:3). Sa Mengwu concluded that ancient Chinese sages accented the importance of economy in state governance and placed it above morality, thus recognizing that spiritual activity of humans was subjected to significant influences of their economic life. For example, Mo-zi admitted that poor harvest make people inhuman and evil (chapter “Qi huan” – “The seven causes of anxiety”); Mencius observed that in good years the youth were most of them good, while in bad years the most of them abandoned themselves to evil (Mencius 4A:7); Guan-zi maintained: “If the storage is full, people will know about protocol, if they are properly clothed and fed, they know about shame and glory” (chapter “Mumin” – “Shepherd the people”).

According to Sa Mengwu, these reasoning of ancient thinkers corresponded to Marx’s teaching of economic foundation and social superstructure that includes morality. The difference was that Marx viewed economy through the eyes of economist while Chinese pre-Qin sages perceived it as “scholars of ethics” (*lunli xuexhe*). Ancient Chinese thinkers paid attention to economy and in that they were no different from Western economists. However Western economy progressed day after day and Chinese economy was in decline. Sa Mengwu supposed that the paths of economic development of China and the West diverged due to essential difference in starting point of the economic ideas that caused differences in economic policies (Sa Mengwu 1923: 3).

To illuminate this difference Sa Mengwu compared economic ideas of Smith and Chinese Confucians. He claimed that “the desires (*yuwang*) were the sources (*genyuan*) of economic behavior, therefore the main economic ideas proceeded from desires” (Sa Mengwu 1923: 4). Western scholars, especially Adam Smith, did not ask about goodness or badness of human desires and advocated their unlimited growth. Chinese scholars, including Confucians, strived to limit the desires. Different approaches to desires underlying economic behavior determined the difference of economic ideas of China and the West.

Sa Mengwu explained that the system of ideas of any thinker was based upon the concept of human nature. Thomas Malthus thought that this nature means satisfying desires of body (*shise*), William Godwin in *An Enquiry Concerning Political Justice* (1793) sought it in rationality (*lixing*), Marx – in human craving for existence (*shengcun*). Adam Smith upholds that human nature is egoistic, he speak about self-love, private interest and natural effort of everyone to better his own condition. He wrote that the functioning of the society as a whole was based on individual objective to bring benefits to oneself. This idea is clearly explained in the well-known fragment of *The Wealth of Nations* on butcher, baker and brewer who strive to satisfy their customers not because of their “humanity and benevolence” (in Chinese text – *ren hui*), but from their regard to their own interest (WN, I.2.2).

Smith’s reasoning is obviously different from “pessimistic” views of ancient Chinese thinker Mo-zi who propagated the idea of “universal love” and blamed human preference to their own interests that implies readiness to do harm to other people as the source of “disorder”

(chapter “Jian’ai” II – “Universal Love II”). Smith believed that pursuing own interests caused no disorder and laid down the foundation for happiness of the society (Sa Mengwu 1923: 5).

In their explanations of human nature (*xing*) Confucians advocated “rationality” or the “nature of principle” (*li xing*). The classical book *Zhongyong* (The Doctrine of the Mean) says that “Heavenly order” or what “Heaven (*T’ian* - Nature) imparts to man is called human nature” (*Tian ming zhi wei xing*) (Wing-Tsit Chan 1973: 98). It means that principle (*li*) is the fundamental human nature. Sa Mengwu claimed that early Confucian concepts of human nature were altruistic and persuaded people to bring benefits to others. Confucius criticized competition with other people for profit and endorsed “humane” policy of bestowing prosperity to all people. Mencius encouraged the rulers to speak about humaneness and justice instead of profit. Sa Mengwu observed that Confucius and Mencius criticized private interest (*si li*) and advocated rationality (*li xing*) of human behavior (Sa Mengwu 1923: 6).

Due to different understanding of human nature the ethical concepts of Adam Smith and Confucius were also different. Sa Mengwu wrote that Smith uphold the utilitarianism (*gonglizhuyi*) while the Confucians followed rationalism (*helizhuyi*) (Sa Mengwu 1923: 6). From the point of view of Western utilitarianism good behavior increases happiness of the society and bad behavior decreases it. Chinese author referred to Smith’s metaphor of “invisible hand” that guides people to goals that were not part of their intentions, therefore pursuing their own interest they frequently promote that of the society more effectually than when they really intended to promote it (WN, IV.2.9). In the article the notion of “invisible hand” was omitted from this quotation. In the beginning of the twentieth century the first Chinese translator of the *Wealth of Nations* Yan Fu did the same because the “invisible hand” was strange and unexplainable within the framework of Chinese traditional culture that was not familiar with monotheism. Without the reference to almighty external power the idea of Smith was reduced to a plain conclusion that pursuing self-interest benefits society as a whole.

For Sa Mengwu it was important to underline that from the point of view of Smith’s utilitarianism to bring happiness to whole society a single individual who “feel his own sufferings better than sufferings of others” has the right to act in his own interests and to compete for the sake of his own interest with other people.

Sa Mengwu described ethical ideas of Confucians as “rationalism” because they aimed at bringing human behavior in compliance with the principle-*li*. The *Zhongyong* said that “to follow our nature-*xing* is called the way-*dao*”. Confucians believed that human nature was rational, conformity to rationality was the criterion of moral behavior. External influences instigate human material desires that lead to falling into evil. To avoid that it is necessary to adhere to “Heavenly principles” to curb human desires, human actions should not go beyond the rules. Ethical ideas of Confucians have been aimed at rational restriction of desires; that can be seen from the words of Confucius and Mencius.

Differences in understanding of human nature and in ethical concepts have shaped the difference between Smith and Confucians in approaches to human desires. Smith uphold the ideology of following desires (*zunyuzhuyi*), Confucians preached asceticism (*jinyuzhuyi*) (Sa Mengwu 1923: 8). According to Sa Mengwu, due to egoistic view of human nature and utilitarian ethics Smith interpreted human happiness as “ease of body and peace of mind”. Both components are based on worldly (*waijie*) wealth, therefore Smith valued above all the joy of owning riches (*huocai*, literally: goods and money).

Sa Mengwu made two important conclusions that were addressed to Chinese audience.

First, the morality means getting pleasure and joy (*kuaijie*) that are based on wealth (*caihuo*). Therefore greater wealth brings greater pleasure and higher morality. Secondly, to get pleasure people should gain riches, thus the property (*caichan*) they possess is moral. It does not correspond to Confucian notions “He who seeks to be rich will not be humane” (Mencius 3A: 3; Sa Mengwu 1923: 8).

The humankind gets riches from economic activities, and the economic activities are possible because humans want to satisfy their desires. Therefore if the Chinese want to get more

riches and to enjoy more pleasures, they should make their desires to flourish. Without it the riches are of no use and the mankind will have no aspiration to get more riches. These reasons have been illustrated by an abridged citation from *The Theory of Moral Sentiments* (TMS, IV.I.10) from which the Chinese author has removed the mentions of “invisible hand” and Providence. Smith underlined that rich man’s yearning for pleasures and luxury brings necessary subsistence to the poor. Sa Mengwu has proclaimed that increasing desires of the rich people will increase the gains of society as the whole. Though Smith made no clear appeals to unleash human desires, in practice he stood for that, therefore his ideas are similar to Mandeville’s (Sa Mengwu 1923: 9-10).

Sa Mengwu attempted to develop the trend of thought of the early Confucians who have put forward the ideology of restriction of human desires (*zhiyuzhuyi*). Ancient sages worried that unconstrained human desires could grow infinitely and then will overshadow the “Heavenly principles”. As the riches of the Heavenly Empire are limited, manifestation of unlimited desires will lead to conflicts and struggle. If the Heavenly Empire falls into disorder, the people will not be able to sustain their living. Therefore desires should be diminished to the size that will allow every person to fulfill their desires. The founder of the ancient school of Taoism Lao-zi suggested to limit desires in a greater degree than Confucians.

The Chinese need to make a choice. It is possible to remove constraints from human desires to promote economic development. Or, on the contrary, to limit desires to create an obstacle on the path of economic growth. Sa Mengwu has noticed that the majority of Western economists support the first point of view, while the ancient Chinese sages adhered to the second. As a result the Western civilization day by day moves forward, and the material civilization of China every day goes into decline (Sa Mengwu 1923: 11).

The second part of the article compared economic policies of Adam Smith and the Chinese Confucians. The main distinction, according to Sa Mengwu, was that in Smith economic policy the primary principle was laissez-faire and the Confucians followed the principle of interference. The starting point of reasoning of Smith and the Confucians was similar. But they have drawn different conclusions from the thesis of boundlessness of human desires. Confucians worried that insufficient resources could provoke an incessant struggle in the society if the individuals follow their growing desires. Smith maintained that desire to get new luxury articles stimulate economic development.

Confucians condemned the manufacturing of sophisticated useless things (*qi ji yin qiao*, literally: diabolic tricks and wicked craft) that arouse human desires. Production of such things leads to decline of human morality. Confucian intervention in economy was manifested in prohibitions of manufacturing luxury goods and in the policy of maintaining sufficient production of everyday goods. In the ancient time Confucians introduces severe punishments for manufacturing luxury goods, they claimed that such production infringes ritual rules.

Sa Mengwu has noticed that for satisfaction of people’s demand for everyday goods the ancient Confucians used methods of passive and active regulation. In Chapter 1 of *Meng-zi* the authorities forbid people from prodigal use of natural resources to make possible to keep sufficient resources of wood, grain, fishes and turtles (Mencius 1A: 3). However in process of growth of population consumption also grows, and then the ruler should carry out active economic policy by demanding people to plant mulberry trees near their homes and to breed domestic animals (1A: 7 - C.256) (Sa Mengwu 1923: 15).

Smith and Confucians had different approaches to the problem of distribution. Sa Mengwu noted that in Chapter X Book I of *The Wealth of Nations* discussing wages Smith completely subordinated distribution to the mechanisms of free competition.

Without external intervention the competition makes wages fair, small wages in some employments counter-balance greater wages in others (WN, I.10.4). Both in production and distribution Smith adhered to the policy of laissez-faire, and optimistically believed that it allows achieving equality (Sa Mengwu 1923: 16). Ancient Confucians aspired to equal distribution of wealth. They suggested limiting desires, they wanted to satisfy very modest demands of the

people and supported equal distribution of resources. To implement the principle of equal distribution Confucians pursued the interventionist economic policy (Sa Mengwu 1923: 16-17).

Smith said that manufacturing of luxury goods led to redistribution of wealth and made poor people happy. Such ideas are essentially different from the Confucian policy of cheap consumption. Ideal Confucian personality wanted to have simple life without excessive desires and dreams of luxury. Confucius said: “The superior man does not seek fulfillment of his appetite nor comfort in his lodging” (Analects, 1:12). Confucians supported the state regulation of consumption. They tried to formulate criteria of consumption of meal and clothes depending on age of the person (see: Mencius 1A:3, also chapter “Wang Zhi” of the *Li ji*).

The ideas of ancient Confucians look totally opposite to views of Smith. Sa Mengwu underlined that Smith was the founder of Western economic science, and Confucians represented the spirit of Chinese educated circles. “In the West according to Smith’s suggestions material civilization goes to prosperity, and the suggestions of Confucians cause the Chinese economy to shrink every day. The people in our country should pay attention to it” (Sa Mengwu 1923: 20).

In this article young Chinese scholar expressed his confidence that Chinese asceticism should let way for desire of consumption. These ideas corresponded to the needs of development of market economy in China under conditions of liberal non-interference policy. Sa Mengwu can be criticized for unjustified comparison of ideas of different epochs. Smith wrote *The Wealth of Nations* in the period of formation of capitalist economy less than two hundred years ago, while the ancient Confucians lived more than two thousand years ago. In due course production of luxury goods became a part of Chinese economy and ancient prohibitions were abandoned. Nevertheless, in the beginning of twentieth century China has considerably lagged behind the West in economic development, that reality motivated Chinese intellectuals to search for new recipes of economic growth in Western economic thought.

Adam Smith’s theory of value

Shi Weihuan’s article “The Theory of Value of Adam Smith” covers a broad spectrum of economic ideas of Smith and his predecessors and followers including Karl Marx.

The author noted that it was possible to observe economic life from an objective or a subjective side. In the first case it is problem of material wealth and in the second case it is the problem of psychology. In similar fashion the economic doctrines can also be divided in two camps. Supporters of the objective doctrine assert that value is determined by costs of production. The subjective doctrine recognizes that value is determined by utility. It is remarkable that for terminological specification of both schools the author used German language: the objective school is based on cost theory (*feiyongshuo*, kostentheorie); the subjective school relies on utility theory (*xiaoyongshuo*, nutzentheorie) (Shi Weihuan 1923: 1).

Shi Weihuan indicated that English orthodox economists belonged to the objective school whereas the Austrian school represented the subjective trend. Smith is the founder of classical economic science and his theory of value represents the objective trend (Shi Weihuan 1923: 2). From this classification we can see that in the early 1920s Chinese students in Japan were aware of the ideas of the Austrian school of economics.

The author provided a detailed account of Smith’s doctrine of value supported with numerous quotations from *The Wealth of Nations*. Shi Weihuan paid attention to Smith’s distinction between two meanings of the word “value”: sometimes it means the utility of some particular object and sometimes expresses the power of purchasing other goods in exchange of this object. The first meaning is called value in use (*xiaoyong shang zhi jiazhi*), the second is called value in exchange (*jiaohuan shang zhi jiazhi*).

For illustration the Chinese author cited Smith’s example of water and diamond: although water is more useful, in terms of survival, than diamonds, diamonds command a higher price in the market. “Nothing is more useful than water: but it will purchase scarce any thing; scarce any thing can be had in exchange for it. A diamond, on the contrary, has scarce any value in use; but

a very great quantity of other goods may frequently be had in exchange for it” (WN, I.4.13). To this example Shi Weihuan added a footnote with critical remark by J.S. Mill: “The use of a thing, in political economy, means its capacity to satisfy a desire, or serve a purpose. Diamonds have this capacity in a high degree, and unless they had it, would not bear any price” (Mill, J.St.Principles of Political Economy with some of their Applications to Social Philosophy, III.1.3). According to Shi Weihuan, Mill’s argument allows us to understand Smith’s mistake. (Shi Weihuan 1923: 3).

Further the Chinese author examined Smith’s views on the real price of commodities, on the component parts of the price of commodities, and on the market price of commodities. Shi Weihuan noted that each person’s revenue derived from wages, profit or rent (WN, I.6.17). Combinations of three sources of revenue have changed through history. At the first stage of primitive society the land was in public property, the capital has not been accumulated yet, therefore the labor was the sole source of revenue. At the second stage in process of capital accumulation the capital became another source of revenue along with labor. At the third stage the private property on land has allowed the landlords to receive the land rent.

To “ponder” (*wan wei*) Smith’s theory of value Shi Weihuan turned to the problem of labor. He noted that Smith accurately specified that labor was the real measure of the exchangeable value of all commodities. However he did not explain that so-called labor in the labor theory of value had two meanings: the first is commanded labor (*zhipai de laodong*) and the second is expanded labor (*feiqu, touxia de laodong*). “Though expanded labor and commanded labor are occasionally identical (*oucheng xiangtong*), there are many distinctions between them. Therefore the quantity of expanded labor and commanded labor is not necessarily the same, treating them as the source of price and measure of price will inevitably lead to difficulties”. According to Shi Weihuan, that was the fault of Smith’s theory of value (Shi Weihuan 1923: 6).

The Chinese author explained that from Smith’s point of view the labor as sole source and measure of price existed only in primitive society. At that time all products of labor belonged to the worker and there was no other class to expropriate the part (*yurun* - additional profit) of the product produced by worker. Austrian lawyer and professor of Vienna University Anton Menger (Karl Menger’s brother) named it “the right to full product of work” (*laodong quan shouquan, das recht auf dem vollen arbeitsertrage*). (Menger A. *Das Recht auf den vollen Arbeitsertrag in geschichtl. Darstellung*. Stuttgart, 1886) (Shi Weihuan 1923: 6-7).

Shi Weihuan concluded that Smith’s views were dualistic. In relation to primitive undeveloped society he used the labor theory of value. In relation to the epoch of accumulated capital, private property on land and the established society with capitalist economic organization he used the theory of costs of production. Though the theory of costs of production is also objective, there is no unanimous position in Smith’s doctrine, therefore it is impossible to say that Smith from the beginning and up to the end supports the labor theory of value. According to Shi Weihuan, it is necessary to recognize that Smith’s theory of value was dualistic and this dualism was the source of Smith’s misconceptions (Shi Weihuan 1923: 9). Shi Weihuan assumed that Smith used dualistic doctrine of value because he did not understand the difference between labor and labor power. Because the laws of simple commodity exchange process are inapplicable to the exchange of commodities produced by capitalists, he has disguised this fact (Shi Weihuan 1923: 15).

The following section of article focused on defining the place of Smith’s theory of value in the history of Western economic thought. Among Smith’s predecessors Shi Weihuan mentioned the physiocrats (the author demonstrated his knowledge by adding original French economic terminology: *shiyong jiazhi* - valeur usuelle; *jiaohuan jiazhi* - valeur venale), ideas of Francis Hutcheson and David Hume, *An Essay on Money and Coins* (1757-58) by Joseph Harris. The author observed that all these scholars considered labor as source of value (Shi Weihuan 1923: 11).

Shi Weihuan named Adam Smith “the founder of individualistic economic science”, Malthus and Ricardo were his followers. This assessment demonstrates an obvious influence of the book of Kawakami *The History of Economic Thought of Modern Times* (1920) where the explanation of Smith’s views preceded the chapter on Malthus and Ricardo.

Malthus and Ricardo greatly borrowed from Smith, but they separated and went different ways. Both economists aspired to correct Smith’s failures and to build a complete doctrine. In Smith’s theory the concept of labor was used in two meanings of commanded labor and expanded labor. Malthus picked up the theory of commanded labor and Ricardo chose the concept of expanded labor. However, according to Shi Weihuan, Ricardo, like Smith, was not a thorough supporter of the labor theory of value: along with labor he considered scarcity as source of value. Besides labor he considered time as one of the factors that determine the value of commodities. Malthus developed “non-labor” version of Smith’s theory of value, he further distanced from the labor theory of value (Shi Weihuan 1923: 12-13).

The ending section of article criticized Smith’s doctrine of value from the standpoint of socialist theory. Shi Weihuan gave the example of Robinson’s labor on the desert island and production in a primitive society where all results of labor, including new value created with exception of cost of used materials and costs for the replacement of the means of production used up, go to Robinson. On this basis Shi Weihuan elaborated that the same law functions under conditions of communist and socialist society where all means of production are in public ownership (Shi Weihuan 1923: 14). In this society there are no classes of capitalists and landowners who plunder the results of labor of workers. Therefore the value of their labor (with exception of cost of used materials and costs for the replacement of the means of production used up) is completely transferred to the new product.

Chinese author provided a detailed rendering of Marx’s theory. He focused attention on the concepts of constant and variable capital, reproduced schemes from *Das Kapital*, and German economic terminology has been much presented.

Shi Weihuan concluded that due to internal contradiction of Smith’s theory of value which did not distinguish between labor and labor power, it was difficult for Smith to discover laws of exchange of labor and the capital. This argument coincides with Marx’s critical remarks to the theory of value of Adam Smith: “Adam Smith feels the difficulty of deducing the exchange between capital and labour from the law that determines the exchange of commodities, since the former apparently rests on quite opposite and contradictory principles. And indeed the contradiction could not be solved so long as capital was set directly against labour instead of against labour-power” (Theories of Surplus Value, Marx 1861-3, Chapter III. Adam Smith).

Bibliography to the article provides an interesting glimpse into the history of Chinese economic thought of the early 1920s. On the first place we see five sources in European languages. As they are sorted not in alphabetic order (neither by name of author nor by title), it is possible to assume that the order reflects Shi Weihuan’s subjective assessment of its importance. Though the article is about Adam Smith, bibliography starts from *Das Kapital*, than goes *The Wealth of Nations*, and after it we see books of Ricardo and Malthus. *A History of Political economy* by John Kells Ingram closes that section though it was not mentioned in the article.

The second part of bibliography lists Japanese publications. On the top there is the *The History of Economic Thought of Modern Times* of Hajime Kawakami followed by the journal *Research in social problems* edited by Kawakami. The third line belongs to *The Research in economic science* by Sindzo Koidzumi, on the fourth place there is *The Theory of value and socialism* by Tokudzo Fukuda (1874-1930, professor of economic department of Tokyo University educated at Ludwig-Maximilian University in Munich). On the final line stands Japanese translation of *History of economic thought* by Lewis Henry Haney.

It is not difficult to notice a structural parallel of Western and Japanese sections of the bibliography. The first place is occupied by the theorists of socialism (Marx and Kawakami). The last line belongs to the historians of economic thought (Ingram and Haney). Shi Weihuan’s

article could illustrate the thesis of Chinese Marxist Wang Yanan that Western economic science came to China from Japan as “transit good” (Wang Yanan 2011: 377).

Adam Smith's principles of taxation

Zhou Fohai's article in *Xueyi* was titled “Four Big Principles of Taxation of Adam Smith”. Composition of the article emphasized its academic nature: after the explanation of Smith's ideas followed an overview of his predecessors; then the author provided critical arguments concerning each of four principles and he concluded with the evaluation of concepts of taxation after Smith.

Four principles of taxation stated in chapter II Book V of *The Wealth of Nations* were the central theme of the article. According to the principle of equality the tax should be levied on citizens on the basis of equality, the tax should be collected from all taxpayers regularly and each citizen is obliged to pay taxes in proportion to the revenue. The principle of certainty demands that the tax which an individual has to pay, should be certain and not arbitrary. According to the principle of convenience every tax should be levied in such a manner and at such a time that it affords to the maximum of convenience to the tax payer. The principle of economy suggests that the cost of collecting tax should be the minimum so that a major part of collections may bring to the treasury of the state.

Zhou Fohai underlined that taken together these principles form the system. He made a general conclusion that “among four principles the first is the key principle of the taxation whereas the second, the third and the fourth are related to administration of taxes, we should make an accurate distinction between them” (Zhou Fohai 1923: 3).

Having referred to the views of Smith's predecessors, Zhou Fohai underlined that taxation principles had been invented before Smith. Chinese author has listed the principles of taxation formulated in the works of three European economists: Frenchman marquis de Vauban in *La Dîme Royale* (1707); German Johann Heinrich Gottlib von Justi in *Staatswirtschaft* (1755), *Steuern und Abgaben* (1762) and *System des Finanzwesens* (1766); Italian Pietro Verri in *Meditazioni sull' Economia Politica* (1771). Dates of edition were placed in the article to remind the reader all these books were published before *The Wealth of Nations*. Principles of equality and convenience Zhou Fohai has found at Justi's writings, principles of economy and certainty he found at Verri's book.

The author claimed that Smith's four principles were a generalization of ideas of earlier economists (Zhou Fohai 1923: 5). To confirm this statement Zhou Fohai referred to the book of German economist Adolf Held *Die Einkommensteuer* (Income tax, 1872), where he said that Smith's merit was not the invention of new principles but skilled expression of popular ideas of the epoch (Zhou Fohai 1923: 6).

The most detailed section of the article was focused on discussion and criticism of the four principles of Smith.

In connection with the first principle of equality Zhou Fohai asked how to ensure justice of taxation in relation to various classes of society. The society is divided into the rich and the poor. Identical taxation will lead to further inequality and for the poor the tax burden can become very painful (Zhou Fohai 1923: 6).

Chinese author has referred to two Western theories of taxes - the exchange theory (*jiaohuan shuo*) and the duty theory (*yiwu shuo*; pflichts theorie). The first theory recognizes that people pay taxes in exchange for the protection which the state gives them. The duty theory underlines the necessity of paying taxes as the existence state is needed for life of each person.

The exchange theory asserts that the degree of protection from the state should become the criteria of tax burden. Taxes should be set in direct proportion to benefits received by taxpayer from the state. However this doctrine cannot be accepted because if the size of the tax depends on degree of protection from the state, that the poor represent a greater (and more often) burden to the state. Consequently the poor should pay more taxes and the rich should pay less

because they represent smaller burden to the state. Besides that, when the society is calm people receive more protection and pay less taxes; while in time of disorder the degree of protection diminishes and taxes increase. On this basis Zhou Fohai concluded that the theory of exchange was inconsistent.

According to the theory of duty payment of taxes is the duty of the people. The state is necessary for life of people, and revenues which are required for the existence of the state come from taxes. The poor cannot pay heavy taxes while the rich are capable to do it. Though the poor pay little, but they feel that their tax burden is heavy, and the rich pay much but feel the burden of taxes to a lesser degree. Therefore the poor should pay less and the rich should pay more, only in this case there will be justice. According to this theory, taxes are defined by economic ability to pay. Therefore it is possible to name the exchange theory as the benefit theory and the duty theory as the ability theory. According to Zhou Fohai, the scholars mostly support the second theory (Zhou Fohai 1923: 8).

Zhou Fohai has noticed that scholars have different opinion on classification of Smith's principle of equality. Some attribute this principle to the exchange theory (benefit theory), others maintain that it belongs to the duty theory (ability theory). Both groups find their arguments in *The Wealth of Nations*.

Supporters of the ability theory quote Smith's words that "the subjects of every state" should pay taxes "in proportion to their respective abilities" (WN, V.2.25). Supporters of the exchange theory refer to Smith's explanation that taxes should be paid "in proportion to the revenue" of the taxpayers (WN, V.2.25).

Smith worried that the meaning of his concept of "revenue" could be unclear. He explained that people enjoy this revenue "under the protection of the state". These words suggest that Smith supports the exchange theory (benefit theory), instead of for the duty theory (ability theory).

Some authors notice that Smith's expression "under the protection of the state" should not be considered as a proof of his support of the exchange theory. For Smith this expression had a different sense in the real situation of his time; it was related to close commercial ties between England and Holland and Smith wrote about the collection of taxes within the boundaries of one state in order to avoid dual taxation. However, for Zhou Fohai this explanation was not convincing. At the time of Smith the idea of social contract became widespread; exactly from this basis Smith has put forward the exchange theory. And proceeding from the theory of exchange Smith has formulated the principle of equality in taxation. Smith was the founder of the orthodox school and almost all his followers supported the theory of exchange and the principle of equality. From this observation Zhou Fohai came to the conclusion that Smith also supported the exchange theory (Zhou Fohai 1923: 9).

Some authors refer to Smith's word about taxation "according to the revenue" to prove that Smith supported proportional taxation (proportionelle bestuerung) and was against progressive taxation (progressive bestuerung). Their opponents argue that if Smith had really opposed the progressive taxation, he would develop these ideas in the Book V of *The Wealth of Nations* "Of the Revenue of the Sovereign or Commonwealth" that discussed state revenue. But this theme was not mentioned there. There is a contradiction because Smith, on the one hand, defended the exchange theory, and, on the other hand, accepted the progressive taxation. According to Zhou Fohai, if Smith supported the exchange theory, he would have no reason to accept the progressive taxation (Zhou Fohai 1923: 10).

Smith's second principle of certainty is the most important principle of tax administration. Its violation could have negative impact on taxation even if the tax burden is fairly distributed and make the people unable to sustain it. Zhou Fohai has quoted Smith's words that a very considerable degree of inequality in taxation "is not near so great an evil as a very small degree of uncertainty" (WN, V.2.26).

To avoid arbitrary collection of taxes the transparent tax laws are necessary. The time of payment, the manner of payment, the quantity to be paid should be clear to the taxpayer. Only in

this case the tax collectors will have no possibility to interpret the law in arbitrary manner, the taxation will be “certain” (Zhou Fohai 1923: 10).

Zhou Fohai disagreed with those who interpreted Smith’s principle of certainty as his argument against progressive taxation. Though Smith opposed progressive taxation, it was for a different reason. The progressive tax should be established legislatively, there is no need to say that the progressive tax by itself is “uncertain” (Zhou Fohai 1923: 11).

According to the third principle payment of taxes should be convenient for the taxpayer to pay it. This principle is important for the state as it allows to collect taxes in due time and to increase revenues of the treasury. Smith has considered the problem only from the point of view of convenience for the taxpayer; he brought concrete examples of payment of rent of land and of taxes upon articles of luxury. According to Zhou Fohai, Smith explained the principle of convenience insufficiently. Smith wrote only about convenience of time, place and manner of payment, he paid no attention to procedure of payment, means of payments and other important aspects (Zhou Fohai 1923: 12).

The fourth principle dictates that the difference between the sum of collected taxes and revenues of state treasury should not be big. This difference represents the costs of tax collection. Zhou Fohai explained that “the spirit of the fourth principle consists in economy” (Zhou Fohai 1923: 12).

Smith cites four ways in which a tax may offend against this principle. First, the increase in number of tax collectors and their salaries can absorb the most part of collected taxes. Secondly, taxes can destroy those branches of industry which may provide employment to many people. Thirdly, the forfeitures and other penalties on those who attempt to evade the tax may ruin them and deprive the society of possible benefit from the employment of their capitals. Fourthly, frequent visits of tax officials may bring unpleasant emotions (WN, V.2.28). Zhou Fohai commented that Smith’s fourth principle meant that, on the one hand, it was necessary to reduce the cost of tax collection, and on the other hand, to reduce troubles and hardships of taxpayers. The burden of taxpayers should come closer to amount of tax revenues of the state treasury.

Zhou Fohai commented on the first and the second ways of infringement of the fourth principle of taxation of Adam Smith (rising costs of taxation and negative impacts on the industry). According to Zhou Fohai, from these two points it is possible to see that Smith, first, opposed indirect taxes (which he actually recognized by formulating the third principle of convenience of payment of taxes); secondly, that the theory of freedom of commerce put forward by him corresponds to the fourth principle of taxation.

If one compare direct and indirect taxes, then the costs of collecting direct taxes will be less than in the case of indirect taxes. Direct taxes also will suppress industry development to a lesser degree. Among indirect taxes the greatest gap between collected taxes and revenues of the treasury arises from the collection of protective customs duties. Therefore protective duties violate the fourth principle of taxation. Protective duties in foreign trade are used when the state wants to protect domestic industry from imported goods. Taxes imposed on foreign goods are higher than on domestic ones, it increases the burden of citizens, but their money does not go to the state treasury but to domestic manufacturers and businessmen. Free trade and protective duties cannot co-exist; it is impossible to conduct free trade and to be engaged in protectionism simultaneously. According to Zhou Fohai, because Smith supports free trade, the fourth principle of taxation substantiates this position in the financial sphere (Zhou Fohai 1923: 14).

Smith incorporated the thesis that taxes should not influence negatively the industry development into the fourth principle of economy in taxation. Zhou Fohai mentioned that later British economist Charles Francis Bastable (1855-1945), the author of the *Public Finance* (1892) has developed this principle. Bastable considered it as “economical mode of classification” of taxation (he also used empirical or fiscal mode of classification).

Bastable noted that it was necessary to reduce the costs of tax collection. Taxes should not damage industrial development and should not destroy sources of tax revenue, otherwise in

the latter case there will be no tax. This position concerns national economy as a whole, therefore subsequently it was separated from “the principle of economy” and was placed into the group of “principles of national economy”. According to Zhou Fohai, Smith “did not see that”, he included “principles of national economy” into the principles of tax administration as part of it, “in reality it was improper” (Zhou Fohai 1923: 15).

It is possible to see that the book of Bastable has influenced the content of Zhou Fohai’s article. In the *Public finance* four principles of taxation of Adam Smith were stated, Bastable also underlined the difference between the first principle and three others: “The former is a rule of taxation; the latter are rules respecting taxes. The first canon is therefore applicable only to the tax-system, as a whole, while the second, third, and fourth should be observed in the case of each separate tax” (Bastable 1903: 416).

The last part of Zhou Fohai’s article focused on the evolution of economic theories of taxation after Smith. Zhou Fohai has underlined that four principles of taxation formulated by Smith were a product of his time; since the epoch changed it was necessary to make corrections and additions. As a whole Smith’s principles have kept their significance, first of all it concerned the principles of certainty, convenience and economy in taxation. The principle of certainty came from the free spirit of the constitution, this spirit was developed in the new time therefore there was no necessity to change this principle. Principles of convenience and economy also should not be denied, therefore only the equality principle requires updating and addition (Zhou Fohai 1923: 15).

According to the Chinese author, Smith’s principle of equality was initially constructed upon the theory of social contract and legal state theory (Rechtsstaat), it was a product of the exchange theory in taxation. However the theories of social contract and legal state are inapplicable to modern civilized nation, and the exchange theory cannot regulate modern taxes by law. Therefore the meaning of the principle of equality also should be changed. Necessary changes in this principle and additions to it were introduced by German scholars.

On the one hand, they have transformed the principle of equality (*pindeng yuanze*) into the principle of justice (*zhengyi yuanze*). On the other hand, they have formulated economic and financial principles that were absent in *The Wealth of Nations*. Formulation of the principle of justice was the merit of Held, Neumann and Wagner; development of economic and financial principles was the merit of Wagner and Stein.

Zhou Fohai provided a short outline of the main principles of taxation by German economist Adolf Wagner (1835-1917). Wagner sorted all principles into four groups. Sufficiency and elasticity of taxation belong to the first group (financial principles). Choice of sources and choice of types of taxes belong to the second group (principles of national economy). Generality and uniformity of taxation belong to the third group (principles of justice). Certainty of taxation, convenience of payment and maximum reduction of costs of tax collection belong to the fourth group (principles of tax administration) (Zhou Fohai 1923: 16-17).

Zhou Fohai characterized the principles of Wagner as “the most developed tax principles of the present”. Smith’s second, third and fourth principles have been included by Wagner into group of principles of tax administration. And the group of principles of justice embraced the principle of equality which differed in content from Smith’s principle of equality (Smith’s criteria for it were different). Smith did not mention at all about the principles of sufficiency and elasticity of taxation. Smith’s principle of economy can be compared with Wagner’s national economy principles (Zhou Fohai 1923: 17).

Zhou Fohai wrote this article in September, 1923 two years after his participation in the First Congress of the Communist party in Shanghai. But there are no traces of Marxism in the article except vague mentioning of “social classes”. This contrast is especially striking if we compare this article with the texts of other contributors of *Xueyu* bicentennial issue who demonstrated serious interest in socialist ideas. Though Zhou Fohai also received knowledge about Western economic science in Japan, by that time the impact of Marxist ideas of Hajime Kawakami had already disappeared.

Adam Smith's theory of wage

Dai Shixi analyzed Smith's theory of wage on the basis of Chapter VIII and Chapter X of Book I of *The Wealth of Nations*. He explored questions what determined the wage, how the wages were connected with the wealth of nation, the size of population and the prices. He mentioned that in *The Wealth of Nations* the research frameworks was broad, themes were difficult, therefore inconsistent and contradicting judgments appeared inevitably. In particular, the meaning of Smith's concept of wage is not clear enough.

The notion of wages can be used in two meanings: narrow and broad. In the first case we speak about the wage established by contract between the employer and the employed, it means recompence of labor. In the second case wage means any recompence, either to hired worker or to a person conducting his own business. Smith uses the concept of wage in both senses. Though more than one hundred years have passed, Smith's theory of wage keeps its value and deserves studying including some of its disputable arguments (Dai Shixi 1923: 1-2).

Dai Shixi considered Smith's views of factors that determine wages to be the key part of his wage theory. Chinese author has referred to English economist Edwin Cannan who indicated on three types of doctrines of wage: the theory of dependence of wage on productive power of labor; the subsistence theory of wages; the demand and supply theory of wages.

Dai Shixi claimed that Smith combined these three theories in a skilful manner.

In the beginning of chapter VIII of Book I Smith wrote that in primitive society the whole produce of labor belonged to the laborer (WN, I.8.2). In this situation "the wages of labor would have augmented with all those improvements in its productive powers". According to Dai Shixi, this fragment testifies that wages are determined by productive power of labor.

After primitive society has ceased to exist, the new situation was explained by the subsistence theory. The wage depends upon the contract between the masters and the workmen, the workmen desire to get as much, the masters to give as little as possible. Dai Shixi noticed that after the story about mutual relations of the masters and the workmen Smith explains the subsistence theory of wage: "A man must always live by his work, and his wages must at least be sufficient to maintain him" (WN, I.8.15).

According to Dai Shixi, Smith's theory of dependence of wage on productive power of labor was highly appreciated, but Smith's subsistence theory of wages was inconsistent. If masters have the advantage in disputes with their workmen and can negotiate a common position, if they pay attention to self-interest and neglect public interests, workmen's wages could go down below subsistence level. There is a question how to maintain this minimum and to prevent wages from falling below this minimal level. Smith wrote that this level is "the rate, evidently the lowest which is consistent with common humanity" (WN, I.8.16). Dai Shixi observed, that from this point of view only "humaneness of masters" guaranteed wages from falling below the subsistence level (Dai Shixi 1923: 4).

Dai Shixi concluded that arguments in favor of subsistence theory of wages were insufficient. Smith himself saw its defects and supplemented it with the theory of supply and demand. According to Smith, wages should not be equal to subsistence level, there are many symptoms that in Great Britain the wages are not regulated by this lowest rate.

Smith claimed that when demand for labor increase, the wages grew, if the lack of labor was evident, then competition started among employers who offered higher wages. According to Dai Shixi, Smith "addresses the supply and demand theory, though his answer is short and resolute, his treatment of labor as commodity inevitably leads to serious mistakes" (Dai Shixi 1923: 5).

It is possible to assume that in this criticism Dai Shixi proceeded from the Marxist positions. He indicated that Smith did not paid attention to the existence of a specific commodity - labor power. Chinese author concluded that Smith skillfully combined three different theories of wages, but Smith's doctrine of wage is not limited to these three theories.

Dai Shixi focused attention on Smith's approaches to studying of the reasons of increase in demand for labor. He quoted a fragment of chapter VIII book I of *The Wealth of Nations* where Smith wrote that demand for those who live by wages, increased only with the increase in wage funds. From the point of view of Smith if the revenue and stock of a certain nation do not increase, demand for those who lives by wages also stagnates. The demand for those who live by wages increases with the increase in revenue and stock, that means increase of national wealth (WN, I.8.21).

According to Dai Shixi, from the supply and demand theory Smith moves to wages fund theory. His arguments are not conclusive. Smith did not specify the reasons of the increase in demand for labor, he only mentioned that the wages funds increased with the increase of national wealth. He did not specify precisely the minimal level of revenue necessary for subsistence. Smith did not distinguish surplus income (*shengyu shouru*) from capital, and spoke about them in general terms as of a part of national wealth. Chinese author concluded that all these faults were connected with Smith's use of the theory of funds available for the payment of wages (Dai Shixi 1923: 6).

The theory of funds led Smith to inevitable recognition of a close connection between the wealth of nation and the size of population. Faster growth generates higher wages, while economic stagnation brings wages down. Dai Shixi retold in detail the fragment of *The Wealth of Nations* describing Smith's vision of reasons for very low wages in wealthy China, that has been long stationary.

Dai Shixi has concluded that Smith paid serious attention to the connection between national wealth and wages. Though his reasoning was deduced from the theory of funds, his doctrine about the wealth of nation has been separated from the doctrine of funds. Smith's analysis of wages embraced many factors and problems, included many theories, therefore his doctrine could be named "inclusive" (Dai Shixi 1923: 7).

Dai Shixi considers that Smith consistently defends fair position, supports high wages, stands for the interests of society as a whole and sympathizes with workers. Good reward of labour promotes reproduction and leads to increase in number of workers. Subsequently this opinion was developed in the theory of population of Malthus (Dai Shixi 1923: 7). However Smith was not pessimist concerning the growth of population, on the contrary, he blessed it and regarded the growth of population as source of general prosperity (Dai Shixi 1923: 8).

Smith has subjected to criticism a popular belief that in years of plenty workmen become less hardworking and that leads to reduction in production. In his opinion, these years workers leave the masters and start to work independently. And in the years of scarcity (Dai Shixi uses the term "hungry or poor harvest years" *xiongnian*) they return to service again, when people work independently, they are more active and diligent than hired workers. Dai Shixi commented that the connection between the food prices and wage cannot be denied. However the influence of food prices in plenty years and in the years of scarcity is not manifested once, while Smith considered that these processes occur in parallel. And by that, according to Dai Shixi, Smith has not avoided discrepancies (Dai Shixi 1923: 8).

Smith also touched the question of the relations between growth of wages and level of prices. Though the increase in the wages increase the price of many commodities, at the same time due to increase in productive power of labor a smaller quantity of labor produce a greater quantity of work. In consequence of these improvements many commodities "come to be produced by so much less labor than before, that the increase of its price is more than compensated by the diminution of its quantity" (WN, I.8.56).

Dai Shixi proclaimed that though Smith's position was not absolutely precise, it could still be considered as a words of wisdom (famous dictum - *zhi li ming yan*), in this statement was also is possible to trace out Smith's consecutive standing in favor higher wages (Dai Shixi 1923: 9).

Chinese author has explained in detail five reasons of distinctions in wages in different professions examined by Smith in chapter X Book I. Smith has shown that though these five

circumstances cause inequality of wages, but “they make up for a small pecuniary gain in some, and counter-balance a great one in others” (WN, I.10.42). Such equality can be achieved only in a society with free competition. Dai Shixi underlined that Smith’s opinion is correct, therefore the majority of modern scholars also shared it (Dai Shixi 1923: 10). The Chinese author commented that Smith’s theory at first glance looks faultless and practically applicable. However if we get better acquainted with it, it will be possible to find out unsatisfactory moments, that is why scholars made corrective amendments to it (Dai Shixi 1923: 11).

Dai Shixi concluded that many subsequent doctrines of wages and wages policy originated from Adam Smith’s ideas. At the same time he reproached Smith for lack of carefulness in his theory. Sometimes in the centre of his doctrine were individualism and liberalism, and sometimes statism and humanism. Smith recognized bad situation of workers but did not explain how to protect them. Smith spoke on necessity of carrying out of this or that policy and outlined its general direction, but he did not specify concrete methods for it. As a result there were internal contradictions in his theory, it embraced the views from mutually conflicting schools. This thesis Dai Shixi has supported with the reference to the book of German economist Adolf Held *Zwei Bücher zur socialen Geschichte Englands* (1881).

According to Dai Shixi, in Smith’s works there were many unclear words that complicated the task of understanding their true meaning. However it was no more than “small defect in a precious jade” which cannot influence the general value of Smith’s theory of wage. For Smith the interests of society were the main precondition, his judgments were strict and his scholarly position “will eternally serve as criterion for the followers” (Dai Shixi 1923: 11-12).

The Theory of Laissez-faire Policy of Adam Smith

Guo Xinsong’s contribution to the bicentennial issue of *Xueyi* was titled “The Theory of Laissez-faire Policy of Adam Smith”. The author underlined that Smith’s economic policy could be briefly summarized as “ideology of freedom and non-interference” (*ziyou fangren zhuyi*). It advocates free competition inside the national economy and free trade among the nations.

Guo Xinsong explained that for Smith the notion of self-interest (*li ji xing*) means “the Heavenly nature” (*tian xing*) of humans, it is their natural characteristic. Chinese author underlined that all people aspire to maximize their self-interest: capitalists and workers, manufacturers and consumers. Each individual proceeds from his own natural desires and operates for the sake of his own benefit. However all these actions are guided by “an invisible hand” (“a hand which cannot be seen”, *bu ke jian zhi shou*) or by “an unknown principle” (“principle which cannot be learnt”, *bu ke zhi zhi li*) formulated by Smith, these actions bring benefits to the whole society as a result.

Guo Xinsong noticed: “Yang-zi acts for himself (*wei wo*), and there is peace under Heaven, it is a natural tendency. The state should not interfere with intentions and activities of individual; if the behavior of the individual does not harm other people, then full freedom of human intentions and behavior will lead to a situation when everyone strives for his own interest and achieves advantages for oneself: it is the best and most safe policy” (Guo Xinsong 1923: 3).

The ancient Chinese thinker Yang Zhu (Yang-zi) became a negative figure in Confucian tradition personifying extreme egoism. He was blamed for unwillingness to “sacrifice one single hair from his body to save the Heavenly Empire”. However the initial meaning of Yang Zhu’s words underlined: “Men of antiquity did not prefer to sacrifice one single hair to benefit the world. Nor they did choose to have the world support them. If everyone refrains from sacrificing even a single hair and if everyone refrains from benefiting the world, the world will be in order” (Wing-Tsit Chan 1973: 311). In the context of Adam Smith’s doctrine these words have got a new meaning because in the theory of economic liberalism an absence of conscious objective to benefit the society has ceased to be a synonym for immoral and antisocial behavior.

Guo Xinsong mentioned that Smith outlined only three duties of the state: national defense; administration of justice; the provision of certain public works and certain public

institutions. Under such conditions it is possible to implement “the obvious and simple system of natural liberty”. Every man, as long as he does not violate the laws of justice, is left free to pursue his own interest, and to bring both his industry and capital into competition with those of any other man (WN, IV.9.51), and his actions will promote common benefit as a result (Guo Xinsong 1923: 3-4).

The Chinese author has paid attention to historical context of creation of *The Wealth of Nations*. He has noticed that it was the period of rise of the movement for democracy. People were attracted by the ideas of freedom and democracy, the economic principle of laissez-faire easily spread across Europe, decline of state absolutism created a favorable setting for capital accumulation and industrial development, the economy progressed (Guo Xinsong 1923: 4).

This rendering of history reveals the tenets of Marxist approach to interpretation of social and economic development. Guo Xinsong has noticed that in the nineteenth century disproportions between supply and demand have led to crisis. The collapse of manufacturing in one place influences everybody. Under the condition of modern capitalism the society is split up into two classes - capitalists and workers or proletarians, their positions are not equal, they cannot compete on equal terms among themselves. Not only the socialists, but also bourgeois economists question the possibility of free competition under these new conditions. The scale of production extends, there are merges, more and more appreciable role in the United States is played by trusts and cartels. In these conditions small capitalists cannot compete with big capitalists, the weak are prey to the strong, the strongest survives in the struggle for existence. As a result the rich become richer and the poor become poorer. “Civilization of the nineteenth century has been produced by free competition, evils of the nineteenth century were also produced by free competition, this is not impossible” (Guo Xinsong 1923: 6).

The Chinese author underlined that though Smith in every way supported free competition, it was possible to find some exceptions from the principle of free trade in his book. In particular, *The Wealth of Nations* supported protectionist trade policy when it was necessary to protect an industry important to national defense, Smith also agreed to impose taxes on foreign industry to support local industry (Guo Xinsong 1923: 8-9).

Many nations follow the policies of mercantilism and trade protectionism; there is no full freedom of trade in world economy. In the academic sphere German economist Friedrich List was the most active opponent of Smith’s free trade theory. List wrote that Smith taught about “cosmopolitical economy” (in Chinese: “world economics”, *shijie jingjixue*) instead of “political economy” (in Chinese: “national economics”, *guomin jingjixue*). German economist underlined that independent state should resort to temporary protectionist measures to protect infant industry and trade from international competition. However in the twentieth century strong powers began to carry out protectionist measures irrespective of the level of development of their national industry (Guo Xinsong 1923: 11).

Guo Xinsong has mentioned protectionist policy suggestions that were not completely studied yet. The sphere of their application is much broader than of measures described by List. According to these recommendations, preferences are given to whole national industry while foreign manufactures have no preferences, and national businessmen receive privileges unavailable for foreigners. Supporters of such measures act under the slogan of protection of workers of their country, this slogan is used to support the transition to protectionism (Guo Xinsong 1923: 11).

Under these new conditions the doctrine and policy of Adam Smith have lost their applicability. The policy of free competition and laissez-faire demonstrated too many deficiencies. The socialists want to correct them using the power of the state, they intend to solve the problems of production, distribution and consumption proceeding from the principle of equality. Supporters of socialism do not recognize individual freedom of the capitalist society, their views are completely opposite to Smith’s ideas of free competition. Since the end of the nineteenth century the progress in studies of labor issues led to recognition of necessity of state intervention, all advanced countries began to pay attention to social policy. Smith’s suggestions

of free trade are also very remote from the trade policy of contemporary states, the protectionism is on the rise.

The Chinese author observed that academics and politicians hardly ever support and practice Smith's ideas. This treatment of Smith's doctrine could be explained by the fact that his theory was a product of epoch, there are no absolute and invariable principles. It is remarkable that Guo Xinsong has found a confirmation of this thesis at the American philosopher and psychologist William James who asserted that the truth changed because it was an instrument to improve human lives.

The conclusion was that Smith's epoch radically differs from the new epoch. Nevertheless Guo Xinsong underlined that Smith was rightfully considered to be a founder of economic science (Guo Xinsong 1923: 13).

The views of Adam Smith on Chinese Economy

Li Chaohuan examined Adam Smith's assessments of Chinese economy. In *The Wealth of Nations* Smith used information from diaries of missionaries and travelers who visited China. "Though these stories not necessarily corresponded to the facts, they can be used by the Chinese for reference" (Li Chaohuan 1923: 1).

Li Chaohuan put a modest task to collect passages about China scattered in *The Wealth of Nations* and to give them explanations. In several cases remarks of the Chinese author are limited to one or two sentences, instead he incorporated lengthy citations from British economist John Ramsey McCulloch's (1789 - 1864) commented editions of *The Wealth of Nations* of 1828 and 1859.

In *The Wealth of Nations* Li Chaohuan has outlined five topics related to China: estimation of China's wealth, "physiocratic" character of economic policy, attitude to foreign trade, wages in agriculture and industry, reasons for low wages.

Li Chaohuan has noticed that Smith considered China to be "a much richer country than any part of Europe" (WN, I.11.129). However "such opinion did not represent the facts". Refutation of Smith was borrowed from McCulloch's commentaries: "Dr. Smith must have formed his opinion of the riches of China from the representations of it given by the earlier travellers, and the jesuits. Later and better authenticated accounts show that China, instead of being a rich, is really a very poor ill-cultivated country. The population is exceedingly redundant; and poverty and misery prevail to an extent unknown in any country in Europe, with the exception of Ireland" (McCulloch's ed. 1928. Vol I: 311).

Smith underlined the importance of agriculture in Chinese economy. According to Li Chaohuan, Smith considered China as "physiocratic nation" (*zhongnongzhuyi zhi guo*). Chinese author explained that physiocracy considered agriculture as the sole productive economic activity; all other branches like commerce, industry and transport were treated as unproductive. Smith criticized this approach, so "there is no necessity to speak more about it" (Li Chaohuan 1923: 2).

According to Li Chaohuan, physiocratic ideas were widespread in China in the past, in our days they still possess huge influence. Contemporary Chinese rich men aspire to own land property, very few of them are engaged in industry and trade. In China the class of industrial entrepreneurs has not formed yet, there are few big industrialists, the majority of businessmen have little capital to invest. The enterprise is the largest form of business in capitalist society, but in China it has not developed yet. The author noted that there were many reasons for that situation, one of them was special attention to agriculture (Li Chaohuan 1923: 2).

In this section of article the author explained economic terminology both in English and in German: *shengchan de* – productive; *bu shengchan de* – unproductive; *tudi caichan* - das grundeigentum; *gongchang gongye* - factory system, die fabrik; *qiye* - die unternehmung, enterprise. The article cites only *The Wealth of Nations* and the commentaries of McCulloch that were available in English, no German sources were mentioned. With greatest probability it is

possible to explain the use of German economic terminology by author's acquaintance with works of Karl Marx and commentaries to them during his training in Japan.

While discussing the problem of trade policy Li Chaohuan has referred to Smith's thesis that great country surrounded by "wandering savages" and "poor barbarians" may "acquire riches by the cultivation of its own lands, and by its own interior commerce, but not by foreign trade" (WN, IV.3.40). According to Smith, the Chinese "hold it in the utmost contempt, and scarce deign to afford it the decent protection of the laws" (WN, IV.3.40)

Once again Chinese author disputed Smith's arguments by lengthy quotation from McCulloch: "We doubt whether there be any good foundation for either of these assertions. The reader will find in the supplemental note on the Navigation of the Ancient Egyptians, grounds stated for questioning the current opinion as to their being averse from navigation and foreign trade. It is now admitted by every one acquainted with this subjects, that the notion that the Chinese are inattentive to and despise foreign commerce, is wholly without foundation. On the contrary, they are eminently commercial. They carry on a very extensive intercourse in junks, or ships of their own built, with the Philippine Islands, Japan, Siam, Singapore, Batavia, &c; and vast numbers of Chinese settlers have emigrated to, and settled in the principles places of the Eastern Archipelago, where they are distinguished by their superior industry, intelligence, and enterprise. The Chinese are at present, and have long been in the East, what Dutch formerly were in Europe - the carriers and merchants of the surrounding states. It suited the views of the companies to whom the monopoly of the trade with China was formerly assigned, here and in Holland, to represent the Chinese as hostile to commerce, and difficult to deal with, inasmuch as this afforded a kind of excuse for their peculiar privileges. But experience has shown, since the trade to China has been thrown open to all nations, that the representations referred to were entirely destitute of any good foundation" (McCulloch edition 1859: 219). According to Li Chaohuan, all that became clear in the middle of the nineteenth century.

Smith in *The Wealth of Nations* stated that the Chinese had "little respect for foreign trade". Except with Japan, they "carry on, themselves, and in their own bottoms, little or no foreign trade; and it is only into one or two ports of their kingdom that they even admit the ships of foreign nations" (WN, IV.9.40). China has huge territories, numerous population and convenient transport communications between provinces which "render the home market of that country of so great extent as to be alone sufficient to support very great manufactures, and to admit of very considerable subdivisions of labour" (WN, IV.9.41).

Smith predicted that a more extensive foreign trade, especially if any considerable part of this trade was carried on in Chinese ships, could increase the manufactures of China, and to improve the productive powers of its manufacturing industry (WN, IV.9.41). The expansion of navigation will help the Chinese to borrow new machinery from other countries, however "upon their present plan they have little opportunity" to do it (WN, IV.9.41).

Li Chaohuan has noticed that if in any country demand for goods did not correspond to supply, it was either necessary to limit the population to suppress the demand, or to compensate the insufficient supply by trade with other countries, so the supply and demand would correspond to each other. During the epoch of undeveloped transport communications there were no motives to reject the first method. But when the main conditions for transportation developments were ready, then came the second method. It is difficult to block international trade because it contributes to the progress of national economy, nobody can deny that (Li Chaohuan 1923: 5).

The Chinese author has underlined that Smith supported laissez-faire in trade. Proceeding from its economic status, China probably should not rush to follow this policy. However if we take world tendencies into consideration, desirability of this policy will cause no doubts, ideology of national isolation does not correspond to trends of the epoch. According to its position in world economy China should carry out protectionist policy and at the same time open doors to trade with foreigners, then the Chinese industry will make progress that Smith spoke about. Rulers of the Qing Dynasty did not know it and allowed people of the West to impose

trade to China on their conditions, “it has led to a loss of sovereignty that causes a regret” (Li Chaohuan 1923: 5).

In *The Wealth of Nations* Smith noticed: “China seems to have been long stationary, and had probably long ago acquired that full complement of riches which is consistent with the nature of its laws and institutions. But this complement may be much inferior to what, with other laws and institutions, the nature of its soil, climate, and situation might admit of (WN, I.9.15). Li Chaohuan interpreted these words as indirect advice on the prospects of transformations in China as changes of existing laws and institutes were capable to lead to further enrichment of the nation (Li Chaohuan 1923: 5).

In the last section of the article Li Chaohuan turned to the discussion of the problem of low wages and poverty of workers in China. He has stated Smith’s position that the wages were not connected with the amount of wealth of a country. “It is not the actual greatness of national wealth, but its continual increase, which occasions a rise in the wages of labour” (WN, I.8.22). In a wealthy nation in long stagnation wages can become very low. The Chinese author recalled Smith’s arguments that if the funds destined for the payment of wages, the revenue and stock of its inhabitants were unchanging for a long time, then the number of laborers could become excessive. Because of a constant scarcity of employment an intense competition among the laborers begins, in these conditions the wages of labor will soon be reduced to the lowest rate (WN, I.8.24).

Smith has applied this concept to explain the situation in China which had exemplified to him a wealthy country that has been long stationary. He assumed that since the visit to China of Marco Polo five hundred years ago nothing changed in the Chinese economy: agriculture and industry remained the same. This estimation of Chinese economy connected two various aspects. On the one hand, “the poverty of the lower ranks of people in China far surpasses that of the most beggarly nations in Europe” (WN, I.8.24), and parents kill children they cannot support. On the other hand, “China, however, though it may perhaps stand still, does not seem to go backwards”, the funds destined for the maintenance of labor have not sensibly diminished (WN, I.8.25).

Li Chaohuan added his own explanation. In his opinion, Smith saw the cause of poverty of Chinese workers in low wages. To improve the life of working class it is necessary to increase wages. It can be achieved either by increase in wealth and wages fund, or by reduction of the population and diminishing the number of workers among whom the wages fund was divided. Chinese author has noticed that the second way was “pessimistic” and “passive”, it produced no growth of national wealth. If the Chinese want China to become rich and the life of workers to improve, then it will be necessary to open sources of wealth and to develop the national industry, that is the paramount task.

According to Li Chaohuan, it was an inevitable conclusion from the “wage-fund theory”. Scholars often criticize it for siding with the interests of capitalists and not corresponding to real situation. However in China the number of workers is very high while the size of industry is not much different from the past. There is a huge gap between supply of labor force and demand for it, therefore many workers who did not find an employment turn into gangsters (*tufei*) that does a huge harm to society or join the armies of local militarists. “If we look from this point of view, the labor question in China is not only economic but also a political problem”. (Li Chaohuan 1923: 8).

Li Chaohuan concluded that to balance supply of labor with demand the large-scale development of industry is needed. “Only after the development of the industry there will be a possibility to solve the problem of distribution. Therefore without an industrial revolution in China contemporary social problems cannot be solved” (Li Chaohuan 1923: 8).

There are no direct references to Marxism and socialism in Li Chaohuan’s article. Citations about China from *The Wealth of Nations* form the backbone of the text. However judging from the selection of quotations and author’s commentaries it is possible to draw a

conclusion that Li Chaohuan was ready to search for solutions to the problems of China in the paradigm of liberal economy outlined by Smith.

The Wealth of Nations specified the problems of Chinese economy, that has been long stationary, and suggested opening the trade with external world, changing institutes and legal system. Li Chaohuan developed these arguments and recommended to increase national wealth through international trade and to balance labor supply and demand by industrial revolution. The ideas from the book written in England in the end of the eighteenth century provided inspiration for searches of paths of China's economic development in the first half of the 1920s.

The connection between Adam Smith and Marx

In the article "The Connection between Adam Smith and Marx" **Zi Yaohua** has outlined two big currents in economic thought of his days - economic ideas of individualism and economic ideas of socialism. Each of these currents represents an independent economic theory which has its own intellectual foundation and system. Smith's economic individualism has arisen before Marx's socialism; socialism comes to replace it and to develop the true meaning of the theory of individualism (Zi Yaohua 1923: 1). The author aspired to demonstrate mutual relations between two doctrines and the absence of fundamental contradictions between them.

The similar idea of affinity of doctrines of Smith and Marx can be found in the works of Chinese Marxists with Japanese educational background. Well-known public activist Li Dazhao (studied at Waseda University in Tokyo) in 1919 observed that Marx's concept of constant capital and variable capital served as a cornerstone of his theory of surplus value that was fundamental for Marxist economic science. "In general, Marx's doctrine of constant and variable capital is similar to Smith's doctrine of fixed and circulating capital". Nevertheless, Marx's doctrine of constant and variable capital is "exposed to ruthless attacks", it is "rejected and assaulted" by many scholars, while Adam Smith's doctrine is "revered by everyone as classical theory". Li Dazhao referred to the similarity of doctrines of Marx and Smith to illustrate the "obvious injustice" of the critics of Marx (Li Dazhao 2014: 278).

Zi Yaohua accented that Smith's and Marx's doctrines described different types of economic organization of society. The economic science of individualism is also called the economic science of capitalism, its starting point are the interests of capital and capitalists, it considers the interests of workers only in the degree in which they do not infringe on the interests of capitalists. In this society people are free to pursue their self-interest and nobody interferes with their affairs. Therefore the economic science of individualism also is called "liberalism", or "classical school" or "orthodox school" (Zi Yaohua 1923: 1-2).

The economic science of socialism opposes private property, it aims at destruction of the economic organization of capitalism. The first theory defends the existence of capitalism and the second theory opposes capitalism, "outwardly they are incompatible as ice and ash" (Zi Yaohua 1923: 2). However, despite different conclusions, Smith and Marx's theories have identical starting point. According to Zi Yaohua, they have come to the opposite conclusions because of the change in the economic situation.

Chinese author tried to interpret the development of economic ideas from the angle of historical materialism; his key concept was determinism (*biranlun*). Theoretical constructions of Smith and Marx were based on the observations of capitalist society at different stages of development. In the end of the eighteenth century Smith witnessed the process of formation of modern economic organization. The Utopian socialists wanted to re-organize the society according their subjective views. Unlike them Marx came to the conclusion that the society should go through the process of evolution; when the social organization turns into obstacle to the development of the productive forces soon or later it should be discarded. Due to these reasoning socialism has developed from Utopia to science, it is based upon the materialist conception of history that embraces determinism (Zi Yaohua 1923: 3).

Smith's determinism was based on the theory of human nature described by the notions of "self-love", "private interest and passion" and "the natural effort of every individual to better his own condition". It is remarkable that like Ruan Xiang, Zi Yaohua also put these concepts into his article in English and added source references to pages of the English edition of *The Wealth of Nations*. In his commentary to well-known words on the butcher, the baker and the brewer who act in their own self-interest, Zi Yaohua underlined that it was the "inevitable (*biran*) result originated from human nature" (Zi Yaohua 1923: 4).

Zi Yaohua has drawn the conclusion that "the difference of two wise men" was that they lived at different times. Smith lived before the industrial revolution; he did not think about the defects of capitalism and had no intention to change it. Marx lived in a transitional epoch when capitalism blossomed, but its flaws became more and more visible. "The starting point of two doctrines coincided, however each one was subject to influences of the trends of the time, that has led to a distinction, that's all" (Zi Yaohua 1923: 5).

According to Zi Yaohua, Adam Smith was optimistic about the issue of creation of wealth and its distribution under capitalism, he believed that individual pursuit of self-interest would increase social wealth. In *The Wealth of Nations* Smith wrote that "the private interests and passions of individuals naturally dispose them to turn their stocks towards the employments which in ordinary cases are most advantageous to the society" (WN, IV.7.174). Marx has come to the opposite conclusion that capitalism constrained the development of the productive forces of society and consequently it is doomed to destruction.

In the sphere of distribution Smith defended the idea of free competition. Though the wages and profit in the different employments of labour and stock actually differ, under the conditions of a full freedom of choice of occupation they would tend to equality (WN, I.10.1).

In *The Theory of Moral Sentiments* Smith explained that though there is the distinction between rich and poor, the rich people who want to satisfy their own desires participate in the distribution of the necessities of life in the society, they serve public interests and "divide with the poor the produce of all their improvements" (TMS, IV.I.10). Therefore the difference between poverty and riches does not make a decisive impact on human happiness (Zi Yaohua 1923: 6).

According to Zi Yaohua, Smith's arguments in favor of free competition demonstrate that he opposed monopolies. In a modern society the class of capitalists monopolized the capital, people have no chance to take part in competition, and therefore the distribution of wealth inevitably becomes unfair. In such circumstances the only way to fair distribution is to destroy the monopoly of capitalists and to replace it with public ownership: this requirement represents the quintessence of Marx's socialism.

For Smith it was natural that worker does not receive full compensation for his labor. In his opinion, the state of things, "in which the labourer enjoyed the whole produce of his own labour, could not last beyond the first introduction of the appropriation of land and the accumulation of stock" (WN, I.8.5). Marx regarded this phenomenon as exploitation and robbery of workers by the capitalists; and stressed underlined the necessity for the transition from capitalism to socialism.

Zi Yaohua referred to article of Charles H. Kerr "What Socialism Is" (1917) to prove that Marx's theory was the continuation of the ideas of Adam Smith. Kerr noticed that with modern machinery an American worker produced each day for 10 dollars however got the average not over 2 dollars. Only the socialists can offer a clear and satisfactory explanation of this fact. English economist Adam Smith (Kerr also mentioned David Ricardo) has discovered that commodities tend to exchange at their values. In the first volume of *Das Kapital* Marx has developed this idea and demonstrated that the power to labor was itself a commodity, which the laborer was selling to the capitalist who employed him, and the value created by unpaid labor of hired worker – the surplus value – was appropriated by the employer (Kerr 1917: 198-199). To achieve equality in distribution it is necessary to destroy the monopoly capital, and this demands the socialist organization of a society. Zi Yaohua concluded, that "speaking broadly, Smith is the

founder of socialism. In this aspect Smith and Marx coordinate with each other (correspond to each other - *xiangzhaoying chu*)” (Zi Yaohua 1923: 7-8).

Zi Yaohua has noticed that in sphere of politics Smith supported the system of natural liberty and Marx stayed for social democracy. For Smith liberty represented sacred inviolable value, he considered the system of natural liberty as the most beneficial for the society. Smith’s laissez-faire principle was a version of determinism, he opposed interventionism and protectionism (Zi Yaohua 1923: 8).

Marx’s doctrine was also deterministic, he considered the destruction of old social organization inevitable. Marx supported the socialist economic organization, therefore he should support social democracy. Zi Yaohua has explained that social democracy meant public ownership of the capital. Capitalists used their capital for appropriation of surplus value, if there is capital, that will be two classes - workers and capitalists. In an ideal society these classes do not exist, all members of this society are working; those who do not work have no meals and clothes. In other words, Marx’s doctrine is a theory of the state in which everybody work, it is the theory of destruction of capitalists.

According to Zi Yaohua, sources of this theory can be traced to Adam Smith’s statements in favor of free competition and against monopoly. “Though Marx and Smith’s ideals outwardly are different, inside they are identical”. The difference is that Smith “supported the democracy of the first period” or bourgeois democracy, and Marx spoke about “the democracy of the second period”, that is democracy for whole society (Zi Yaohua 1923: 9).

In the concluding part of the article Zi Yaohua summarized that Smith was the founder of economic science of capitalism, and Marx founded the economic science of socialism. Outwardly their ideas seem incompatible, therefore those admiring capitalism attack socialism and the supporters of socialism criticize capitalism. However these judgments are torn off from reality and are not based upon in-depth study. According to Zi Yaohua, “the doctrine can create the reality, the reality also can create the doctrine” (Zi Yaohua 1923: 10). He claimed that the observation methods of Smith and Marx had much in common, and the differences in their conclusions were caused by differences of their epochs: “If Marx was born before the industrial revolution, Smith’s suggestions could become Marx’s doctrine. And if Adam Smith was born after the industrial revolution, Marx’s doctrine could become Smith’s suggestions” (Zi Yaohua 1923: 11).

Chinese perspective: the 160th anniversary of *The Wealth of Nations* commemorated by *Shihuo* journal (1936)

In 1936 *Shihuo* journal published three articles dedicated to the 160th anniversary of *The Wealth of Nations*. Well-known scholar and public activist Tao Xisheng (1899-1988) was the founder and chief editor of the journal, he contributed a key article on Smith’s vision of China.

Tao Xisheng studied law at Peking University and was not exposed to foreign education. During the revolutionary tide of 1925-1927 he participated in political activities, in 1928-1929 he was a prominent figure of the controversy about Chinese social history. In autumn of 1931 Tao Xisheng was appointed as professor of Peking University. In the end of 1934 he founded *Shihuo* journal that set new academic standards for studies of social and economic history of China.

In 1935 the School of Law of Peking University established the section of studies in Chinese economic history. Tao Xisheng guided Lian Shisheng and other students to collect materials on ancient history of China. In 1936-1937 they compiled eight collections of materials on economic history of the Tang dynasty.

Tao Xisheng paid significant attention to verification of reliability of historical materials. During the controversy about Chinese social history Tao Xisheng complained that participants of discussion abused of theory and neglected the facts. He admitted that history had laws but opposed uncritical application of Marxist analysis of Eastern societies to China. In the preface to

The Chinese Society and the Chinese Revolution he stressed that correct understanding of Chinese society could not rely upon unsystematic use of conclusions received by European social scientists (Tao Xisheng [1929] 2014: 154).

Tao Xisheng underlined that research of the Chinese materials was an important initial precondition for judgment about the development of Chinese society. He decided to establish a journal and scholarly association to promote work on collecting and studying materials in social and economic history of China. He compared studies in Chinese economic history with virgin land and assigned to *Shihuo* journal pioneering role in its exploration.

In the first issue of *Shihuo* Tao Xisheng explained that the journal aspired “to unite those studying social and economic history of China, in particular those collecting materials on this theme, their knowledge, opinions and methods, and also to expose their knowledge, opinions, methods, and also the problems they have encountered and their materials. All can correct each other, conduct real discussions and then divide their work. That is the sole intention of the journal instead of excitation or following fashion as it was in so-called controversy about Chinese social history” (Tao Xisheng [1934] 2014: 374).

Since December, 1934 till July, 1937 61 issues of *Shihuo* were published, about 150 scholars have contributed more than 345 articles. The journal published academic writings on Chinese agriculture, money, land system, rent taxes, market, commerce, economy of monasteries, social status, population, social structure, cities, family issues and customs.

It was the period of revival of positive interest in Chinese tradition. Intellectuals rejected one-sided fascination with foreign ideas and disapproved the plans of “total Westernization” of China. In January, 1935 *The Manifesto for China’s Own Cultural Reconstruction* (*Zhongguo benwei wenhua jianshe xuanyan*) was published, among it ten signatories were Tao Xisheng and Sa Mengwu who in 1923 in the bicentennial issue of *Xueyi* claimed that Confucian economic ideas were totally inferior to Smith’s doctrine.

In 1935 ten professors warned about the danger of destruction of national identity and of “disappearance” of cultural China. They urged to get rid of thoughtless copying of foreign models and to borrow only that was necessary for the development of modern China. *The Manifesto* recommended to take critical approach and to use scientific method “to study the past, to grasp the present and to build the future” of China.

It was also the period of formation of the history of Chinese economic ideas as an independent research discipline. Ground-breaking book *The History of Chinese economic thought* by Tang Qingzeng which laid a cornerstone for professional studies in this field in China was published in 1936 in same year with a series of articles in *Shihuo* dedicated to *The Wealth of Nations*.

Besides historical materials and research articles in Chinese economic history, *Shihuo* published translations of well-known Western and Japanese works on economic history; there was a special issue on theory and methods of economic history. It was necessary preparation for the comparisons between Chinese and foreign history. Publication of articles about Adam Smith fitted into the general direction of research program of *Shihuo*.

Shihuo published the call for papers in advance in the last issue of 1935 (*Shihuo xuehui* 1935: 8). The announcement underlined that *The Wealth of Nations* was the foundation of economic science and also “the vanguard of economic historiography (*jingji shixue*)”. This accent explained the reasons of interest in Adam Smith of the editors of the journal. The journal announced preparation of special issue dedicated to the 160th anniversary of *The Wealth of Nations* written by “economic historiographer” (*jingjishixuejia*) Adam Smith. He “mastered the history well”, thus Smith created a “complete theory”: when one has a theory, he can give better explanation of history.

Shihuo did not publish one special issue on Adam Smith, related articles were scattered in different issues of the volume 3 published in 1936.

In the editor’s commentary (Vol. 3, № 3) Tao Xisheng observed that contemporary epoch was different from the time of Adam Smith. “Now is an epoch of opposition between

monopolistic capitalism and socialism. The new mercantilism has defeated liberalism, socialism is also rising to replace capitalism. Nevertheless he [Adam Smith] is the founder of economic historiography. Besides that, in China now the industrial revolution is carried out in special forms, here his economic science still has value for careful reading. Therefore we should commemorate his well-known work” (Tao Xisheng 1936: 50).

The article of **Lian Shisheng** and **Tao Xisheng** “Adam Smith about China” was impacted by specifics of the *Shihuo* journal that specialized on economic and social history. The problem was analyzed in relation to historical differences in stages of economic development of China and the West; the authors focused on influences of historical background on the ideas of *The Wealth of Nations*.

“Adam Smith was the economist of epoch of manufactory capitalism. Manufacture in England was developed, at that time there were expectations of coming of machine industry. Though *The Wealth of Nations* was written before the industrial revolution, Adam Smith has already felt the huge progress that was about to come. This scholar understood huge progress of society and often spoke about China. How the great economist before the industrial revolution looked at China which was in greater distance from the industrial revolution?” (Lian Shisheng, Tao Xisheng 1936: 1).

The article is structured by topics: each section provides citations from *The Wealth of Nations* and commentaries of the authors. This structure had its own logic. It started from Smith’s sayings about the specifics of China’s economy, after that his reflections on failures of Chinese economic policy were introduced along with his views on peculiarities of poverty and wealth in China. The final part of the article revealed Smith’s vision of perspectives of Chinese economic development.

Some quotations from *The Wealth of Nations* were used more than once to illustrate different arguments. It suggests that the structure of the article was important and the authors strived to reconstruct Smith’s views about China into a system without being afraid of repeating some of his statements. It is worth reminding that one of the program tasks of *Shihuo* journal was the systematization of historical materials.

The article opens with a small section on Smith’s thesis that China was much richer than any part of Europe (WN, I.11.129).

The second section focused on “big and rich domestic market” of China. In *The Wealth of Nations* Smith mentioned “the great extent of the empire of China, the vast multitude of its inhabitants, the variety of climate, and consequently of productions in its different provinces, and the easy communication by means of water carriage between the greater part of them” (WN, IV.9.41). He supposed that China’s huge domestic market alone was sufficient to support very big manufactures and significant division of labor.

Lian Shisheng and Tao Xisheng supported these historical descriptions of China’s economy: “There was nothing surprising in self-praises of Chinese literati and officials (*shidafu*). In the eighteenth century our fields were fertile and immense, there were plentiful population, convenient transport and huge market - all these caused interest and attention of the European economists. Rice-producing areas were especially wealthy” (Lian Shisheng, Tao Xisheng 1936: 1). Last conclusion was supported by Smith’s words that “in rice countries, which generally yield two, sometimes three crops in the year, each of them more plentiful than any common crop of corn, the abundance of food must be much greater than in any corn country of equal extent. Such countries are accordingly much more populous” (WN, I.11.167).

The third section was named “Early progress of agriculture and industry”. The authors noted: “China have been able to boast not only with good natural conditions, but also with early progress of agriculture and manufactures” (Lian Shisheng, Tao Xisheng 1936: 2). This thesis has illustrated with Smith’s statements on development of agriculture and industry in ancient Egypt, India and China (WN, I.3.7).

Here positive judgments about the Chinese economy come to an end. The fourth section of article makes certain: “However later the stagnation came” (Lian Shisheng, Tao Xisheng 1936:

2). Tao Xisheng and Lian Shisheng have tried to find in *The Wealth of Nations* the explanations of economic backwardness of China. They commented: “The former glory has passed. Rich natural conditions have been only given us by the nature. Self-praises of literati and officials were in vain. In practice literati and officials praised themselves for things that prevented China from moving ahead. Adam Smith, the economist from England that was progressing in the eighteenth century, understood it very precisely” (Lian Shisheng, Tao Xisheng 1936: 2).

This thesis was supported by the citation from the *The Wealth of Nations* that rich, fertile, hardworking and populous China has been stationary for five centuries since the travel of Marco Polo (WN, I.8.24).

In two subsequent sections the authors have indicated on two miscalculations in the economic policy that caused stagnation in China.

In section 5 “Neglect to the industry” the authors observed: “Just because the agriculture prospered, the Chinese government constantly did not give attention of the industry, but only to agriculture” (Lian Shisheng, Tao Xisheng 1936: 2). They have referred to Smith’s words that the rulers of China, Ancient Egypt and Indostan “have always derived the whole, or by far the most considerable part, of their revenue from some sort of land-tax or land-rent”, therefore it was natural “that the sovereigns of those countries should be particularly attentive to the interests of agriculture” (WN, IV.9.46).

The preference for agriculture penetrated all layers of Chinese society: “The sovereigns were such. The society was such also”. This statement was supported by the quotation from *The Wealth of Nations* explaining that in China the condition of a laborer was superior to that of an artificer, consequently the great ambition of every man was “to get possession of some little bit of land, either in property or in lease” (WN, IV.9.40).

In section 6 “Inattention to foreign trade” the authors admitted that “in a similar way the Chinese gave no attention to foreign trade”. They have quoted in detail Smith’s judgments that the Chinese “carry on, themselves, and in their own bottoms, little or no foreign trade” (WN, IV.9.40). In *The Wealth of Nations* he specified that vast and populous Chinese empire needed no external markets because it had its own huge domestic market.

Like sections 5 and 6, the following sections 7 and 8 also form the logically interconnected pair. Here the authors discuss Smith’s views on poverty and wealth in China.

In section 7 “Difficulties of peasants and craftsmen” it has been noted: “As China’s society and economy were in stagnation, there were no possibilities to increase wages of peasants and craftsmen” (Lian Shisheng, Tao Xisheng 1936: 3). Tao Xisheng and Lian Shisheng provided a lengthy citation from *The Wealth of Nations* that depicted horrible poverty of Chinese workers that surpassed poverty of the poorest nations of Europe, Smith wrote that the Chinese poor kill their children and eat dead animals (WN, I.8.24). Smith also observed that labor wages were higher in Europe than in China, because the greater part of Europe was progressing, while China seemed to be standing still (WN, I.11.130).

“If worker’s wages are so low and the poor population is so big, what then is the wealth of China?” (Lian Shisheng, Tao Xisheng 1936: 4).

This problem was discussed in section 8 “Wealth and precious metals”. Smith believed that in China the revenue of rich people considerably exceeded possible limits of individual consumption, these people enjoyed much more than rich Europeans. For this reason precious metals in China were much more expensive than in Europe. Smith explained that thanks to surplus production of rice the Chinese rich had the means of purchasing a much greater quantity of the labor of other people than rich men in Europe. They competed with each other in aspiration to get “singular and rare productions which nature furnishes but in very small quantities; such as the precious metals and the precious stones”. Smith noted that due to low real price of labor in China the money price of the greater part of manufactures was much lower than in Europe. In such a situation it was profitable to sell to China precious metals from Europe. (WN, I.11.167).

In the nineteenth century Great Britain has found a way to compensate silver outflow to China by deliveries of opium produced in India. After defeat in Opium War China was in subordinated position in relation to the West. The echo of these events can be found in Lian Shisheng and Tao Xisheng commentaries: “China’s wealth only gave to the rich people means of financing (*zi li*) the acquisition of antiques and jewelry. Therefore China became the land that stored wealth. When tendencies of time have changed, significant part of this wealth went overseas. If we think about the past, it is regrettable that though the stocks of non-productive treasures were wealth, this wealth promoted no social progress. Despite the fact that the rich were wealthy, the society was in stagnation” (Lian Shisheng, Tao Xisheng 1936: 5).

The last section 9 of the article is named “Potential possibilities for progress”. It included quotations from *The Wealth of Nations* that inspired hope for development of China.

Smith specified that China was in stagnation, but did not seem to go backwards. The Chinese did not abandon towns and cultivated lands. The number of laborers, despite their scanty subsistence, did not decrease (WN, I.8.25). Lian Shisheng and Tao Xisheng commented that “due to diligent and assiduous labor of working masses China did not to go backward” (Lian Shisheng, Tao Xisheng 1936: 5).

The authors also used Smith’s hypothesis that development of navigation and foreign trade would help China to achieve considerable growth of manufacturing industry and improve its productive power. Commercial contacts with other countries would also give the Chinese a chance to learn to use and to construct contemporary machines (WN, IV.9.41)

The authors have specified that the situation in world economy has changed completely in comparison with Smith’s epoch and that has made recipes from *The Wealth of Nations* inapplicable in practice. “Subsequently China wanted to improve itself by following the example of other countries, however liberalism of other countries has been developed into monopolism which began to interfere with progress of China. Adam Smith’s methodology could not foresee that” (Lian Shisheng, Tao Xisheng 1936: 5). This statement ended the basic text of article. After it there were two comments by Tao Xisheng who provided critical analysis of Smith’s arguments.

The first commentary discussed foreign trade. Tao Xisheng addressed Smith’s propositions that expansion of freedom of navigation would make China’s foreign trade less limited and stimulate the growth of Chinese industry and its productivity.

Tao Xisheng has noticed that according to Smith’s theory, stagnation of China could be broken only by means of liberalism. Under liberalism persistent labor of workers and progressive machinery could advance China forward. In the end of the eighteenth century Chinese industry, according to Smith, “though differed from European, but not much”. During that epoch there was no liberalism in China, due to this reason China was unable to enter into a stage of industrial revolution. “And in other places there was liberalism, in particular, liberalism that existed on the threshold of industrial revolution, it has advanced England into avant-guard of capitalism” (Lian Shisheng, Tao Xisheng 1936: 6).

According to Tao Xisheng, “at that time it was right”. He reminded that in 1688 in England there was “bloodless revolution”, political power has been divided between aristocracy and capitalists. After this urban industry developed, manufactories and capitalist family industry have penetrated different branches of production. It is possible to judge about industry and trade development from rapid concentration of population in British cities: “It was natural that liberalism became pride of an epoch”.

China of the second half of the eighteenth century lived under reign of the emperors Qianlong and Yongzheng. Liberty, pragmatism and scientific methods of research that emerged in the end of Ming dynasty and the beginning of Qing dynasty suffered a blow from imperial absolutist Confucianism and stereotyped writing (*ba gu*). Close-door policy has won the last victory; overseas migrants (*qiaomin*) have been resolutely rejected. “China during Adam Smith’s epoch was reactionary, not stagnant”, - concluded Tao Xisheng.

Chinese researcher concluded that Smith’s words were correct only during that epoch. “After free capitalism has turned into monopolistic capitalism it was impossible to save China of

the early twentieth century by the means of liberalism. Though liberalism has great tasks and merits in clearing the remnants of reactionary society; only the path of socialism can develop China that is in danger of slipping from semi-colonial to colonial status and rescue it from the heel of last-stage state monopoly capitalism. There will be no hope in attempts to launch free competition by the means of private capital and to attain free development by unorganized methods” (Lian Shisheng, Tao Xisheng 1936: 6). It was a clear statement that liberal capitalism constructed upon the ideology of non-interference can bring no development to China.

Tao Xisheng’s second comment addressed the economic history of China. He has noticed that Smith’s “stagnation theory” described only one aspect of the Chinese society without providing complete description. Once again Tao Xisheng declared that at the time of Adam Smith China was reactionary and not stagnant. The society was in stagnation because “vital demands of the majority of people were restricted and surrounded by obstacles, they could not be satisfied”. Under such condition it was not easy to see the real situation. “Behind external stagnation there were huge turbulence and contradictions, liberal economist Smith could not see that even if he had received more detailed reports” (Lian Shisheng, Tao Xisheng 1936: 6).

Tao Xisheng questioned Smith’s claim that the Chinese paid no attention to industry and trade. The problem was that traders dominated over manufacturers and did not allow them to expand production. Traders did not care about investing their profits into production. Under such organization of economy Smith’s recommendations to expand foreign trade were unable to bring anticipated effect. According to Tao Xisheng, extra development of China’s foreign trade could have resulted in no more than establishing of additional guilds, gaining extra profit and storage of more treasures. Facing obstacles from landowners and bureaucrats, the industry and trade could not use the state power to get rid of their restrictions.

Historical facts did not confirm Smith’s hypothesis that the Chinese were not interested in maritime navigation and commerce. Tao Xisheng reminded that Chinese migrants in Philippines were active in the end of Ming dynasty, compatriots from Taiwan encountered Manchu and Dutch armies in the beginning of Qing dynasty, trade ships from Fujian, Zhejiang and Guangzhou struggled for the open door policy. “Not only Adam Smith could not see it, but many of our modern historians also have not found it out!” (Lian Shisheng, Tao Xisheng 1936: 6).

In the end of the article Tao Xisheng noted: “Article manuscript was prepared by Lian Shisheng. He used the best edition of Cannan. Two days before publishing the text, I looked through *The Wealth of Nations* (Routledge edition) and was not able to refrain from writing. The idea is completely mine, two comments in the end of the text are completely mine” (Lian Shisheng, Tao Xisheng 1936: 6).

In comparison with the article on Smith’s views on China published in *Xueyi* bicentennial issue the article in *Shihuo* was more closely focused on economic and social history. Lian Shisheng and Tao Xisheng attempted to make a distinction between Smith’s statements about China and the historical reality. The article combined studying of historical materials with policy advice. Tao Xisheng criticized monopoly capitalism, proclaimed liberal ideology inefficient and supported the socialist path of China’s development.

In the issue 4 of *Shihuo* there was a long article by British economic historian Charles Ryle Fay (1884-1961) “On *The Wealth of Nations*”, translated by Lian Shisheng (Fay 1936).

The issue 7 published an article by the economist **Zhao Naituan** on the process of creation of *The Wealth of Nations* and the sources of Adam Smith’s teaching. Like the authors of *Dongfang zazhi*, he compared this book with boundless Kunlun mountain and the Xingxiuhai plateau that was seen by the ancient people as the source of the Yellow River. He noted that he got this impression 12 years ago during his studies in Michigan when he had attentively read that book. In the intellectual sense *The Wealth of Nations* was the source of all subsequent economic writings. He knew Smith’s book well and even addressed to the catalogue of Adam Smith’s library to find which books he read more often and which did never open. Zhao Naituan had named the people who influenced Smith and revealed the sources of his ideas (Zhao Naituan 1936: 7). He disagreed with the suggestions that Smith’s ideas were borrowed from the

physiocrats (Zhao Naituan 1936: 4). After studying Smith's lectures delivered in the University of Glasgow before his visit to France, Zhao Naituan concluded that Smith was influenced mostly by British intellectual heritage (Zhao Naituan 1936: 9).

Zhao Naituan observed that *The Wealth of Nations* was published 160 years ago. He admitted that in the days when liberalism went into decline and the economists chanted praise of national controlled economy, it looks that *The Wealth of Nation* had lost its significance. Zhao Naituan reflected on the widespread fascination of the Chinese economists of the mid-1930s with the ideas of controlled economy and state interference. Nevertheless he called to understand the greatness of that book: its content is not limited to propagation of liberalism, there are many other aspects that could be taken for reference by the Chinese (Zhao Naituan 1936: 1).

Concluding remarks

Though the themes of publications were identical or similar and focused on Adam Smith, the content of these publications reflected different perspectives in assimilation of Western economic ideas in China. In the early 1920s there were multiple channels of acquainting new concepts of economy and society by the Chinese students who went for studies to foreign countries. Two most visible and prominent groups were represented by those who studied in Japan and those who studied Western ideas directly in the West.

The difference of those two groups could be revealed by comparison of two bicentennial publications. *Dongfang Zazhi* gave tribune to Chinese graduates of American universities. *Xueyi* represented the views of Chinese students in Japan. Authors of both collections were young scholars whose aspirations extended beyond academic assessments of Adam Smith's heritage into the sphere of political concerns about the future of China.

The ideas of Chinese intellectuals of the mid-1930s were different from revolutionary fervor and expectations of imminent changes that reigned in the 1920s. Changes in assessments of future development of China have influenced changes of attitude in interpretation of Smith's doctrine. This could be substantiated by the example of contributors of *Shihuo* journal who analyzed *The Wealth of Nations* from China-centered positions.

Contributors of *Dongfang Zazhi* bicentennial section focused on relations between Smith's ideas and Marxism, stressing Smith's priority in formulating the labor theory of value. Overall assessment was extremely positive and one of the authors eulogized *The Wealth of Nations* as "the Bible and the Quran of economic science" (Ye Yuanlong 1923a: 78). This collection of articles approached Adam Smith as the founder of Western economic mainstream. *Dongfang Zazhi* special section carried knowledge about the development of Western economic science from past to the present without attempting to relate it to the problems of China.

The bicentennial issue of *Xueyi* demonstrated deeper and broader knowledge about Smith. The majority of its contributors were Chinese students of the Kyoto Imperial University who studied economic ideas from Marxist professor Hajime Kawakami. Under his influence they were sympathetic to socialist perspective of China's development. Nevertheless this group of young intellectuals produced neither prominent Communist activists (Zhou Fohai severed his ties with the Communist party of China by the time of publication) nor famous scholars of economics, in the 1930s most of them served for the central government or local administrations.

Though both *Dongfang zazhi* and *Xueyi* focused on intellectual links between Smith and Marx, their perspectives were different.

For the students from Japan it was important to demonstrate that Marx should be praised as the intellectual successor of Smith. This idea was persistently promoted by Kawakami, though his lineage of Western economic thought was obviously different from normative explanation in the Russian Marxism of that time (Kawakami's textbook introduced Ricardo and Malthus as the followers of Smith who deviated from his doctrine, while normative Russian explanation outlined British classical political economy of Smith and Ricardo as the primary source of Marxist economic teaching).

The authors of *Dongfang Zazhi* with American educational background aspired to devalue Marx's doctrine by demonstrating its secondary nature in relation to *The Wealth of Nations*, they approached Smith as the founder of Western economic science.

Contributors of *Xueyi* attempted to reconcile Marx with Smith by claiming that both thinkers recognized the importance of self-interest for economic development. Smith advocated free competition and rejected monopoly capitalism, therefore he was "similar to socialists" and because of that his teaching was not outdated.

In *Xueyi* there was also a comparison between Smith who praised laissez-faire policy and treated unconstrained human desires as the source of economic growth and Confucian tendency to impose rational limits on human desires and to support state interference in economic policy. Smith's ideas led the West to material abundance while Confucian impact pushed China's economy into permanent decline.

Almost a decade later in 1936 *Shihuo* published articles dedicated to the 160th anniversary of *The Wealth of Nations*. The journal praised Smith as the distinguished "economic historiographer". Its contributors observed that Smith's epoch belonged to the past because "new mercantilism has defeated liberalism" and socialism was intended to displace capitalism. Economic liberalism could have helped China in the eighteenth century, but since the beginning of the twentieth century contrary to Smith's expectations it has evolved into monopoly capitalism. Therefore China cannot be saved by the means of liberalism anymore.

During the Republican period numerous academic associations were established in China, they significantly contributed to the development of research and provided platform for scholarly discussions. Contemporary Chinese scholars note that the establishing of specialized journals and the founding of academic associations were the product of development of academic science in new time. It was one of the best forms of the organization of scientific research that promoted exchanges and division of labor in scholarly work (Ruan Xing 2005: 25).

Xueyi was published by the Chinese Xueyi Society. *Shihuo* was associated with the Shihuo Society. Though *Dongfang Zazhi* was not an academic journal and contributors of its bicentennial issue were not affiliated with any academic associations at the time of publication, later they joined the Chinese economic society (*Zhongguo jingji xueshe*) which was a stronghold of Anglo-American mainstream in Republican China.

Three cases of periodical publications on Adam Smith reveal the stages of development of Chinese economic thought in the first half of the twentieth century under the influence of external and internal impacts. Three different journals demonstrated three different approaches. In 1923 *Dongfang Zazhi* approached Smith from the standpoint of Western mainstream and *Xueyi* displayed huge influence of Japanese Marxism. In 1936 *Shihuo* discussed Smith from the prism of studies in Chinese economic history and economic historiography.

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