

Part One

ECONOMIC THOUGHT OF THE PRE-QIN PERIOD — BEFORE THE FOUNDING OF THE QIN DYNASTY IN 221 B.C.

In Chinese history the whole historical era preceding the founding of the first unified empire, the Qin Dynasty, in 221 B.C. has generally been known as the pre-Qin period. However, the term is also used in a narrow sense to refer to the two historical periods immediately prior to that dynasty, namely, the Spring and Autumn Period (772-476 B.C.) and the Warring States Period (475-221 B.C.).

Chapter One

ECONOMIC THOUGHT OF THE WESTERN ZHOU DYNASTY (1066-771 B.C.)

The works of ancient writers recount many legends concerning economic activities in China's remote antiquity that can be traced back thousands of years before the Christian Era. For example, one of the so-called six Chinese canonical books, the *Book of History*, contains many chapters relating the history of several ancient dynasties, covering a period of about twelve centuries. Here and there certain economic activities and opinions are described. Ancient works other than the so-called canonical books are by no means lacking, but since modern Chinese historians doubt the authenticity of the works, or at least parts of the works, the economic legends these other books contain cannot be accepted as reliable evidence about the past. There are, of course, some other ancient works

that bear on the economic activities of the period under discussion and appear genuine, but the facts they relate are much too simple. There is not enough detail to suit our present purpose.

This study therefore begins with the Western Zhou Dynasty, the eleventh century B.C., because the historical records from that time on have been found to be comparatively reliable and the economic ideas reflected therein clear and relatively plentiful.

The economic ideas of the Western Zhou Dynasty may be dealt with under the following headings: (1) Wealth, (2) Agricultural Production, (3) Handicrafts and Trade, (4) Markets, (5) Prices and Usury and (6) Fiscal Policy.

Section I

WEALTH

During the Western Zhou Dynasty the relationship between labour and wealth seems to have been recognized. As the motto of the "Inscription on the Coronation Shoes" put it: "Be serious in work, for through work one will become rich."¹ This is a rudimentary expression of the modern theory that labour creates wealth. Since human life at every stage of development requires labour to produce material wealth, it is only natural that the common people realized the significance of the relationship between labour and riches.

The ruling group of course often preached the virtue and necessity of hard work, but actually they detested it. However, there is a story that the virtual founder of the Zhou Dynasty, King Wen, paid much attention to manual labour, particularly to agricultural labour, and even participated personally in farmwork from early morning till noon without taking a break.²

Also, there is an injunction in the *Book of History* entitled "On Abstinence from Comfort" that was issued by a prince regent named

¹ *The Decorum Ritual*, "The Coronation of King Wu."

² *Book of History*, Documents of the Zhou Dynasty, "Wu Yi" (or "On Abstinence from Comfort").

Ji Dan in an early period of the dynasty, with a view to enjoining the noblemen of the ruling family to appreciate the difficulties of agricultural work and not to indulge in comfortable and riotous living. This may be a ruse to deceive the common people. Nevertheless, it shows that the dynasty's ruling group understood that it was the hard labour of the masses that created the material wealth necessary for the maintenance of their way of life.

The idea of riches, or wealth, in those days was based on material goods rather than money. It referred chiefly to the natural property of the society or its value in use. But in a society with a strict caste system, the content of wealth varied in accordance with the social caste of its possessor. For example, the riches of a feudal lord were expressed by the amount of land he possessed, of a low-ranking official by the number of his carts and horses and of a peasant by the number of his domestic animals.³ Strictly speaking, however, not even feudal lords could own land, for the prevailing principle of the dynasty was "Under Heaven, every spot is the sovereign's ground." The King granted land to the feudal lords to enable them to acquire a certain income through taxing the people who lived on the land. It should be noted that metallic money existed long before the rise of the Zhou Dynasty, yet cattle, sheep, silk and corn were more frequently used as a medium of exchange. Hence the existence of metallic money does not contradict the thesis that at that time an individual's wealth was fundamentally represented in a natural form.

In a society with a largely natural economy, it was easy to fall prey to the illusion that wealth was produced solely by nature, instead of realizing that labour creates wealth. This illusion, which we may call the natural view of wealth, existed at that time. One expression of this view was: "The earth being possessed of mountains and rivers, so goods come into existence, and the plains being fertile, so food and clothing are produced."⁴ In other words, the production of material wealth is the work of natural power. Rui Liangfu, in his

³ *Book of Rites*, "Qü Li."

⁴ *Discourses on the States*, "Discourses of Zhou."

advice to King Li, who reigned 878-862 B.C., put forth a similar view when he protested the government policy of monopolizing mountain and water resources for state profits. His argument ran as follows:

"With regard to material benefits, a myriad things produce them, and nature contains them. Once they are monopolized, there will be no end to the resulting harm. To the myriad things in the universe, everyone has a claim. How can anybody monopolize them? A king's duty is to bring about material benefits and distribute them fairly among the people (upper and lower classes) so that the gods, human beings, and other forms of life will benefit to fullest extent. A plebeian is called a thief if he appropriates things for himself. For a king to do so will certainly erode the people's support for him."⁵

Rui Liangfu laid great stress on the work of nature in creating wealth but neglected entirely the important role played by human labour. His view is therefore incomplete, but it was quite influential historically. Passages like the above were cited frequently in later generations to buttress other arguments in economic controversies. Even now, the concept's incompleteness does not negate its noteworthiness in the history of Chinese economic thought.

Section II

AGRICULTURAL PRODUCTION

Ancient civilized peoples all over the world — Hindus, Egyptians, Hebrews, Greeks, Romans, Chinese and others — placed special emphasis on agriculture. China's Western Zhou Dynasty was no exception. The tribe of Zhou boasted that its first traceable ancestor held a post with the glorious title of Hou Ji, i.e. Lord of Agriculture, during the reign of the sage emperor Yao around 2290 B.C. The function of this official was to supervise farmwork and to teach people the art of farming. Whether this Hou Ji ever existed is of little interest; the existence of the legend shows that

⁵ Ibid.

the founders of the Zhou Dynasty took agriculture as a matter of foremost importance.

Among the old Chinese classics, such as the *Book of History*, the *Book of Odes*, *Rites of the Zhou Dynasty* and *Book of Rites*, are numerous passages bearing on agricultural affairs.

From *Rites of the Zhou Dynasty* we know that the common people of the kingdom were divided into nine professions.⁶ This gives us some idea of the prevailing social division of labour. Among these professions the first four fall within the scope of agriculture in the broad sense: farmers, gardeners, foresters and fishermen, and animal breeders and fanciers. As we shall see later, the order of occupations often changed in China in significant and striking ways. What is interesting here is that the farmer was placed at the head of the list.

Another thing we know from the classics is that an annual ceremony of "Ji Tian" (farm ploughing) on the first day of spring (i.e., sun in Aquarius) had existed since the rise of the Zhou Dynasty. Nine days before the ceremony the king was supposed to eat only vegetarian and bathe himself in order to show the solemnity of the occasion. On the day of the ceremony the king was to go to the royal farm and turn up some clods in order to show that he had personally attended to farmwork. In the middle of the ninth century B.C. this ceremony was suspended, but at the end of that century it was restored on Duke Guo Wen's advice to the then king. Although the ceremony of "Ji Tian" is nothing more than a farce, the argument put forward by Duke Guo Wen is worth mentioning. Put in modern words, it runs: Agriculture is a matter of prime importance for the people, because it produces the material for sacrifices to the gods and allows for the multiplication of population, the supply of commodities, the harmony of human relationships and the prosperity and strength of the state.⁷ This theory of the function and significance of agriculture is fairly clear and thorough.

⁶ *Rites of the Zhou Dynasty*, "Officials of Heaven."

⁷ *Discourses on the States*, "Discourses of Zhou."

Section III
HANDICRAFTS AND TRADE

In the writings of the Western Zhou Dynasty agriculture was given the chief emphasis, yet without neglecting the importance of handicrafts and trade. There are many other indications of the respect accorded handicrafts and trade at the time. This is in contrast to conditions in other ancient countries such as India, Judea, Greece and Rome. All the available evidence shows that in China handicrafts and trade were held in disgrace only after the Warring States Period.

For example, supervision of handicraft works was entrusted to one of the six ministers of the dynasty's central government. The director of husbandry, by contrast, was in a subordinate position to the minister of instruction — that is, his official rank was lower than that of the six ministers. On the previously mentioned list of nine professions, handicrafts was put in fifth place, just below agriculture in the broad sense. We can also gather from the descriptions in *Artificers' Record*⁸ that the technical level of handicrafts was quite high at the time.

Trade was also favourably looked upon in the same period. There are passages in the canons, such as in the *Book of History*, that indicate that tradesmen were encouraged. One passage described how the virtual founder of the dynasty, King Wen, formulated a trade policy to rescue his country from the disaster of a great drought.⁹ He informed itinerant traders that they would be granted means of transport, lodging places, currency and other facilities in order to encourage the flow of foodstuffs into the country. In order to increase the prosperity of the city market, housing was also arranged for the country traders.¹⁰ As a result of the encouragement of

⁸ *Artificers' Record* is now the sixth part of *Rites of the Zhou Dynasty*. It was a supplement in place of the original part, which was lost. Modern Chinese historians generally reckon that this work was written in the Spring and Autumn Period and represented the technical conditions and level of craftsmanship in the Western Zhou Dynasty.

⁹ *Yi Zhou Shu (Lost Records of Zhou)*, "Da Kuang."

¹⁰ *Ibid.*, ch. XXXIX, "Da Ju."

commerce at the beginning of the dynasty, the interest of the countryman of Zhou in business dealings remained undiminished even as late as the Warring States Period, about six hundred years later. Besides, commercial activities are frequently mentioned without any mark of disgrace in *The Monthly Ordinances*, a collection of ancient official records that summed up past experiences of agriculture and later served as an official manual of administration.¹¹ Finally, some of the most distinguished ancient statesmen of China were small traders before they took up their official posts.

Section IV MARKETS

The market organization during the Western Zhou Dynasty included one rather striking peculiarity. Except for small village fairs, almost no market activity proceeded without the strict supervision of government officials. Such a market system had never existed before, nor was it practised after this dynasty.

During the Western Zhou the regular market was situated in the capital city of the kingdom. The king's palace was in the centre of the capital, and the royal court was in front, or south, of the palace, in accordance with ancient superstition. So the market as a rule was in back, or north, of the palace.¹² In addition, regular markets were also sometimes set up along important highways fifty li apart (one li equals $\frac{1}{2}$ kilometre) to meet the needs of official communication and transportation. But these and the numerous spontaneous village fairs have no bearing on our present analysis.

Another category was the occasionally improvised market, set up when an expeditionary force was being sent or a political conference was being held and a great multitude of people thronged a particular place and needed their wants taken care of. Even in such a case an official would control market prices and enforce market regulations.

¹¹ *The Monthly Ordinances* is now a part of *Book of Rites*.

¹² *Rites of the Zhou Dynasty*, "Officials of Heaven."

Regulations for the regular market in the capital were rather strict. The market was held three times a day. Morning market started at dawn and consisted mostly of transactions among the merchants themselves. The grand market took place at noon, principally for the benefit of the common consumers. At the evening fair, peddlers were the chief sellers. All day, anyone who went to or from the market had to pass through a designated front gate, where officials, each with a bamboo whip in hand, kept a watchful eye on passers-by. Market stalls were assigned definite places and the rows of stalls or the goods in a given stall must always be kept in good order. Every transaction had to be carried out in accordance with the officially regulated procedures and at officially regulated prices. Anyone who violated the regulations would be disciplined or punished by the market officials, sometimes right on the spot. For any goods to be carried into or out of the market, a sealed certificate issued by the Chief Controller of the Market had to be shown.¹³

The spaces or stalls where the goods were displayed for sale were generally arranged according to price levels, so that expensive goods were displayed separately from cheap goods, even if they were of the same category. This practice prevented buyers of different social classes from mixing.

The commodities allowed on the market were also kept within certain strict limits. The royal marketing orders clearly specified the kinds of goods for sale and the conditions under which they might be sold. Other goods were strictly prohibited from the market. Forbidden commodities included, first of all, jadeware specially made for use at court, formal robes and court carriages of the titled nobility. Utensils customarily used in the ancestral temple of the royal family and for sacrifices could also not be bought or sold. The final category of forbidden commodities was military weapons. Some other limitations were as follows:

— Tools and vehicles used domestically by a commoner were not to be made in excess of officially specified sizes, nor in colours

¹³ *Rites of the Zhou Dynasty*, "Officials of Earth."

that were formally set aside for use by the ruling class.

— The quality, thickness and width of both cotton and silk were also specified and regulated. This standardization not only kept and even enhanced the use value of these goods, but also greatly facilitated their function as money.

— Ready-made clothes and ready-cooked food were not permitted to be sold on the market.

— Unseasonal grains, premature fruits, undersized wood, domestic animals and fish not fit for slaughter were not allowed to be sold on the market.¹⁴ This regulation served to protect agricultural production.

In addition, another principle controlled market affairs, running thus:

“For all the commodities on the market, whether they be domestic animals, jewels, rare objects or articles of daily use, steps should be taken to produce those that are becoming scarce and extinct, to multiply those that are beneficial, to make those that are harmful perish or disappear and those that are luxurious decrease.”¹⁵

Most of these principles were of course designed to protect the interests of the members of the ruling class. Nevertheless, seen as methods of managing the market, the principles are not entirely useless or unacceptable. Because the units of production were rather small and widely dispersed during the Western Zhou Dynasty, the government could not directly control production. Therefore, the government had to exercise control of the market so that it could control economic activities to some extent. For the same reason, the policy of strict interference with market activities could be carried out only while commodity production remained undeveloped.

Section V

PRICES AND USURY

Prices Price control was another special feature of this period, corresponding more or less to the practices of ancient European coun-

¹⁴ *Book of Rites* “The Kingly System.”

¹⁵ *Rites of the Zhou Dynasty*, “Officials of Earth.”

tries. The power of price fixing was placed in the hands of a government official called the price master. No commodity could be put on sale in the market until its price had been approved by the price master, and later changes could be made only with his consent. The government's buying and selling on the market were also carried out through the price master.

The price-control policy was applied not only to the regular markets in the capital and other big cities but also to the occasionally improvised markets. Any transaction in violation of the price approved by the price master would be punished. As for the numerous village fairs, which no price master attended, the market price could fluctuate as it would, but the influence of the rural market was negligible.

Despite the fact that the price master fixed prices, many believed that price changes for different commodities reflected a turn for better or worse in the social behaviour of the people. For instance, if the prices of luxuries rose, it would be taken to signify that people's habits and ways of doing things were deteriorating. If the prices of luxuries fell, it would mean that the social behaviour of the people was improving. For this reason, the king would usually instruct the cities where he might be sojourning in his tri-annual inspecting expedition to report on the fluctuations of the local prices, so as to know the moral level of the local people.¹⁶ The fallacy of this view is plain. However, when the price-control policy was strictly practised, the attention paid to the movement of market prices was after all not a bad thing.

Usury The circulation of metallic currency was bound to lead to the lending of money and charging of interest. When money is lent for high interest it can be considered usury.

The peculiarity of money lending during the Western Zhou Dynasty was that usury was carried on openly by the government. Throughout ancient world history this is quite an unusual case. Not until two thousand years after the Western Zhou did any European

¹⁶ *Book of Rites*, "The Kingly System."

state organization play the role of usurer, when the State Loan Institute was established in Venice in 1171.¹⁷

The Western Zhou government regulated government lending, with different provisions for different kinds of loans. If a loan was requested in order to meet the needs of sacrifices to the gods, it had to be refunded in ten days or less; if to meet the needs of funeral rites, in three months or less. Both kinds of loans were free of interest charges. If a loan was requested in order to meet the needs of productive activities, it had to be sanctioned by an official in charge, and both the amount that could be borrowed and the rate of interest to be paid would be calculated on the basis of the tax payment the debtor generally owed.¹⁸ For example, a gardener with an officially assigned piece of land for gardening, who paid a tax of, say, fifty coins yearly, might be permitted to raise a loan of one thousand coins from the government, for which the yearly interest he would have to pay would be also fifty coins, or about five percent annually. The business of money lending was managed by an official organ called the House of Currency, and the interest charged annually formed a considerable part of the revenue of government.¹⁹

At first sight, an annual interest rate of about 5 percent might seem far from usurious. However, loans that formally bore a term of one year and a seemingly reasonable yearly rate of interest generally had to be refunded three or more months after the contract was signed. Thus, while nominally the interest rate might be only 5 percent, actually it could amount to 10 to 20 percent, so it was a heavy burden on the borrower, especially on the common people, who never had the benefit of loans without interest.²⁰

¹⁷ Hullmann, Karl Dietrich, *Stadtwesen des Mittelalters*, Bonn, 1826-29, vol. I, p. 550.

¹⁸ *Rites of the Zhou Dynasty*, "Officials of Earth."

¹⁹ *Ibid.*

²⁰ Following are some of the statements in the *Book of Rites* bearing on this point: "Those who possess no manor need no provision for the instruments of sacrifice" (Qu Li). "The rites do not extend to the common people" (Wang Zhi). A very detailed description of the funeral ceremony is given in the chapter "Sang Daji" in the same book. In it, there is not a

Nevertheless, the principle that only loans for productive activities would be charged interest while those for necessary but non-productive services would not has some significance as an economic idea.

As to whether or not there was private usury existing side by side with government usury during this period, no definite historical evidence is available. But we know that immediately after the Western Zhou Dynasty, that is, in the Spring and Autumn Period, there were many individuals who practised usury privately, including both noblemen and the common people. Hence it is reasonable to conclude that some private usury existed during the Western Zhou Dynasty.

The actual extent of high rates of interest in this historical period cannot yet be determined. One problem is that when government itself took part in usury and when learning was monopolized by persons in official circles, any ruthless exploitation accompanying usury would of course be omitted from the official documents. Still, it is quite clear that interest charging was never legally prohibited, nor usury condemned at all at that time. This is in striking contrast to ancient Greece, Rome and other countries, which officially opposed usury and even lending for interest. But this does not mean that, in those ancient nations, exploitation in the form of usury did not exist. On the contrary, usurious activities might have been rampant there. If there were no usury, there would be no reason to think of fiercely opposing it and no need for a law prohibiting it. Hence it seems that usury existed in all the nations of the ancient world, but the practice varied according to conditions in different countries. The Catholic Church in the Middle Ages, for instance, took advantage of the prohibition of interest to derive much profit from it, while the government of the Western Zhou took advantage of the allowance of usury to derive profit from it as well.²¹

single word on its application to the common people. All this shows clearly that the privilege of taking out interest-free loans was not extended to the common people.

²¹ On usury by the Catholic Church, see Büch, J.G., *Theoretisch-praktische Darstellung der Handlung*, Hamburg, 1808, vol. II, p. 55.

Section VI

FISCAL POLICY

The Western Zhou Dynasty was the first dynasty that, at least formally, established a great unified kingdom across a vast territory. In order to consolidate such a great kingdom, a series of fiscal measures were necessary, thus gradually forming a certain fiscal system. We shall discuss the fiscal ideas embodied in the system under three headings.

(1) **The fiscal system proper** The fundamental principle of the fiscal system of the dynasty was that government expenditure should be planned within the limits of its revenue. This could be called the adjustment of expenditure to revenue. In modern financial theory this is a principle applicable chiefly to an individual's domestic finance and not so much to public finance, in which it seldom works as a guiding principle. But in the ancient world it was usually observed as the golden rule of government finance. The formulation of the principle in the Western Zhou Dynasty reads:

"The prime minister is to make an estimate of the state expenditure at the end of every year, when the five kinds of grain have been reaped. The financial plan has to be made on the basis of an average revenue of thirty years, which in turn should be calculated on the basis of the land area utilized and the condition of the yearly harvest, fat or lean, and thereupon adjusting public expenditure to revenue."²²

In view of the difficulty in drawing a demarcation between government expenditures and the private expenses of an extravagant feudal ruler in ancient times, this principle undoubtedly remained empty talk. However, as a principle of public finance, it seems to be the earliest one ever recorded in the history of the world's economic thought. In addition, the conception of "average" applied here to financial affairs is probably also the earliest in the world.

In those days public revenue was chiefly in the form of grain, so that storing up grain for future use was a measure that had to be adopted by the government. In consequence, another dogma arose, which was also never practised:

²² *Rites of the Zhou Dynasty*, "Officials of Heaven."

"A country without a nine-year store of foodstuff shall be described as being in a state of deficiency, without a six-year store of foodstuff, in a state of emergency, and without a three-year store can no longer be called a country at all."²³

Under feudalism the abundant fiscal revenue of a government was often a stimulus to the extravagance of the ruling class, leading to more and more ruthless plundering of the common people, so that finally the foundation upon which the abundant fiscal revenue rested would be destroyed. Moreover, the conditions of agricultural production in ancient society made it impossible to obtain the supposed six- or nine-year store of grain. For both these reasons, the above principle remained empty dogma.

(2) **Revenue** The taxes imposed on people in the Western Zhou were collected from the nine kinds of social occupations mentioned above, such as farmers, gardeners, handicraftsmen, and merchants. Actually the ninth kind was persons without any occupation, who had also to pay tax with a view to compelling them to take up some work. A very great part of the taxes was levied in kind and only a little in money.²⁴

In addition, people who resided in the kingly domain (i.e. the district directly controlled by the king, where no fiefdoms for the princes were established) had to pay a land tax and do some corvée each year. The land tax was paid with various yields from crops, and the rate decreased as the land approached the capital. For example, the tax rates for gardening were 5 percent in the near suburbs, 10 percent in the more remote suburbs, on up to a maximum of 25 percent. Tax rates were structured in this way because the inhabitants living nearer the capital bore a comparatively heavier labour service. Thus the burdens on all inhabitants balanced out. Moreover, people who lived nearer the capital were generally of the king's own tribe or were reckoned as reliable, while those living farther away were usually people of conquered tribes who were thought to owe a higher tax.²⁵

²³ *Book of Rites*, "The Kingly System."

²⁴ *Rites of the Zhou Dynasty*, "Officials of Earth,"

²⁵ *Ibid.*

The *corvée* or labour service of the people residing in the kingly domain was in principle: Inhabitants of the capital from twenty to sixty years of age and people who lived outside the capital from fifteen to sixty-five had to do labour service "no more than three days each year." But the nobles, the learned, public officials, old and ill people living in the capital were all exempted. No provisions of exemption were made for the ordinary countryman.²⁶ Three days a year hardly appears an onerous burden, but the requirement cannot be taken at its face value. Some other factors need to be taken into account. First, the stipulated three days' labour service did not include other labour service that people were frequently called upon to render. For instance, if the king arrived for hunting, people in the area had to put down their work in order to serve him. Second, if the labour service in question involved an urgent task, the service period was bound to be lengthened. Third, even if the period of service was exactly three days, the working place might be, and usually was, some hundred li from the person's native town, so the time needed for travelling to and fro and for waiting before the service began might be many times the prescribed three days. Moreover, all the expenses incurred had to be borne by the person rendering service. Therefore, labour service was always a very heavy burden to the people, particularly to the peasants in the countryside.

The tributes contributed to the king by princes of the vassal states were of two kinds: regular and occasional. The regular tribute was a compulsory levy that had to be made yearly by the princes of the tributary states in form of their principal native products. Occasional tribute was required only when a prince made an official visit to the king. It took the form of certain valuables or rare objects that might be secured from within or without his state.²⁷

The amount of tribute to be presented varied with the noble's rank; the higher the rank, the more the tribute. Actually, it depended on the area of the tributary domain, for the higher noble titles tended to go to those who held larger areas. Also, the distance between a

²⁶ Ibid.

²⁷ Ibid.

vassal state and the capital was an important factor to be considered. The tribute from places near the royal metropolis would consist of goods that were more bulky and coarse in nature, or less valuable, while tribute from more remote places usually consisted of wares of a lighter but more valuable character.

Two principles that seem to have guided the revenue policies of the Western Zhou can be derived from the above.

First, the principle of "taxing what is produced at a given place." This principle of fiscal revenue was generally adopted in a society based on natural economy. But as a matter of fact it was only the most fundamental form of collection among others, for it never precluded money levies on tariffs, poll taxes and certain other commercial taxes.

Second, the principle of equitableness of burden. There is no doubt that considerations of fairness guided taxation to some extent, as taxes were levied on the basis of the size of land holdings; differences in distance from the metropolis were taken into account in connection with taxes and labour service, and so on. But the application of this principle in those days was not entirely for the benefit of the taxpayers. It was also necessary in order to control a kingdom of enormous territorial extent for a long period of time.

(3) **Expenditure** At least in principle, expenditures of the Western Zhou government were also divided into nine kinds of disbursement, namely "expenditures for sacrifices and worship, for foreign affairs, for funerals and crop failures, for entertainment, for public works, for military matters, for cattle fodder, for awards and for other miscellaneous purposes."²⁸ This order clearly shows the priorities of government expenditures at the time, but it was applicable to the central government only.

A guiding principle of public expenditure was that a specific expenditure had to be met by a specific revenue. Every kind of tax revenue was earmarked for a definite kind of expenditure. For example, taxes collected from mountain and water resources were earmarked for funeral expenses and crop failures, taxes collected

²⁸ Ibid.

from tariffs for entertainment expenses and so on. No revenues were permitted to be used otherwise. In the light of modern public finance, this principle might seem unreasonable, but when the rulers' personal expenses could not strictly be differentiated from state expenditures, it might more or less impose some restraint on rulers' wastefulness and extravagance, if it were ever fairly observed.

SUPPLEMENTARY NOTE — THE FISCAL VIEWPOINT OF "THE TRIBUTE SYSTEM OF YU"

"The Tribute System of Yu" is the title of a document in the classic *Book of History*. It is a statement concerning the fiscal system under the reign of Yu the Great, who was believed to have founded the Xia Dynasty roughly one thousand years before the rise of the Western Zhou Dynasty. Modern historians, however, have held that this document was probably forged sometime after the Spring and Autumn Period, almost seventeen hundred years after the time of Yu. Despite its uncertain time of origin, the similarity of its contents with the economic system recorded in *Rites of the Zhou Dynasty* may be of some interest here.

"The Tribute System of Yu" includes a detailed description of the fiscal system of the Xia Dynasty. The whole kingdom at that time, it is said, was divided into nine regions. All the land of the kingdom was divided into three classes — upper, middle and lower — according to how fertile the land was, and each class was again subdivided into three grades — upper, middle and lower. This was known as the "three classes with nine grades" system. The fertility of the land in each region was also definitely fixed by the central government. Tax rates were also divided into three classes with nine grades. However, the fertility grade of the land assigned to a given region did not necessarily correspond to the legally prescribed tax rate. In order to explain why the tax rate might be higher or lower than the fertility grade, we need to explain the system of tribute.

The tributes to be presented to the royal court by every region were specifically named. The tribute from such and such a region

had to consist of gold, salt, silk, wood, pearls, foxes, or big tortoises in specific quantities. In fixing the amount of tribute to be paid, along with the fertility grades of the land, other factors such as the distance of the tributary state from the capital, the possibility of water transportation to the area, the value of its local products and the state of economic development of the vassal state would be taken into account. Thus, a given region's burden of tribute would naturally be higher or lower than its officially assigned land-fertility grade. Some regions, due to their nearness to the capital and facility of water transportation, would, for example, be required to pay a high tribute in spite of the low fertility grade of their land. In effect this policy equalized tax burdens, an idea also appearing in *Rites of the Zhou Dynasty*, but more clearly here. Thinkers in many succeeding dynasties used this principle, now called the doctrine of equal sacrifice, as a guiding principle in their analyses of public finance, even if they never put it into full practice.

A final note on "The Tribute System of Yu": Its method of classification, i.e., the "three classes with nine grades" system, was employed as the canonical classification for land and taxation by all subsequent feudal dynasties up to the beginning of the present century, though with modifications in the later period. Its use even extended to the classification of official and military ranks. Also, the idea that the tribute was to be made in the form of what the region had produced, as embodied in this document, bears close resemblance to the idea of "taxing what is produced at a given place" recorded in *Rites of the Zhou Dynasty*. In later generations it became a popular dogma and was quoted thousands of times by people in literary circles. In precapitalist society this form of taxation certainly was consistent with the contemporary historical situation. "The Tribute System of Yu" is the first ancient record of this principle, definitely the most influential principle of public finance in the following centuries.

Chapter Two

ECONOMIC THOUGHT OF SOME STATESMEN OF THE SPRING AND AUTUMN PERIOD

The Spring and Autumn Period (772-476 B.C.) and the Warring States Period (475-221 B.C.) that followed have together long been reckoned as China's golden age of culture, comparable in magnificence to ancient Athens in the Western world. Right from the beginning of the Spring and Autumn Period, many broad economic changes began to take place, becoming even more extensive as time went on. First of all, the appearance of free trading in land quickened the breakdown of the old state monopoly on land ownership and gave rise to the formation of a feudal landlord class and vast masses of land-holding peasants as well. The changed relations of production in agriculture inevitably improved the productivity of agricultural labour. Hence, household handicraft industry made much headway alongside burgeoning independent small handicrafts, which now had a higher technical standard. All this created an urgent demand for the free marketing of commodities. At the same time the strictly controlled market system of the Western Zhou gave way to comparatively free marketing activities. In turn, this enabled agriculture and handicrafts to advance further.

Under these circumstances the genesis of a new merchant class was inevitable. The history of the Spring and Autumn Period shows that several famous merchants of that period not only possessed a tremendous amount of capital, but also acquired a very high social position, even to becoming acquaintances or friends of some of the princes or dukes of different vassal states. This fact certainly throws some light on the condition of existing commercial activities.

The complexity of the structure of the social classes necessarily

involves many social outlooks. This is especially so for the Spring and Autumn Period, when the old system of exclusive learning by officials was being replaced by free learning and teaching by private scholars. Therefore, the latter part of this period ushered in celebrated cultural centuries when "a hundred schools of thought contended." This general flowering of culture naturally included a great deal of economic thought, with several pre-eminent exponents whose brilliance rivalled the ancient Greeks'.

This and the following six chapters will deal with the economic thought of both the Spring and Autumn Period and the Warring States Period. This will conclude part one of our study. We shall begin with the economic thought of some of the former period's famous statesmen, namely, Guan Zhong on the social division of occupations, Shan Qi's monetary concept and Fan Li on commerce and trade cycles.

Section I

GUAN ZHONG ON THE SOCIAL DIVISION OF OCCUPATIONS

Guan Zhong (?-645 B.C.), a native of the ducal state of Qi, lived in the early part of the Spring and Autumn Period. He was one of the most renowned and influential statesmen in ancient China. A philosophical work with the title of *Guan Zi* has long been attributed to him, but most modern scholars think it was the work of several of his followers at different times, probably put together into a book sometime in the middle of the Warring States Period, or about the end of the fourth century B.C. Therefore, we shall treat it elsewhere as a school of thought belonging to the Warring States Period. Here we shall discuss only the economic thought that can definitely be confirmed as Guan Zhong's own.

Guan Zhong insisted that the ruled masses should be classed into four great social groups according to their occupations: (a) the *shi*, (b) the peasants, (c) the artisans and (d) the tradesmen. Originally *shi* denoted learned men as well as warriors, but in the sense in which Guan Zhong used the term more consideration was given to their function as warriors. A *shi* lived generally in his own family

in time of peace but would take up arms as a soldier in case of emergency.¹

In the mind of Guan Zhong, members of one social group should not mingle with members of another and should live only with their own group within districts officially assigned to them. For instance, all *shi* should live with their families in the military quarter, the peasants in the countryside, the artisan group near the government offices (so that they could supply the needs of officials more easily) and the tradesmen and their families near the market. This basic scheme was extremely influential and not without good reason.²

For one thing, his notion of classifying the ruled masses into four social groups was accepted as the orthodox classification of occupations from his time until the beginning of the present century. One reason for this consensus was that Guan Zhong's social division of occupation was by no means arbitrary. After the breakdown of the old feudal fiefdoms and the system of state land ownership, the vast masses of independent peasants and small tradesmen and handicraftsmen had come to the fore. Again, the interminable wars of annexation waged between ducal states made the stratum of soldiers more and more indispensable to each state as time went on. Although after the end of the Spring and Autumn Period the *shi* were no longer charged with fighting duties and were transformed into an intellectual stratum, they were nonetheless still an indispensable part of the four social groups. At the same time, the feudal system dictated that one's membership in a specific social group was immutable. In this light Guan Zhong's insistence on each of the four social groups residing in separate, fixed districts is comprehensible.

For another thing, putting artisans and tradesmen in line with the *shi* and peasants reflected the objective existence of the newly rising masses of free artisans and tradesmen. Guan Zhong himself

¹The Chinese character *shi* in Guan Zhong's time meant persons who possessed some knowledge and had enlisted or were entitled to be enlisted as soldiers. Later on, it meant the intellectuals. So in the following chapters we shall use the word "intellectuals" instead.

²*Discourses on the States*, "Discourses of Qi."

was a common tradesman before he took up the position of prime minister. More interesting is the fact that he put the *shi* at the top of the four groups and recruited the members of this stratum from brave and strong peasants.³ The idea of linking warriors with the peasantry was common in ancient days, when agriculture was often recognized as a school for the training of soldiers. The English philosopher Francis Bacon, about two thousand years after Guan Zhong, also pointed out the connection between a free, well-to-do peasantry and a good infantry.⁴ In Plato's ideal state something like a warrior class also made up one of the three strata of society. However, there exist at least two differences between Plato's and Guan Zhong's conception of warriors. First, the former placed warriors as members of the ruling class, while the latter considered them at the top but gave them the same social standing as the other three groups. Second, Plato stipulated that the guardians in his ideal state would devote themselves to an ascetic mode of life, while Guan Zhong allowed the warriors to live with their families in a certain district as common people, requiring their active service only in case of emergency.

According to him, the advantages of a separate concentration of residences were considerable. Take the *shi*, for example. The concentration of their families in a certain district would enable them "to share the blessings resulting from the sacrifices to the gods, to condole each other upon bereavement of dear ones and to face weal and woe together." Also, "by living together for generations, going about together in their youth, they will be within calling distance in any night fighting, and thus be sufficiently insured against defeat, while in daytime warfare they will be within each other's sight, and thus will recognize each other for sure, and they will be so fond of each other that they will readily give up their lives for the sake of others. . . . So happiness in common living, harmony in concerted action, mutual sympathy in case of bereavement will

³ Ibid.

⁴ Francis Bacon, *The Reign of Henry VII* (verbatim reprint from Kennet's 1719 edition, London, 1870, p. 308).

render defence fast and combat invincible." Furthermore, concentration of residences would "enable the members of each class to get accustomed to their own occupation from boyhood, be contented with it, and be reluctant to change. So the education given by the father and elder brother will accomplish its purpose without stern compulsion, and much learning will be acquired by the son and younger brother without hard effort." The same was true for the peasants, artisans and tradesmen. The aim of all this was to perpetuate the relationships then existing among the several feudalistic classes: *shi* sons must remain *shi*; peasants' sons, peasants; artisans' sons, artisans; and tradesmen's sons, tradesmen."⁵ Consequently, the same occupation would pass from generation to generation, and the specific relations of production that were necessary for the maintenance of feudalism would be insured.

Finally, besides the stratum of *shi*, the peasants, artisans and tradesmen were in fact the hands engaged in three vital spheres of the national economy. Therefore, there are certain economic meanings particular to the conception of having their residences concentrated in certain districts.

(a) Persons of the same occupation living together are apt to exchange experiences among themselves. That is, as Guan Zhong said, "to talk with each other about their common businesses, to mutually show their dexterities . . . to display each other's achievements."⁶ This would raise the technical level of work of that profession.

(b) Congregation of residences would make the professional workers well informed; that is, they would "mutually discuss among themselves what was profitable and the best time for doing business and fix prices on comparison."⁷ This would promote the production and circulation of commodities.

(c) It would cultivate an atmosphere of specialization, make

⁵ Above quotations are all taken from *Discourses on the States*, "Discourses of Qi."

⁶ Ibid.

⁷ Ibid.

people feel contented with their own trade, and so bring about a steady supply of occupational labour power.

(d) Once an atmosphere of specialization was created, a favourable social environment for technical education would come into existence. At the same time, a favourable condition for the reproduction of labour power of the same trade would take shape.

However, Guan Zhong's view was much limited by his time. He looked upon labour power fixed within each kind of occupation as an unmixed blessing and hence as unquestionable wisdom. So his view on the problem of concentration of residences was inevitably rather one-sided. He was unable to understand that the advantages derived therefrom could be obtained only at great sacrifice of man's free choice of occupation.

Apart from agriculture, Guan Zhong paid close attention to handicrafts and commerce and the benefits that could be drawn from mountain and water resources. For internal economy he insisted on the adoption of a system of stern economic control and appointment of multifarious government officials to manage the economic activities of all walks of life. But he stood for a rather free policy in the sphere of foreign trade. Foreign merchants were permitted or even invited to purchase fish and salt at will, exempt from tariff duties. By this policy, the riches of his native state were greatly enhanced, and finally the state of Qi became the richest and most powerful of all the states in his lifetime. Regarding land tax, he would have it levied entirely on the basis of the fertility of land, aiming of course at discouraging the migration of peasants.

These economic ideas of Guan Zhong were given a fuller treatment in the book *Guan Zi*, which we shall study in detail in due time.

Section II

SHAN QI'S BALANCE THEORY OF MONEY

Shan Qi was a statesman of the Spring and Autumn Period who probably lived in the first half of the sixth century B.C. His repre-

sentative economic idea, that is, the balance theory of money, is generally known in Chinese history as *zimu-xiang-quan*. Translated literally, it means a mutual balance between the "mother" and the "son" coins. Such a monetary concept was once mentioned in a state document about six centuries before Shan Qi⁸ and again mentioned by a minister in the state of Chu about eighty years before him.⁹ But it was through Shan Qi that the theory received full elaboration.

Feudal kings and princes, whether in the European Middle Ages or in ancient China, usually hankered for the debasement of money in order to satisfy their insatiable greed. This happened when King Jing of the Zhou Dynasty (who reigned 544-520 B.C.) was going to mint and circulate a kind of big copper coin in place of the small one already in circulation. This of course meant plundering the wealth of the people, so it aroused the objection of Shan Qi, a high minister of the government. Shan Qi's argument runs:

"In antiquity, when natural disasters fell, a monetary measure would be taken to balance off the 'light' and 'heavy' coins in circulation for the relief of the people. If people were troubled by the 'light' coins, 'heavy' ones would be minted and put into circulation. This was to use the *mu*, or 'mother,' coin (i.e. the newly issued 'heavy' big coin) as a new circulating unit of account to balance off the *zi*, or 'son,' coin (i.e. the 'light,' small coins already in circulation). In so doing, all the people would be satisfied. Supposing that the circulating coins were much too 'heavy,' then the 'light' coins would be made to circulate, but without abolishing the 'heavy' ones. This is using the *zi*, or 'son,' coin as a new circulating unit of account to balance off the *mu*, or 'mother,' coin, thus turning both the small and big coins to advantage. Now, your majesty wishes to discard the 'light' coins already in circulation and issue the new 'heavy' coins instead. This is bound to make people lose their riches. Would it not impoverish the people?"¹⁰

In this statement three pairs of opposite notions in connection with copper coins are put forth, i.e. "light" and "heavy," *zi* (son) and *mu* (mother) and small and big. It has usually been understood

⁸ *Yi Zhou Shu* (or Lost Records of Zhou), "Da Kuang."

⁹ Sima Qian, *Records of the Historian*, "Biographies of Good Officials."

¹⁰ *Discourses on the States*, "Discourses of Zhou."

that what Shan Qi named as the mother (*mu*) coin was the "heavy" or big coin and the son (*zi*) coin was the "light" or small coin. Among these three pairs of notions, the meaning of small and big is rather plain and so needs no explanation. The notion of "light" and "heavy" was, however, a very peculiar, but very important conception in the history of Chinese economic thought. We shall discuss it more fully when we come to study the economic thought in the book of *Guan Zi*. For the present, we shall point out that the notion of "light" and "heavy" does not really express the natural weight of the metallic content of the coins. It expresses rather the relationship of the circulating coins with commodity prices in general. The notion of *zi* and *mu*, or son and mother, was first expounded, if not first introduced, by Shan Qi. Of course the words "son" and "mother" should not be understood literally. They should be used in connection with one or both of the other two pairs of monetary notions. Hence the conception of balancing off, say, the son coin with the mother coin simply means that if the public felt the circulating coin was worthless — in Shan Qi's sense small or "light" — relative to commodity prices in general, then a new unit of coin bigger or heavier should be issued. The newly issued coin, named by him as the *mu*, or "mother," would be taken as the new standard unit of account, and the so-called *zi* (son) coin already in circulation would have to adjust itself to the new standard coin. This is what Shan Qi meant by "using the mother coin to balance off the son coin." However, if the circulating coin was too big or "heavy" and was felt by the public to be unsuitable, then it had to give way to a newly issued small, "light," or so-called son coin as the new standard currency. This is what he meant by "using the son coin to balance off the mother coin."

It can be gathered from the above that Shan Qi understood at least the following monetary ideas.

First, he treated money as an absolute social form of wealth ever ready for use. Therefore he believed that the abandonment of the coin already in circulation would make people lose not only

their money, but also their wealth and capital. His idea was the direct opposite of the monetary conception of Sophocles, the ancient Athenian dramatist, who "denounced money as subversive of the economical and moral order of things."¹¹

Second, when he talked of "using the mother coin to balance off the son coin" or "using the son coin to balance off the mother coin," he meant in modern terms that the standard unit of money must adapt itself to the price level of commodities and the people's living standard. But he had only a very initial and limited idea of both, and he laid too much emphasis on the size of the coins, neglecting the important factor of the quantity in circulation.

Finally, since he held the view that money in circulation represented people's riches, he came to the conclusion that the abandonment of any coinage would make people lose their riches. In his view, this was tantamount to grabbing their wealth, and it formed his main argument against the issuing of new kinds of coins. This view was very different from that of ancient thinkers, who generally regarded money as a mere symbol. Rare indeed was the view that emphasized it as representing material wealth. In fact, what Shan Qi really opposed was not the issuing of new big money, but rather the discarding of the "light" one already in circulation, which in his opinion was bound to entail losses to people.

The conception of "mutual balance between mother and son coins" was the earliest monetary theory in China. It was a fairly superficial beginning. At least two shortcomings can be pointed out here. In the first place, he regarded the change in the standard unit of money as the only way of remedying the discrepancy between money and commodity price. This is a rather one-sided view, for many factors can cause such a discrepancy. If such a discrepancy were brought about by natural disasters, for example, it would have nothing to do with the standard of money. Further, he seems to have overlooked the disorders resulting from the change of a standard

¹¹ Karl Marx, *Capital*, vol. I, Moore's English translation, 1909, p. 149.

unit of money. In the second place, since his whole system is based on the assumption of there being only one kind of circulating medium, in the case of two kinds of money in circulation, especially if both of them had the same metallic content, the pairs of opposite notions he put forward would become untenable.

Nevertheless, the role played by the monetary concept of Shan Qi in the economic thought of China should not be underestimated. Ancient and medieval thinkers usually reckoned that the crown had the right to regulate the price of money in circulation at will. It was Shan Qi who first stressed the objective nature of monetary circulation, insisting that the crown could not arbitrarily change the size of money or change the currency at a moment when socio-economic conditions did not demand such a change. Treating the circulation of money as an objective process was also a powerful theoretical weapon dealing heavy blows to the ruthless debasement of coinage by the rulers. His proposal was of particularly great importance to the traders of the time, because their stocks were generally in the form of copper coins. Any change of the standard unit, especially abandonment of the existing circulating medium, without allowing them to change the old for the newly issued money, would make them lose their capital.

In spite of the simplicity of the concept, it dominated the whole feudalistic era of Chinese history as a representative monetary principle for more than two thousand years and was not superseded until the beginning of the present century when it was at last swept away by the high tide of the bourgeois theory of money.

It is worth explaining here that although ancient works often spoke of three kinds of money, namely, gold, silver and copper coins, as a matter of fact gold was scarcely ever used as a common circulating medium, at least by the masses. Silver was popularly used by the well-to-do class only after the tenth century. Thus, copper coins alone constituted the standard unit of money used by people of all walks of life up to the beginning of the present century.

Section III

FAN LI ON COMMERCE AND TRADE CYCLES

Fan Li was another Chinese statesman celebrated not only for his political strategy, but also for his economic thought, which was unparalleled during the Spring and Autumn Period. He lived in the fifth century B.C., when there was vast expansion of commercial capital. After his retirement from a political career as the prime minister of the state of Yue, he achieved brilliant success in his commercial activities, and so became a sort of multimillionaire. Therefore his economic thought may be regarded as representing the viewpoint of the then newly rising merchant class. Because he had been a great statesman serving the feudal ruling class, his economic thought also necessarily reflected his former political ties.

(1) Fundamental economic outlook The fundamental economic outlook of Fan Li was inseparable from his world outlook, which tended towards materialism. He was the earliest and most important of the thinkers from the Spring and Autumn Period who, with deeper knowledge about nature and skepticism about primitive religious superstitions, came to observe and formulate certain natural laws, which they tried to apply also to explaining socioeconomic matters. Fan Li asserted that "man must adapt his social activities to changes in natural conditions, if any achievement is to be attained."¹² So "man must first keep himself abreast of the perpetual law of nature before he can gain something beneficial from it." Otherwise he "would go against heaven and become disagreeable to other people,"¹³ and this would be detrimental to the state as well as to himself.

The following was Fan Li's fundamental understanding of changes in economic phenomena:

"Once the existence of struggle is known, provision for emergency shall be made; once knowledge of the changing seasons is made use of,

¹² *Discourses on the States*, "Discourses of Yue."

¹³ *Ibid.*

it will be easy to foresee things; and once these principles are grasped, then the condition of endless commodities can be foretold."¹⁴

He observed that there were many struggles throughout the world, so that the breakout of war was an everpresent possibility. Military supplies, as well as food, money, cloth, silk, etc., should be stored up in advance. Otherwise, "the warriors will be hungry, thereupon easily wounded, and become clumsy with their fighting strength gone."¹⁵ The common people also had to be ever prepared, for man's life is short, and in order to ward off disaster and misfortune, he should continually save and accumulate things in anticipation of old age, weakness and sickness, even the expenses of his own funeral and burial.¹⁶ This is what he meant by "Once the existence of struggle is known, provision for emergency shall be made."

In order to amass goods, one must first be aware of changes in climate throughout the year. Once this knowledge is grasped and made use of, then the conditions of material resources will become intelligible. This is what he meant by "once knowledge of the changing seasons is made use of, it will be easy to foresee things."

Fan Li lived in a period when agriculture was of dominant importance. The "material resources" of his time were mainly grains. Thus he said, "The five kinds of grain are the life-blood of the people and the vital treasure of the state."¹⁷ He also said, "Among all things grown, grain is the most valuable," and "Whosoever has grain, will not starve. Grain makes one live and [the lack of it] may kill one."¹⁸ He added that grain can make one rich by exchanging it for gold, silver, cloth and silk. But so long as the abundance or scantiness of grain depends solely on climatic conditions, the ability to foresee and take account of them will enable one to understand and handle natural resources in their various

¹⁴*Records of the Historian*, "Biographies of Men of Enterprise."

¹⁵*History of the State of Yue*, "Interior Classics of Ji Ni." V.

¹⁶*Ibid.*

¹⁷Jia Sixie, *Important Arts for the People's Welfare*, ch. XXX, "Miscellaneous Problems."

¹⁸*History of the State of Yue*, "Secret Pillow Book," XVI.

conditions. But Fan Li emphasized that this piece of advice would not lead to success without also making provision for hard times.

After discovering that there were certain laws governing the movement of all things, he tried to apply them to socioeconomic activities, but he did not differentiate natural law from economic law. He insisted on applying the law of climatic conditions to economic movements of society and preached that one must adjust himself to the law and make it benefit the state and the people. This brings us to his theory of trade cycles.

(2) On trade cycles Fan Li's trade-cycle theory was probably the earliest one in the history of the world. It was current in China for several hundred years from the fifth century B.C. to the second century A.D. We are not quite certain whether Fan Li was the sole creator of the theory, but we do know for sure that he was responsible for systematizing the theory in the discourses of "*ji ran*," attributed to Fan Li.

The theory was developed on the basis of the achievements of astronomy at the time. Most scholars believe that scientific developments in ancient civilizations were generally motivated by the needs of agricultural production. In ancient Egypt, for instance, the necessity of predicting the rise and fall of the Nile River gave rise to its astronomy. Astronomy was essential for nomadic tribes as well, for predicting the seasons.

Astronomy in ancient China had already accumulated a wealth of knowledge up to the Spring and Autumn Period. Meanwhile, a naive materialistic outlook maintained that the world was made of the elements of water, fire, wood, metal and earth, known collectively as the Five Elements or the Five Primordial Essences. Combining current astronomical knowledge and the system of the Five Primordial Essences with the experiences of good and bad harvests over the long run, people came to develop the theory of trade cycles.

The theory actually centres on the movements of the planet Jupiter, then called in China the Year Star. Like all heavenly bodies, Jupiter moves along a circular path through the heavens year after year and arrives back at its starting point every twelfth year. The ecliptic, or path the planet follows, is divided into twelve equal

parts, called in ancient China "the twelve houses of the ecliptic," analogous to some degree to the Western zodiac signs. Every house has its fixed constellation and bears a specific name, which we shall not bother to list here.

In order to explain Fan Li's theory of trade cycles, we need to give an account here of the Twelve Branches, or the Duodecimal Cycle of Symbols, namely:

- | | | | |
|---------|---------|--------|---------|
| 1. Zi | 2. Chou | 3. Yin | 4. Mao |
| 5. Chen | 6. Si | 7. Wu | 8. Wei |
| 9. Shen | 10. You | 11. Xu | 12. Hai |

This set of symbols, in China, is applied to many sorts of things, each having its specific meaning in different applications. They are connected with the Five Primordial Essences mentioned above as follows:

1. Zi, 12. Hai. Each appertains to, or bears a nature similar to, water,
3. Yin, 4. Mao. Each appertains to, or bears a nature similar to, water.
6. Si, 7. Wu. Each appertains to, or bears a nature similar to, fire.
9. Shen, 10. You. Each appertains to, or bears a nature similar to, metal.
2. Chou, 5. Chen.
8. Wei, 11. Xu. Each appertains to, or bears a nature similar to, earth.

In relation to the condition of harvests, "water" signifies a bad or an extremely bad year, "wood" a good year, "metal" a good or a bumper year, "fire" drought, and "earth" a declining or recovering condition of the yearly harvest according to the specific case.

On the basis of the above background we shall now turn to the trade-cycle theory proper. According to the theory, when Jupiter passes into a particular house, a symbol from the Duodecimal Cycle would be assigned to that particular year. Using the Western zodiac signs as equivalents, the situation would be as follows: If Jupiter

were in Libra, then it would be the year of Zi; in Scorpio, the year of Chou; in Sagittarius, the year of Yin and so on, until Jupiter entered Libra again and began the next twelve-year cycle. In accordance with this movement, a cycle of alternating harvests would occur as follows:

A bumper crop every six years, drought every six years and a serious famine every twelve years."¹⁹

The cycle can be better understood in the light of the following passage:

"After a period of three years, when the Year Star enters 'metal,' there will be a fine crop; after another three years, when it enters 'water,' a bad crop; in another three years, when it enters 'wood,' a fine crop, and when it enters 'fire,' drought. . . . So in dealing with the world of commodities, a new start must be made every three years."²⁰

In order to clarify the theory, we can put the ideas explained above into the following tabulated form:

	<i>Position of Year Star</i>	<i>Five Primordial Essences</i>	<i>Condition of Harvest</i>
1	Yin	wood	good
2	Mao	wood	bumper
3	Chen	earth	declining
4	Si	fire	bad
5	Wu	fire	drought
6	Wei	earth	recovering
7	Shen	metal	good
8	You	metal	bumper
9	Xu	earth	declining

¹⁹ *Records of the Historian*, "Biographies of Men of Enterprise."

²⁰ *History of the State of Yue*, "Secret Pillow Book."

10	Hai	water	bad
11	Zi	water	great drought
12	Chou	earth	recovering
13	Yin	wood	good
14	Mao	wood	bumper
15	Chen	earth	declining
16	Si	fire	bad
17	Wu	fire	drought
18	Wei	earth	recovering
19	Shen	metal	good
20	You	metal	bumper
21	Xu	earth	declining
22	Hai	water	bad
23	Zi	water	great drought
24	Chou	earth	good

From this table we can see the cyclical movement of harvest conditions. The six-year cycle of bumper harvests runs from 2 to 8, 14, 20, etc.; the six-year cycle of drought or crop failure, from 5 to 11, 17, 23, etc.; and the twelve-year cycle of great drought or serious famine from 11 to 23, or from Zi to Zi. Looking at it another way, we find that the harvest condition changes every three years. For instance, 3 to 5 are years of bad harvest; 6 to 8, years of good harvest; 9 to 11, years of bad harvest again, and so on. In a historical period when agriculture played a determining role in the whole society, changing conditions of the yearly harvest would

inevitably bring about fluctuations in the economic conditions of the society as a whole in the form of alternating periods of prosperity and depression. As a matter of fact, when agriculture was at a low level of development, the harvest did depend on climatic conditions and the natural recovery of land fertility, and a cycle like the one described above might occur. However, this theory is inherently and fundamentally fallacious because its component elements have no logic. For instance, why must Jupiter in Libra appertain to "water"? How could the nature of "water" bring about a great drought? And so forth. These assumptions were without any scientific basis whatsoever.

Nevertheless, one must not dismiss the theory completely. Some points in it are worthy of our attention. First, Fan Li realized that there were certain objective laws in the economic life of a society. In spite of its unsound theoretical foundation, this idea has some merit because it attempted to give the problem of social economy a treatment based on objective observation, not upon personal imagination. Second, ancient thinkers were usually entangled with certain individual problems in their economic discussions. They were unable to observe economic phenomena in the light of society as a whole — they could see only the trees and not the forest. However, Fan Li paid attention to the whole process of social economy. This also deserved praise. Also, he looked to the sphere of production rather than the sphere of circulation to find the root cause of the laws of economic changes, unlike many thinkers of the past. Finally, it must be pointed out that the sunspot theory of trade cycles in the 1870s was not much better grounded than Fan Li's, more than two thousand years earlier. The significance of the theory, therefore, does not lie in its being very rational or scientific, but rather in the direction it suggested for later workers in that field.

(3) On commerce Fan Li's trade-cycle theory was also applied to the field of commerce. Since the yearly yield of grain was fundamentally determined by climatic conditions, the price would as a matter of course fluctuate in accordance with the changes: "The price of various grains would now and then be either dear or cheap,

alternating in accordance with the cyclical movement of harvests."²¹

If the yield of grains revolved around a three-year cycle, the price of grains would also change every three years. Grain prices would in turn affect the prices of other commodities, which would thus also change about every three years. The way to get rich by commerce, then, he suggested, was to take the natural law as the basis for appraising the changing conditions of the business world.

Assuming that the changing conditions of business were predictable, Fan Li developed another of his famous principles of commerce, which we may call the principle of "biding for shortage." The principle, as Fan Li put it, was "to stock up vehicles while there is flood and to stock up sailing vessels while there is drought."²² That is to say, the way to profit was to buy up those goods that, though not immediately wanted, might become scarce and urgently demanded in the near or immediate future.

The principle is elaborated further in the *History of the State of Yue*. There, all goods seem to be put into two categories, the five kinds of grain belonging to one category and things such as farmlands, houses, cattle, horses, coffins and whatnot belonging to the other. For the convenience of exposition, we shall call the former category foodstuffs and the latter nonfoodstuffs. The prices of these two categories of goods move in opposite directions to one another. In good harvest years, for instance, the price of grain would fall, but people's demand for nonfoodstuffs would increase, so those prices would tend to rise. In years of crop failure, the price of grain would rise, people's demand for nonfoodstuffs would decrease, and prices would tend to fall. Therefore the secret for making fivefold or even tenfold profits was to let the market flood with foodstuffs and purchase the nonfoodstuffs, or vice versa, at the appropriate moment. When would the appropriate moment be? There the cyclical theory must be consulted. During the three-year period of economic depression, while the prices of non-

²¹ Ibid.

²² *Records of the Historian*, "Biographies of Men of Enterprise," and *History of the State of Yue*, "Interior Classics of Ji Ni."

foodstuffs fall and prices of grains rise, the smart businessman will pour into the market at high prices the foodstuffs he had previously stored up, and at the same time, stock up on nonfoodstuffs at low prices. Later, upon the return of the period of economic prosperity, the nonfoodstuffs he had bought during the last cycle should be put on the market while their prices are rising, while he should also buy up foodstuffs at falling prices for sale in the next cycle.²³ This is the essence of the so-called bidding for shortage.

Another important economic idea of Fan Li's that should be explained here is his "principle of accumulation." He said:

"The goods one deals in should be perfect in quality. Money capital should be made to circulate without stop. . . . Goods must not be kept in the expectation that their market prices might continue to rise. Investigation into the abundance or shortage of goods will enable one to know their prices, whether high or low. Any price will fall when its peak is reached, and any price will rise when its nadir is reached. Goods must be cast away like dirt whenever their price is dear, but procured like treasure whenever their price is cheap. Goods or money should pass from hand to hand constantly, like flowing water."²⁴

In short, both goods and money should be kept circulating all the time "like flowing water" with the ultimate aim of procuring profit. Moreover, the secret to success here lies in two factors: the ability to choose the right time and the ability to acquire the information to make a good selection of the goods to deal in. "Once these two abilities are acquired, the situation of all the goods, whether they are abundant or scarce, profitable or unprofitable, can be easily foreseen."²⁵

The "principle of accumulation" is supposedly applicable not only to private individuals, but also to a state government. If the ruler of a state is well informed about the sources of all goods, wrote Fan Li, and enlists men of virtue or ability in his service, he is bound to induce goods to flow into his state from even a distance of a thousand li. But if the ruler is poorly informed about the sources of goods, then it will be impossible for him to get goods

²³ *History of the State of Yue*, "Interior Classics of Ji Ni," X.

²⁴ *Records of the Historian*, "Biographies of Men of Enterprise."

²⁵ *History of the State of Yue*, "Interior Classics of Ji Ni," V.

even within a distance of a hundred li. Here the standpoint of a representative of the newly rising class of merchants is fully revealed.

(4) **On price policy** As we have seen, Fan Li looked on the movement of spontaneously rising and falling commodity prices as the operations of natural law, or as he called it, the "Way of Heaven," whose relation to the movement of commodity prices was "like an original object and its shadow, or like a sound and its echo."²⁶ Although he wrongly connected price fluctuations with natural laws, the fact that he realized the objective character of price movements as independent of man's will is something that should not be overlooked. It must also be admitted that he showed quite a clear understanding of the law of supply and demand, though he did not use this terminology. Even more interesting is the attention he paid to the influence of the market as a guiding force of man's productive activities.

Bearing his general view on prices in mind will help us understand his price policy, or more accurately, his policy on grain prices. He held that the movement of grain prices must be placed under the guidance of the state, and fluctuations should be kept within a certain range beneficial to both production and circulation. His well-known saying on the subject runs:

"The selling price of grain will cause harm to the farmers if it falls to twenty and cause harm to traders if it rises to ninety. The goods will be blocked if traders are being harmed, but the land will be uncultivated if farmers are being harmed. Grain prices fluctuating between thirty and eighty will benefit both farming and trade. To take measures for the stabilization of grain prices so as in turn to stabilize the prices of all goods and make marketplaces free from commodity shortage is the proper way of ruling a state."²⁷

Although the passage does not specify either the unit of measurement of grain or the standard unit of money, we know that the measurement of grain during that historical period was always a picul and the unit of money a copper coin. It should also be pointed out in passing that the word here translated as "trade" literally means "periphery." It represents a very important concept in the

²⁶ Ibid, "Secret Pillow Book," XVI.

²⁷ *Records of the Historian*, "Biographies of Men of Enterprise."

history of Chinese economic thought, which we shall turn to from time to time throughout our study. The word generally signifies handicraft and commerce or the persons engaged therein. But after the mid-second century B.C. it indicates commerce or merchants. For the present, we shall keep the word "trade."

Putting the above quotation in modern terms, it means briefly this: When the price of grain is too low, it will be detrimental to the farmers, and they will be unwilling to work energetically for agricultural production. When the price of grain is too high, it will be detrimental to traders and bring economic difficulties to the society as a whole. If the price range of grain is limited, it will benefit farmers, traders and the whole society. In order to realize such a price system, Fan Li was disinclined to appeal directly to the compulsory power of the feudal governments, which many other ancient thinkers advocated. He preferred an economic measure to achieve that end. That is, he thought the government should participate in grain trade not for profit-making but for stabilizing undue fluctuations in prices. Whenever the market price of grain was too high, the government should pour into the market grains at a price lower than the prevailing one, or buy up grains at a higher price whenever the price of grains was too low. This is what Fan Li called the policy of "stabilizing grain prices."

Such a pricing policy may appear commonplace to modern economists. But from the historical viewpoint, it was rather important, both theoretically and practically. First of all, Fan Li perceived clearly the effect of price upon production, especially agricultural production. He realized also the role played by price in the circulation of commodities and pointed out that an undue price would affect circulation adversely, and so would be disadvantageous to production. As to his comparative study of the price of grain and other commodities, such a view must be considered extremely rare for ancient times. He seems to have been the first to outline a governmental policy of prices based upon a theoretical foundation of utilizing the spontaneous forces of market prices. Furthermore, his conception that too low a grain price was detrimental to farmers later became a very popular slogan in Chinese history up to the

beginning of the twentieth century. Unfortunately, nearly all those who quoted the slogan forgot that the final, but more fundamental, goal Fan Li aimed at was to "benefit both farming and trade," not merely farming. Therefore, this conception alone ought to distinguish him as an outstanding economic thinker of the ancient world. As a matter of fact, the policy of grain-price stabilization practised from time to time by successive feudal dynasties could find its theoretical origin in Fan Li's contribution to the field.

True, to some degree he also held that market prices ought to be controlled by government, but his idea here differed in principle from the control measures practised during the Western Zhou Dynasty, which we discussed in the previous chapter. Western Zhou market prices were rigidly regulated by the government's price master and not permitted to be violated under any circumstances. Fan Li's policy was to let prices move freely within a certain range, which the government purposely manipulated by buying and selling grains on the market. So the former was a compulsory measure of price control exercised by the government, while the latter, to a large extent, was an economic action utilizing market laws.

(5) Summary Fan Li's economic thought started from the philosophy of struggle in human life. It took changes of climatic condition as a decisive factor in all economic activities. Upon this hypothesis, he built up a trade-cycle theory of agriculture and amplified it as a law applicable to the economic world as a whole. He held that commercial activity could be carried on advantageously only by adapting this law, regardless of whether the aim of such activity was profit-making by an individual or the formation of price policy by the state. However, having an intimate knowledge of the law was not enough. One had at the same time to understand the principle of "bidding for shortage" and the "principle of accumulation." On the whole, it can be said that with his commercial doctrine, his price policy and his principle of accumulation, he had ably and correctly faced and solved the problems of the relationship between supply and demand and of the spontaneous fluctuation of market prices. In so doing, he conspicuously advanced tradi-

tional economic thinking after the Western Zhou Dynasty, especially that relating to trade and price.

The commercial and price ideas developed by Fan Li were keen and penetrating for his time and do not suffer in comparison with the economic ideas of the forerunners of classic economics in Europe. His theory of trade cycles did not of course attempt to explain periodic economic crises, for there were no such periodic crises in those days. It was simply a method for business forecasting based on the operation of the objective forces in production that governed price changes. Although his understanding of the supposed objective forces was faulty, his methodology at least was laudable. As far as his contributions to the theory of commerce are concerned, it may be said they showed his genius to be no less outstanding than that of some of the ancient Greek philosophers.

However, the economic thought of Fan Li was rather narrow in its scope. His intention was to stress the problems of commerce and price. Other economic phenomena were mentioned just for the elucidation of the central problem. Monetary problems closely connected with price and commerce and usually much discussed by ancient thinkers were not even mentioned by him. But in the history of the world's economic thought, for an ancient thinker to stress problems of price and commerce was in harmony with the general trend of the development of economic thought. In China in particular, Fan Li was perhaps one among a limited number of thinkers and probably the best among them to approach these problems.

Chapter Three

ECONOMIC THOUGHT OF CONFUCIUS AND HIS SCHOOL

The Confucian school, sometimes referred to as the "Ru" school, or the School of Literati, was the first and also the most influential school of thought in the history of China. The serious consequences it had on the political, social and ideological aspects of Chinese life for more than two thousand years are now widely recognized, but the serious hindrances it placed on the development of the Chinese national economy during the same period have not yet fully been understood. Therefore, in spite of there possibly not being any real merit in its economic thought, it is still of considerable interest.

From the eleventh century onward, whenever people spoke of the Confucian school or Confucian doctrines, they usually meant the school or doctrines attributable to either Confucius or Mencius (Meng Ke). The latter lived about one hundred fifty years after Confucius, in the middle of the Warring States Period, but because his part in the formation of the Confucian school of thought was extraordinarily important, next in importance to Confucius himself, we shall achieve a comprehensive view of the economic thought of the Confucian school as a whole by studying the latter's economic thought together with Confucius'. We shall follow this approach when we come to the economic thought of other schools in the pre-Qin period.

Section I

CONFUCIUS AND HIS IMMEDIATE FOLLOWERS

Confucius (the latinized name of Kong Qiu, 551-479 B.C.) lived at the end of the Spring and Autumn Period. With the family name

of Kong and the personal name Qiu, he was the first scholar to set up a private school to enroll and teach numerous pupils. Although he became the founder of a school of thought, he did not himself compose any doctrinal works, except for the very simple *Annals of the State of Lu*. A book that contains his sayings and conversations, entitled *Analects*, is considered to have been the joint production of some of his chief disciples. These teachings were amplified and consolidated in two other treatises, *The Great Learning* and *Doctrine of the Mean*. The former is believed to be the work of his disciple, Zeng Shen, and the latter the work of his grandson, Kong Ji. These three works, together with *Mencius*, a joint production of some disciples of Meng Ke, constituted the most sacred portion of the Confucian canon, the so-called Four Books, which until the beginning of this century every Chinese schoolboy had to recite. We shall deal first with the economic thought embodied in the *Analects*.

(1) Wealth

Before Confucius other Chinese thinkers had attempted to formulate ethical standards for human conduct, but Confucius broadened and deepened this endeavour and named his ethical standards the "rites." At the same time, he preached that human activities must conform to the principle that "a sovereign is a sovereign, a subject a subject, a father a father and a son a son."¹ People should equally respect the social institutions based on this principle. This idea of social ethics occupied a very important place in his philosophical system as a whole and also in his economic thought, particularly in his idea of wealth. He said:

"Wealth and high position are desired by all, but one shall not retain them if they are not acquired in the right way. poverty and humbleness are detested by all, but one shall not quit them if they are not gotten rid of in the right way."²

"I would rather look upon wealth and high position as nothing more than a floating cloud, if they are gotten unrighteously."³

¹ *Analects*, "Yan Yuan."

² *Ibid.*, "Li Ren."

³ *Ibid.*, "Shu Er."

The acquisition of wealth or high position or the riddance of poverty and humbleness must be achieved strictly within the limits of the stipulated ethical criterion. Anybody who acts outside of these limits will be condemned as unrighteous, and toward unrighteous wealth and honour one should assume a cold and disinterested attitude. Confucius had affirmed that man had a natural desire to acquire wealth and would be disappointed at failing to do so. He also preached that the acquisition of wealth should be governed tightly by moral standards. After he said, "It is a shame for one to be rich and honoured when chaos reigns in a state," he immediately added, "It is also a shame for one to be poor and humble when the moral Way is holding its sway in a state."⁴ Therefore, wealth and honour could be actively sought by individuals when conditions were right.

But the philosophy of Confucius also included some fatalistic elements. For example, he said, "If my principle is going to flourish, that's fate; if it is going to fail, that's fate also."⁵ And, "Those who know not their own fate cannot be considered superior men."⁶ Also:

"If wealth can be got by seeking, I would serve even as a driver; if not, I would rather do the things I like best."⁷

"Life and death are preordained; wealth and honour come from Heaven."⁸

So long as a man's poverty or wealth are determined by "Heaven" and "fate" without his being in a position to push his own claim, one ought to be "contented with poverty" and "know one's own fate." This is the fundamental viewpoint on wealth of Confucius. Needless to say, such a concept of wealth would encourage the vast labouring masses to feel contented with their bare and hard life. It could also be applicable in the case of a conflict within the ruling class. The idea was thus rather useful and necessary to the ruling class for the maintenance of the feudal social order.

More importantly, Confucius bestowed a class content on the

⁴ Ibid., "Tai Bo."

⁵ Ibid., "Xian Wen."

⁶ Ibid., "Yao Yue."

⁷ Ibid., "Shu Er."

⁸ Ibid., "Yan Yuan."

ethical criterion in connection with the acquisition of wealth when he stated, "Only the superior man understands righteousness. The inferior man understands only material benefits."⁹ The so-called superior man here signifies a member of the ruling class, including the intelligentsia who served it, while the so-called inferior man signifies the ruled people at large. He meant the understanding as something each had by birth. Thus he took the concepts of righteousness and material benefit as two natural tendencies in opposition to each other, belonging inherently to two antagonistic classes. This distinction and its associations wielded a tremendous influence in the ideological sphere for more than two thousand years, and not only in the sphere of economics.

In the *Analects* it is said, "Confucius seldom speaks of benefit."¹⁰ Such a teaching was incorrectly interpreted by following generations as meaning that Confucius disapproved of acquiring material benefit and was therefore opposed to anyone's pursuing economic activities, particularly intellectuals. In fact, passages related to benefit, material and nonmaterial, are by no means lacking in that book, but this unfortunate simplified, erroneous and groundless remark, along with his ethical view of wealth discussed above, wrought tremendous havoc on the development of a Chinese national economy for centuries, in addition to its influence on Chinese economic thought. Until May 4, 1919, Confucianism had scarcely less influence on the social life of the Chinese people than Christianity had in the West.

(2) Production and Commerce

(A) Production With respect to economic activities in general, Confucius' principle is "to benefit the people with what they think to be beneficial to themselves,"¹¹ i.e., to put no restraint whatsoever upon people's daily affairs, a Chinese version of the modern "laissez faire." The word "benefit" here applies not only

⁹ Ibid., "Li Ren."

¹⁰ Ibid.

¹¹ Ibid., "Yao Yue."

to material things but also to productive activities, as these activities are among the things beneficial to the people. The production of wealth, in his mind, depended entirely upon the power of nature. He said:

"Has Heaven ever spoken? Yet the four seasons run their courses, and hundreds of things are grown."¹²

"Heaven" here means the natural power that is the source of all things produced. As this natural power operates beyond man's control, what people think of as beneficial to their productive activities should be allowed to come of itself, according to circumstances, without arbitrary interference on the part of man.

Another opinion of Confucius on wealth production deserves our attention, although it is not closely related to his theory of production in general. He resolutely opposed men of letters' participating personally in production. This view is expressed in his conversation with his pupil Fan Chi:

"Fan Chi expressed his desire to learn farming. Confucius answered, 'I am not so good at that as an old farmer.' Again Fan Chi asked to learn vegetable growing. Confucius said, 'I am not so good at that as an old vegetable gardener.' When Fan Chi was out, Confucius said, 'Fan Xu [another name for Fan Chi] is indeed a mean man! If the ruler loves propriety, the common people will not dare to be irreverent. If he loves righteousness, they will not dare to disobey. If he loves sincerity, they will not dare to hide what is in their minds. If he does all this, the common people will flock to him from all quarters, carrying their children on their backs. What need has he to know farming?' "¹³

According to this preaching, men of letters must not participate in agricultural production, which is the humble man's business. What the ruling class and the associated literati need to do is just to exercise propriety, righteousness and sincerity. By so doing they will be able to call forth people from all quarters to produce wealth for them, without their participating personally in productive labour, so they have no need to acquire knowledge of production. Confucius also opposed participation in handicrafts by literati and their

¹² Ibid., "Yao Huo."

¹³ Ibid., "Zi Lu."

families. In his opinion handicrafts ought to be left "to the artisans in the shopping districts."¹⁴

It must be made clear, however, that he didn't oppose the general process of production as such. He objected only to the literati themselves taking part in production. This line of thinking was rather popular among ancient thinkers all over the world. Plato was certainly one of the most distinguished thinkers along this line in European history. In China it was Confucius who for the first time openly advocated and explained the view that the ruling class and its social adjunct, the literati, must not personally engage in production. He even suggested a special livelihood for the literati. He pointed out:

"The superior man looks for knowledge, not livelihood. For him to be engaged in tilling may mean suffering from hunger, but learning will bring him an official post and emolument. What a superior man really worries about is the keeping of his principle, not poverty."¹⁵

In other words, if the so-called superior man devoted himself to book learning for the time being in spite of poverty, he would eventually be able to acquire an official position with an emolument ten or even a hundred times the income from tilling. This was exactly why Chinese intellectuals in the past would not condescend to do physical labour and were even unable to distinguish rice from wheat, making their living only by "selling" the acquired Confucian dogmas.

(B) Commerce However, Confucius did not object to the literati's taking up commercial activities. For instance, he praised highly one of his notable pupils, Duanmu Ci, who was a very rich merchant of the state of Wei. His comment was, "Ci! Why, he refuses to accept a mandate from any state, but becomes wealthy through commerce. He is always right in his conjectures."¹⁶ Ci was placed on a par with Yan Hui, the most esteemed pupil of Confucius. Therefore, it is safe to say that Confucius was favourably disposed towards, or at least made no objection to literati's taking

¹⁴ Ibid., "Zi Zhang."

¹⁵ Ibid., "Wei Ling Gong."

¹⁶ Ibid., "Xian Jin."

part in commerce. As further evidence, he once even drew an analogy between himself and a commodity, saying, "I'll sell! I'll sell! I am waiting for a good price to sell myself."¹⁷

Thinkers of the ancient world, whether in Europe or in Asia, generally looked on commerce as something very inferior to handicrafts. But in the Confucian *Analects* one can hardly find any line that shows disfavour towards commerce. Why is Confucius so opposed to the literati's doing agricultural labour and handicrafts while taking an entirely different attitude towards business dealings? The explanation lies in that, during the latter stage of the Spring and Autumn Period, commerce had already made a tremendous advance. The rich merchants who had no need to participate in manual labour really also belonged to the exploiting class. In this respect, they were "foxes of the same hole" with the literati. Furthermore, there must have been many persons within the rising merchant class who had infiltrated into the ranks of the intelligentsia. All this conspired to persuade him to take a different attitude towards commerce.

(3) Distribution and Consumption

(A) **Distribution** Uneven distribution of wealth was already a marked social problem in Confucius' day and the situation could not possibly have escaped his notice. In his opinion, the root of social chaos was man's unlimited seeking after wealth, his "unrestrained quest for profits," which was "bound to generate much hostility." But poverty can certainly also lead to resentment. As he said, "The poor seldom refrain from making complaints."¹⁸ Nevertheless, he was of the opinion that the so-called superior man was able to be "contented with poverty" and could "live a poor yet happy life." In contrast, the inferior man lived only for the pursuit of wealth. By this reasoning, complaints about poverty meant that one was not a superior man. He came to the conclusion that the problem of uneven social distribution of wealth was chiefly the

¹⁷ *Analects*, "Zi Han."

¹⁸ *Ibid.*, "Li Ren" and "Xian Wen."

problem of wealth distribution among inferior men. Thus he argued:

"I have heard that what worries those who have the state and family under their charge is not the scantiness of wealth but its inequality of distribution—not poverty but disquietude. Under equal distribution, there will be no feeling of poverty; under harmony, no feeling of scantiness; and under tranquility, no danger of the state's being toppled."¹⁹

One should not on the strength of the above-quoted passage come to the conclusion that Confucius was advocating equalizing rich and poor. What he intended was merely to distribute wealth among the members of the ruled class more or less evenly so that none would feel poor in comparison to others, although the standard of living might yet be very low. In other words, when everyone is poor, no one is poor. Such a state of affairs, in his opinion, would erase the discontent brought about by inequality of wealth and therefore greatly reduce the chance of rebellion against the ruling class. But this principle was not applicable to the aristocratic ruling class, the members of which generally saw nothing to complain about.

Confucius' idea of distribution of wealth is noteworthy because it was the first time a theory pointed out unequal distribution of wealth as a primary cause of social conflicts. His sayings on this point have been quoted time and again in many ages by countless progressive thinkers as the canonical basis for their arguments against rich and powerful families.

But Confucius only posed the problem. He did not suggest any measures to even differences in wealth. Furthermore, his sympathies

¹⁹ Ibid., "Ji Shi." Regarding the interpretation of this passage, there once existed a scholium by exponents of the School of Principle, or Neo-Confucian scholars as they are usually termed in the West, during the eleventh and twelfth centuries that differs from ours. According to this scholium, the explanation of the passage runs as follows: ". . . will be troubled not by the scarcity of *people*, but by the *difficulty for each of them to make a living* . . . Because if everyone earns a living no one will be poor." In such a sense, the connection between the problem of inequality and that of distribution will certainly sound rather far-fetched. However, ever since the second century B.C., it had generally been understood by Confucians that what was being talked about here was the relationship between the distribution of wealth and the problem of equality.

were with the feudal ruling class. He insisted that all the ruled should be "content with poverty," "know their fate" and so on. His advice for the well-to-do people was that they should be "rich but not conceited" or "rich and yet good mannered." When these conditions are fulfilled, then everyone will live together under Heaven peacefully. The cause for some people in a class society being rich and vast masses of people being poor never occurred to him. Nor was the constant polarization of rich and poor with its concomitant inexorable class conflict ever brought home to him. But here allowance must be made for his historical setting. The contribution of an ancient thinker does not lie so much in his ability to solve a problem as in his ability to raise one. It is enough that he stated the problem.

(B) Consumption Confucius' idea of consumption may be summarized in two points. Its general principle is contentment, and the standard of consumption is "thrift without violence to the rites" and "spending without detriment to righteousness."

The principle of contentment formed a very important part of the whole Confucian system, not only in his idea of consumption. What then is the standard or basis for this contentment? The greed of the feudal ruling class might be a bottomless abyss, but its actual consumption was limited by the quantity of riches its members could amass. The consumption of the common people had, of course, to be kept within their meagre income. This then was the objective basis upon which the principle of contentment had to be built.

Confucius' doctrine was that every man in each class in society should be contented with the standard of living appropriate to his own social caste. Based on this premise, his idea of the standard of consumption was thrift in general, but with two limitations. First, any expense necessary for the rites should not be curtailed. This was what he called "thrift without violence to the rites." Second, the way of life of the literati should be as plain and simple as possible, at least while they were in a humble position. However, once they acquired an official position, they should enjoy the standard of living appropriate to their official rank, in order to keep up the dignity of the ruling class. This includes "eating delicious

food, being spared going about on foot, being given the privilege to travel in a carriage" and so on — exactly the luxuries Confucius himself had taken up when he came to the post of minister of the state of Lu. In short, an individual's spending should not do violence to the principles of righteousness, but accord with his social caste, official position or emoluments.

Thus Confucius' conception of consumption was permeated through and through with his feudal ethics. People of the lower stratum of society ought to live on a subsistence level and be content with their poverty, whereas living a luxurious life was the way members of the ruling class conformed to the principle of contentment. Of course, there was no need for them to be "contented with poverty."

(4) State Finances

Although Confucius considered that an individual's acquisition of wealth came after ethical requirements, when he considered the wealth of a state, he recommended otherwise. In the *Analects* we read:

When Confucius was on his way to the state of Wei, Ran You [his pupil] acted as the driver of his carriage. Confucius observed, "How numerous are the people!" Ran You asked, "Since they are now numerous, what more shall be done for them?" Confucius replied, "Make them well-to-do." Ran You asked, "And when they are well-to-do, what more shall be done?" Confucius said, "Give them a good education."²⁰

When a state is populous, the thing to do is to make the people rich and educate them. Here it is already quite clear that, to Confucius, wealth is of paramount importance in ruling a state. A similar thought can be found elsewhere in the *Analects*: "The important things to people are food, funerals and the sacrifices."²¹ "Food" (or wealth) is given first place. The same view can be found in the following passage:

"The great virtue of heaven and earth is life; that which is of greatest value to the sage kings is the throne. How can the throne be main-

²⁰ Ibid., "Zi Lu."

²¹ Ibid., "Yao Yue."

tained? Through the people. And how can people be gathered? Through wealth."²²

Thus, wealth was the condition for gathering the people together and maintaining the throne. Once he was asked by one of his pupils how to administer the government of a state. His reply was, "Benefit the people with what they think is beneficial to themselves."²³ Concretely, this means running the state by emphasizing "riches," "food," "benefits" — by placing wealth above all other things. Chinese scholars in the past generally claimed that Confucius seldom talked about material benefits and subordinated them to his ethics whenever he did. This was because they confounded Confucius' political guidelines for ruling a state with his ethical guidelines for individual behaviour. Although Confucius did say that the acquisition of wealth must not be the "superior man's" primary aim, this is not tantamount to denying that the solution to the people's problem of material being must occupy the foremost place in a political programme. Only when this point is fully understood, can we proceed to study Confucius' concept of finance.

Confucius' thought on state finances can be dealt with in three categories.

(A) Retrenchment encouraged and heavy tax opposed On public expenditure he advocated, "Regarding the rule of a great state . . . retrenchment in expenditure and care for the people should be practised, and people's labour service should be used only at the proper time."²⁴ He was resolutely opposed to heavy taxes as a means to amass fiscal revenue, as the following incident illustrates. Ran Qiu, his disciple and a high official of the state of Lu, once participated in a plan proposed by the senior official Ji Sun to increase the land tax of Lu. Upon learning of this, Confucius charged Ji Sun with the misdeed of having become even richer than the Duke of Zhou and threatened to punish his assistant, Ran Qiu, calling on the other pupils to attack him: "Ran Qiu is no longer

²² *Book of Changes*, "Xi Ci."

²³ *Analects*, "Yao Yue."

²⁴ *Ibid.*, "Xue Er."

my pupil. You, my pupils, may beat the drum and attack him.”²⁵

He was very firm with regard to a low rate of taxation. Any state step or measure that would increase the tax burden of the people was bound to meet with his opposition. After his death, however, this doctrine against heavy taxation was often repeated as dogma but with virtually no practical significance or effect.

(B) Productive view of taxation Confucius emphasized respect for the sources of taxes. No tax should be collected if it might be “draining the pool to catch the fishes there.” His pupil Ran Qiu restated his view on this subject as follows:

“How can a prince suffer from destitution when the common people are enjoying abundance? How can a prince enjoy abundance while the common people are suffering from destitution?”²⁶

It may be of interest to the reader to point out that this financial idea is quite similar to the French Physiocrats’ celebrated maxim “Poor peasants, poor kingdom; poor kingdom, poor king.” In effect, the state must not kill the goose that lays the golden eggs but let people carry on their productive activities smoothly, so that steady state revenue might be guaranteed. In other words, he observed the problem of taxation from the viewpoint of production, which was rather exceptional in the history of ancient financial thought.

(C) Tithing preached A “tithe” for Confucius meant a land tax counted on the basis of ten percent of the yield. Confucius and his followers took a tithe as the ideal rate to be imposed upon land. Meng Ke, more than one hundred years after Confucius, vigorously propagated the principle, and it became a political slogan of Confucians. As a matter of fact, the actual rate of land tax imposed was very much higher than ten percent, the principle never having been put into practice. However, it is significant not because of its practicability, but because it was always a theoretical weapon used by thinkers who fought heavy taxes.

²⁵ Ibid., “Xian Jin.”

²⁶ Ibid., “Yan Yuan.”

(5) General Survey of Confucius' Economic Thought

The economic thought of Confucius was permeated with ethical considerations. He had contempt for labour and paid only scanty attention to the production of material wealth. He particularly opposed the participation of the literati in production. This attitude, through the Confucians, dominated the feudal society of China for more than two thousand years. Confucianism was certainly one reason why China's feudal economy developed so slowly. Although strictly speaking Confucius' teachings did not include much on economic thought, some aspects of his ideas are worthy of attention.

In the first place, whether right or wrong, or even reactionary, the economic thought of Confucius generally contained ideas that were new, that is, not propounded by his predecessors. In the second place, although his economic thought consisted of merely a few simple doctrines, they marked out the ground of general economic thought for the whole feudal period. Thus for a period of about two thousand years any economic opinion or policy was bound to be condemned as heterodoxy if it was not guided by or disguised as a Confucian doctrine. In the third place, the feudal economy did make some slow advances from time to time. When an economic reform or a new economic policy was proposed or about to be carried out, the struggle between it and traditional Confucian dogma would become very acute. As a result, these struggles became an important part of the history of economic thought in feudal China, particularly in its later stages. Hence despite its simplicity and even incorrectness, Confucius' economic thought should be taken seriously by students of the history of economic theory in China and in the world as well.

Besides the *Analects*, there are some other Confucian canonical books — *Great Learning*, *Doctrine of the Mean* and a chapter titled "Li Yun" in the *Record of Rites* — that are traditionally believed to have been written by persons closely connected with Confucius. We shall treat them in the following sections.

(6) Economic Thought in *Great Learning* and *Doctrine of the Mean*

In feudal China the economic thought embodied in both *Great Learning* and *Doctrine of the Mean* was regarded as being as valuable as the canonical teachings in the *Analects*, but some of the views in these two books are at odds with the thought in the *Analects*. Later Confucians, however, ignored the discrepancies and quoted passages that fit their needs.

(A) *Great Learning* In *Great Learning* just one economic problem was tackled, the problem of the wealth of the state, or strictly speaking, the problem of state finance. Here, the view is rather different from that of Confucius. As we have seen, Confucius considered the means of subsistence needed by the people of foremost importance to the wealth of the state, whereas in *Great Learning* the "virtue" of the prince is viewed as paramount.

"Therefore, the superior man [the prince] must first look after his virtue. Once he has virtue, he is bound to have subjects. Once he has subjects, he will have territory, and once he has territory, he will have wealth. Once he has wealth, he will have everything at his dispensation."²⁷

The reasoning goes like this. If a ruler governs his people by virtue, people everywhere will owe allegiance to him; the more numerous the people, the more extensive the territory, the more abundant the wealth, and consequently the more wealth placed at his disposal. Hence *Great Learning* came to the conclusion that "virtue is the basic factor, while wealth is only a secondary one."²⁸ On this basis, *Great Learning* then proceeded to supplement the financial thought of Confucius in various ways.

First, it took to a higher point Confucius' opposition to heavy taxation:

"Should wealth be amassed, the people are bound to scatter about. Should it be scattered about, the people will gather."²⁹

The meaning here is clear. A state will become extinct if the

²⁷ *Great Learning*, ch. X.

²⁸ *Ibid.*

²⁹ *Ibid.*

ruler ruthlessly gathers wealth from the people. In contrast, if the ruler spreads wealth around, the state will thrive. This shows that the author of *Great Learning* attacked heavy taxation even more vigorously than Confucius. As a matter of fact, he labelled such a policy as no better than robbery.

Second, as to the sources of taxes, a way to procure wealth for the state is proposed in *Great Learning*:

"There is a royal way to produce wealth. When producers are as numerous as consumers are few and goods are produced faster than they can be used up, there will be abundant supply of wealth."³⁰

This is to say that the wealth of the state should be investigated through the interrelationship between its production and consumption. It is the unique view concerning the national production and its relation to national consumption brought forward by the canonical *Four Books*. This quotation became a dogma cited frequently by the later Confucians whenever they talked about the problems of wealth production and consumption.

(B) *Doctrine of the Mean* The striking thing about the economic thought embodied in *Doctrine of the Mean* is that while in some respects it merely supplemented the principles of Confucius, in other respects it opened up a fresh outlook, different from all other Confucian works.

First, the scope of natural power in this canonical work was extended beyond Confucius' original conception of heaven to include the earth as well. The earth here was crystallized into mountains and waters and was reckoned as the root from which all things derive their being. The relevant passage reads:

"Now with regard to the mountain, it may be no more than a handful of stones to begin with, but when it becomes extended, grasses and trees grow there, birds and animals make their habitat there, and enormous treasures are found there. As for the water, it may be no more than a ladleful in quantity to begin with, but when it becomes vast and unfathomable, tortoises, serpents, dragons and turtles breed there, and goods and wealth multiply there."³¹

³⁰ Ibid.

³¹ *Doctrine of the Mean*, ch. XVI.

Thus the intangible natural power of production recognized by Confucius was given a tangible content.

Second, the fatalistic view first expounded by Confucius was also accorded fuller treatment:

"A man should behave as a wealthy and noble man if he is habitually placed in a wealthy and noble setting, but he should behave as a poor and humble man if he is habitually placed in a poor and humble situation. Above, he should not grumble against Heaven. Below, he should not blame other people."³²

As we have seen this view before, no further comment is necessary. But there is a new economic conception in *Doctrine of the Mean* that deserves some attention here, and that is the view that handicrafts also create wealth. The tremendous development of handicrafts during the Warring States Period brought forth two antagonistic views on the question of handicrafts. One view opposed or even attempted to suppress them, while the other view affirmed the importance of their social function and attach high value to them. The author of *Doctrine of the Mean* belonged to the latter group. His view was that "welcoming artisans of all sorts will keep national finance well supplied." So he placed "encouraging artisans" among the Nine Cardinal Tasks of the state. As to the concrete methods for encouraging artisans, he proposed "daily inspection and monthly review of these industries" and "reward according to the work done."³³ As an economic idea, this was something new for a Confucian.

One other interesting thing about *Doctrine of the Mean* is that it hardly mentions agricultural work. Agriculture is not even mentioned in the Nine Cardinal Tasks of the state listed in the book. This is of particular importance because from the middle of the Warring States Period on, handicrafts and commerce were looked on by intellectuals as mean and disgraceful work. In view of this, the importance attached to handicrafts was certainly a peculiar feature in the canon.

³² Ibid., ch. XVI.

³³ Ibid., ch. XX.

(7) The Ideal of Great Harmony

The ideal of Great Harmony, or a "world commonwealth," of the early Confucians was praised at the end of the nineteenth and the beginning of the twentieth century as ancient "socialism" in China. The ideal came up in a conversation between Confucius and his people recorded in the article "Li Yun" in the *Book of Rites*. Modern Chinese scholars generally believe that Confucius himself did not write this, though who the author was and when it was written remain to be settled. That the ideal was formulated by earlier Confucians is certain, for the article was recognized as a canon by all Confucians from the second century B.C. onward. The following is the original text of the ideal of Great Harmony:

"When the Great Way prevails, whatever is under Heaven will be for the public. Men of wisdom and ability will be chosen for posts. Faith will be kept, and friendliness cultivated, so man will not cherish only his own parents and look after only his own children. There will be happy endings for the aged, work for adults, and the opportunity of growth for those at tender ages, while widowers, widows, orphans, the childless, and the disabled and sick—all these will be insured of their livelihood. The male will get matched and the female will have her home. Man will think ill of having goods lying idly on the ground, but will not keep them exclusively for himself, and he will feel bad only for not having more energy in himself, but will not use what energy he has for his own personal purposes only. This being so, conspiracy and scheming will stop; robbery, theft, disorder and rebellion will find no occasion to rise. Then there will be no need to lock one's front door. This state of affairs is what we call the Great Harmony."

Here the phrase "whatever is under Heaven" in the above quotation should be taken in its broader sense to include man's political, social and economic life in general, not property ownership in particular. But the ideas that man should not keep goods exclusively for himself and one's energy should not be used exclusively for personal purposes leaves no doubt that what "Li Yun" intended was an economic system based on public ownership.

Here again the relationship between man and man that the creator of Great Harmony sought was one in which everybody would treat other people's parents and other people's children as his own. Mutual faith and friendliness were also encouraged. Obviously, under such a system, there would be no possibility for class antagonism.

Furthermore, when all adults have work and no one works exclusively for his own interests, there would be no *raison d'être* for the exploitation of man by man.

On the whole, in such a society of Great Harmony everything would be communal, with the possible exception of family and sexual life. There would be no classes, no exploitation, and everybody would participate in work unselfishly. The relationship between man and man would be equal and friendly. Under these conditions, conspiracy and scheming, robbery, disorder and rebellion, etc., would naturally become meaningless and lose their temptation, for the perfection of the material life of mankind would inevitably bring about a fundamental change in mental outlook.

From ancient times until the nineteenth century, not a few famous European thinkers attributed social chaos to the dissatisfaction of man with both his material and sexual life. In a way, the idea of Great Harmony can be considered as the Oriental counterpart of this line of thinking, although it did not and could not show us the road to the realization of the harmony it preached.

Interestingly, the ideal of Great Harmony and Plato's "communitistic" ideal society were propounded more or less in the same historical period. But there are two distinctions to be made between these two ideals. First, Plato's "communism" applied only to the three upper social classes, the great masses of slaves being excluded. Moreover, Plato insisted on communal matrimony with a view to diminishing mutual discords and jealousies among men, while "Li Yun" held that the enjoyment of family life by man and woman was one of the requirements of Great Harmony. Among the fancies and imaginings that appeared in the ancient world, few really could equal the idea of Great Harmony in attraction and sublimity.

Section II

ECONOMIC THOUGHT OF MENG KE (MENCIUS)

When men spoke of the Confucian doctrines or the doctrines of the Ru School during past centuries, precisely what did they mean?

They meant those doctrines developed by both Confucius and Mencius. The economic thought of the Ru School was, therefore, chiefly the economic thought of those two thinkers. Hence they are treated together in one chapter, regardless of the span of more than a century between them.

Mencius (the latinized name of Meng Ke, c. 390-c. 305 B.C.) was also the name of a Confucian canon that recorded his conversations and teachings. For the sake of convenience, *Mencius* will henceforth be used to signify the book and Meng Ke to signify the thinker himself.

(1) Fundamental Attitude Towards Wealth

At the very beginning of the first chapter of *Mencius*, Meng Ke in answer to a question from Prince Hui of the state of Liang said, "I have nothing other than benevolence and righteousness, so why speak of benefits?"³⁴ Such a saying gives one the impression that Meng Ke, like Confucius, rarely talked about material benefits. This is altogether an illusion. As a matter of fact, among the earlier Confucians he not only probed more economic problems than others but expressed a number of eminent and worthy opinions on economics. In spite of this, this remark of his led to some unfortunate developments in later economic thought and also in the Chinese social economy in general.

In the field of economic problems, what he stressed first of all was the effect of human behaviour on economic affairs. He was not much concerned with the motives for such behaviour. This was very different from the view that emphasized ethics as paramount. This view can be found in one of his conversations with his pupil, Peng Geng:

"Peng Geng asked [of Meng Ke], 'When a wheelwright makes carts and carriages, his intention is to gain a living. Is the superior man's intention also to gain a livelihood when he talks of moral principles?' Meng Ke said in reply, 'Why should you care so much about their intentions? It is because someone has done you some good deeds and you deem him worthy to be fed that you feed him. Do you feed him for

³⁴ *Mencius*, "Liang Hui Wang" I.

his intention or for his good deeds?' 'For his intention.' Then Meng Ke said, 'Suppose an artisan, with the intention of earning a living, breaks your roof tiles while painting your wall. Will you feed him, then?' 'No.' Then Meng Ke said, 'So whether you feed him depends not so much on his intention but on the actual deed he has done for you.'³⁵

To feed one for the work he has done, taken liberally, means that consideration is given to the result rather than the motivation. Starting from this basic viewpoint, Meng Ke then went on to talk about many economic problems, and his ideas on wealth were clearer than Confucius'. Unlike Confucius, he did not place individual wealth in a position subordinate to moral considerations, being fully conscious of the effects of the conditions of the material life on man. As evidence of this he said, "Young men are inclined to be temperate in the fat years, but prone to be violent in the lean years."³⁶ Again he pointed out that the difference between the young men of the ruling class and those from among the common people was "their different environments of living," and the reason the voice of the prince of the state of Lu resembled that of the prince of the state of Song was that both lived under similar circumstances.³⁷

However, in case of a contradiction between the choice of material gains or moral criteria, he did not insist absolutely on the latter to the neglect of the former. In this he differed greatly from Confucius. This can be made clear from the following passage:

Wu Luzi [a pupil of Meng Ke] was asked by somebody of the state of Ren, "Between the rites and food, which is more important?" He answered, "The rites." Again the questioner asked, "Which is more important, the rites or a woman companion?" "The rites again." The questioner, "Well, one might starve to death if food had to be gotten according to the rites; otherwise he could easily get food. Must one then act according to the rites? One might never get a wife if he had to fulfil the requirements of the wedding ceremony; otherwise he could get married. Must the man then also behave according to the requirements of the wedding ceremony?"

Wu Luzi couldn't answer these questions, so he went to the state of Zhou next day to ask his teacher. Meng Ke said, "Why should the answers be so difficult? If you don't probe into the cardinal factors, but

³⁵ Ibid., "Teng Wen Gong" II.

³⁶ Ibid., "Gao Zi" I.

³⁷ Ibid., "Jin Xin" I.

try to equate the secondary ones, a cubic-inch piece of wood may even be higher than the roof of a big building. [When we say] metal is heavier than feathers, do we mean that the comparison is drawn between a small metallic hook and a cartload of feathers? When getting food is of primary importance and observation of rites of minor importance, after weighing the relative importance of each, why not give preference to getting food? Similarly, when mating is all important and rites relatively less so, after striking a balance, why not take to mating? So go back and reply to him, 'If by striking your elder brother on the arm and robbing him of his food, you get something to eat, and otherwise you will get nothing, would you then attack your brother? By climbing over your east neighbour's wall and forcibly embracing his virgin daughter, you may be able to mate, and otherwise you will get no wife. Will you then forcibly embrace her?'³⁸

This is just one of many similar passages in *Mencius*. What he wanted to bring home here is that one should balance the relative importance of wealth and moral criteria and then decide which to go by. But it is also clear that he, too, objected to considering wealth separately from moral criteria.

In dealing with the problem of the wealth of a state, however, he was firm in holding that the consideration of moral criteria should be given priority over wealth, a view contrary to that of Confucius. When the prince of Liang asked, "Now that you, a venerable old man, have travelled a thousand li to come here, do you have benefits to confer on my state?" As related above, his answer was, "I have nothing other than benevolence and righteousness, so why speak of benefits?" Then he added, "If material benefits are given priority over righteousness, then there will be endless strife and plundering."³⁹ When once somebody was going to persuade the princes of Qin and Chu to desist from waging war by convincing them that war would not benefit either of them, Meng Ke also urged that benevolence and righteousness be used as arguments to persuade these princes, and that to speak of benefit or profit under the circumstances was rather superfluous.⁴⁰ His objection to wealth being given the first consideration by government was very striking, and it applied also to agricultural

³⁸ Ibid., "Gao Zi" II.

³⁹ Ibid., "Liang Hui Wang" I.

⁴⁰ Ibid., "Gao Zi" II.

activities, which were usually given first consideration by ancient thinkers. He argued:

"It is no disaster for a state to leave the countryside uncultivated and goods unaccumulated. But when the high are without rites, the low without learning and the villainous prevail, the extinction of the state might come in no time."⁴¹

And:

"Nowadays, those who serve a ruler say, 'I can reclaim the land and replenish the treasury for the ruler.' Now these so-called good ministers are just what the ancients would call thieves."⁴²

However, Meng Ke was hardly of the opinion that economic affairs could be neglected in the government of a state. For instance, when Duke Wen of the state of Teng asked him how to govern a state, he emphatically pointed out that "the people's affairs [i.e. farm work] should not be delayed." We shall later show that he actually developed a set of methods for dealing with the state economy. The difference between his attitude towards wealth and that of Confucius can be explained in the following way. During Meng Ke's day many big ducal states practised the policy of "broadening territory and increasing population" by means of waging wars. He was strongly opposed to this tendency, as he emphasized in his conversations with princes and dukes whenever possible. This explains why he gave the impression of being reluctant to put economic matters first in the ruling of a state. Actually, his attitude in this matter was not very much different from that of Confucius. He did not understand that the annexation wars of that time were an inevitable historical process for the birth of a united feudal empire, though they might bring about misfortune to the people in the meantime.

Regarding the sources that produce wealth, Meng Ke inherited the views in *Doctrine of the Mean*, such as that land is the source of all materials for production. But the word "land," in Meng Ke's mind, was meant to include the cultivated farm, mountains that abound in woods and wild animals, and waters full of marine products. Although his scope of wealth might be somehow wider than

⁴¹ "Li Lou" I.

⁴² Ibid., "Gao Zi" II.

that of his predecessors, it still lagged behind the view of Mo Di, who lived about one century before and whom he fiercely attacked.

(2) Permanent Property

The conception of "permanent property" was one of Meng Ke's outstanding economic ideas. It was also the earliest conception ever advanced that openly defended the ownership of private property. He said:

"The Way of the people is like this. Those who possess permanent property have constancy of purpose, and those who do not possess permanent property have no constancy of purpose. If they don't have constancy of purpose, they will live licentiously, immorally and wastefully, stopping at nothing."⁴³

The scope of the so-termed permanent property included agricultural, industrial and commercial properties, especially land. For everyone to possess a given amount of permanent property was in his eyes the prerequisite for maintenance of social order and good conventions. It was a defence for private property ownership from the standpoint of the stability of the social order.

In view of the widespread development of private ownership of land in the Warring States Period, this concept should be taken as a progressive idea that conformed to the reality of the time, since the establishment of such private property ownership certainly did help to increase the productivity of labour. The ideal condition of the individual economy of a peasant family was, in his opinion, as follows:

"If, on a house site of five mu, mulberry trees are grown, men of fifty years of age and over will be able to wear silk, and if the domestic animals—chickens, pigs, dogs, etc.—are bred in good time, those of seventy may be able to take meat. On a hundred mu of farmland, if farming is done according to the seasons without interference, a family of eight may have no fear of starvation."⁴⁴

Such a system of small-scale peasant economy was mentioned

⁴³ Ibid., "Teng Wen Gong" I.

⁴⁴ Ibid., "Liang Hui Wang" I. One mu, in the Warring States Period, equalled roughly one twelfth of an acre.

several times in *Mencius*. Evidently, it was to him the ideal unit of social economy. Together with independent handicrafts, it was really the basis of the feudal mode of production of his time. This explains why he paid such great attention to it. Unfortunately, he did not tell us where the hundred mu of land for each peasant family could be obtained. Perhaps he took the existing situation for granted, because the small size of the land holding (a hundred mu) he mentioned was what prevailed in those days. Many other thinkers in the Warring States Period also mentioned this fact.

As to small, independent handicrafts, they occupied a dominant position in cities under feudalism in those days. Their working places and instruments generally belonged to the producers themselves as the means of production. These means undoubtedly were included in what Meng Ke called "permanent property."

Under circumstances in which land was being traded freely on a large scale and independent handicrafts were becoming unprecedentedly prosperous, a thinker defending permanent property or private property ownership was really in conformity with the historical trend of his time. At the same time he made an exception for the literati, who, he thought, alone were "able to have constancy of purpose without permanent property."⁴⁵ Whether he was right or wrong we leave to readers to decide.

(3) Labour

(A) Division of labour The idea of division of labour is another of Meng Ke's eminent concepts, although he did not employ the modern term to express it. His lucid and keen arguments in defence of the division of labour were unusual among the thinkers of the ancient world. They were shown at some length in a conversation he had with Chen Xiang, a pupil of the contemporary thinker Xu Xing. Meng Ke objected to the doctrine of Xu Xing, who demanded that everybody be self-sufficient, even the ruler, who should till the soil shoulder to shoulder with his people. The conversation runs:

⁴⁵ Ibid., "Liang Hui Wang" I.

- Meng Ke asked, "Does Master Xu eat only corn sowed by himself?"
Chen Xiang replied, "Yes."
Meng: "Does Master Xu wear only fine cloth woven by himself?"
Chen: "No, he wears rough cloth."
Meng: "Does Master Xu have a hat?"
Chen: "Yes."
Meng: "What kind of hat?"
Chen: "A silk hat."
Meng: "Was it woven by himself?"
Chen: "No. He gave corn in exchange for it."
Meng: "Why didn't Master Xu weave it himself?"
Chen: "It would do harm to his ploughing."
Meng: "Does Master Xu use a kettle and pan to cook and ironworks to plough?"
Chen: "Yes."
Meng: "Are these made by himself?"
Chen: "No, he exchanged corn for them."
Meng: "If a farmer who gives his corn in exchange for tools does no harm to the potter and blacksmith, how can the potter and blacksmith, who give the tools they made in exchange for corn, do harm to the farmer? What is more, why doesn't Master Xu mould and forge himself and get all the tools needed from his own house? Why does he rush to exchange with all the artisans? Why doesn't Master Xu mind the trouble so incurred?"
Chen: "It is impossible for a single person to do the work of the artisans and the ploughing at the same time."
Meng: "But then, how can the governing of a kingdom be carried on at the same time as the ploughing by a single person? . . . The physical requirements of a man are provided for in advance by the work of the artisans. If only things made by oneself are to be made use of, the people of the whole kingdom will be running about the road without anything being achieved."⁴⁶

Even a cursory reading of the above conversation will enable one to catch the significance and necessity of the division of labour: It was probably the most charming discourse on this subject that was ever seen in the ancient world. The advantages of the division of labour were also given by him. Thus:

"Should you refuse to exchange your works and goods with others so as to use what is in surplus to supplement what is in want, then the farmers would have surplus corn and the weavers would have surplus cloth. But if you agree to make the exchange, various artisans will get feeding from you."⁴⁷

⁴⁶ Ibid., "Teng Wen Gong" I.

⁴⁷ Ibid., "Teng Wen Gong" II.

We shall explain the doctrine of Xu Xing in more detail later. Here we can see that Meng Ke had powerful arguments against his disparagement of the social division of labour.

(B) Attitude on labour Meng Ke's correct idea, however, did not help him draw a correct conclusion. On the contrary, he drew a very reactionary conclusion that was cited again and again by the ruling class and particularly the intellectuals during the next two thousand years. His conclusion ran:

"Therefore, we say: Some do mental work, some do manual work. Those who do mental work are to govern, those who do manual work are to be governed. Those who are governed are to feed, those who govern are to be fed. This is the universal rule of the world."⁴⁸

Ruling a kingdom, so he thought, was mental work and the affair of the man in high position, the superior man. Handicrafts and farming constituted manual labour and were the affair of humble men, or inferior men. Therefore, the mental workers should govern the manual workers and be supported by them. Again, "Whenever there is no superior man, there will be no one to govern the inferior man, and whenever there is no inferior man, there will be no one to support the superior man."⁴⁹ This was what he called a universal law.

In the light of present day, this is probably the most reactionary idea ever advanced in this field, but the appearance of such a view was consistent with the historical situation then existing. In a society where the productivity of man was still not fully developed, the division of labour between mental and manual work was an inevitable product of history, which we can see in the Western as well as in the Chinese ancient world. Meng Ke only expressed it more systematically and more openly. In later chapters we shall see that thinkers in the Warring States Period who embraced such a reactionary point of view were not limited to the Confucian school, for it reflected the objective conditions of the time.

⁴⁸ Ibid.

⁴⁹ Ibid., "Teng Wen Gong" II.

(4) Price and Forestalling

The price of a commodity, Meng Ke held, was determined by its quality, so that difference in the quality of goods formed the basis for differences in prices. He said:

"As to the inequality among different things, it is really something inherent in their nature. In price, one commodity may cost twice as much as some other commodity, or ten to a hundred times, or even a thousand times as much as the other commodity. If you attempt to level and equalize them, that will bring disorder into the world."⁵⁰

As an exposition of commodity prices, this is nothing special, but it is at least interesting to the extent that he had tried to find in the commodity an inherent factor that determined the price. Such cognition was itself a step towards unfolding the secret of the theory of value. Unfortunately, he did not tell us clearly what that inherent "nature" was that determined price. Of course, it is not to be expected that such a question could be answered adequately by an ancient thinker. He only pointed out that, if a definite price was fixed regardless of such a "nature," e.g. if large-size and small-size shoes were to be sold at the same price, then either "nobody would wish to produce them" or the traders "would vie with each other in trying to practise dishonesty."

In the history of Chinese economic thought, the term "monopoly," or rather "forestalling," as usually employed in general history, was first used in *Mencius*. The Chinese word for the modern technical term "monopoly" is adopted from this usage in *Mencius*. What he called forestalling was an indecent practice of traders on the market. He said:

"In antiquity, the market was the place where one might exchange what one had for what one did not have, and the officials merely made certain that business was being carried on in an orderly fashion. Later, there were mean persons who always sought and stood on some elevated ground so as to look around and to seize opportunities to practise profiteering. The public condemned them as being mean, so the government imposed a tax on them. Henceforth began the taxes on merchants."⁵¹

⁵⁰ Ibid.

⁵¹ Ibid., "Gong Sun Chou" II.

Whether commercial taxes in early times were imposed because of the forestalling activities of traders is of course a question requiring further investigation. But the Chinese economic term "monopoly" was definitely derived from the passage quoted above. Meng Ke even called the special privileges of wealth and honour enjoyed by the ruling class as "private forestalling."

(5) Finance

Meng Ke's idea of finance was based on his oft-repeated political platitude "benevolent rule." Its most outstanding feature was that the taxes levied should depend upon whether or not they were beneficial to the people. He remarked:

"If a ruler does not yearn for the moral principle and devote himself to benevolence, then anyone trying to enrich him will be just enriching the tyrant, Jie."⁵²

"To enrich a ruler who does not practise benevolent rule will certainly be denounced by Confucius."⁵³

In the days of Meng Ke the taxpayers were mainly common landlords who, as a newly rising class, had not yet ripened into a ruling class. In addition, there were great masses of newly emerging independent peasants. He suggested that something like a single tax on land should be adopted as a matter of policy:

"Should no dues be levied on the trading houses in cities and no goods tax be paid, provided only that the business is done in accordance with the market regulations, all the merchants under heaven would wish to be lodged in your highness's cities. Should the goods crossing the passes be checked only and allowed to pass duty-free, all the passengers under heaven would wish to travel on your highness's roads. Should the tillers pay no land tax, but be required only to assist in the public farms, all the farmers under heaven would wish to till in your highness's countryside. And should no poll tax be paid by persons without occupation and no tax on unused sites be levied in cities, all the people under heaven would wish to be your highness's subjects."⁵⁴

The above passages may lead our readers to the conclusion that

⁵² Ibid., "Gao Zi" II.

⁵³ Ibid., "Li Lou" I.

⁵⁴ Ibid., "Gong Sun Chou" I.

Meng Ke had renounced all kinds of tax. However, this was not what he really meant. There is one point in this connection he did not understand. The system of assisting on public farms but paying no land tax, which he so heartily endorsed, was, in the eyes of modern political economy, nothing but a kind of compulsory labour service, a nonmonetary form of land tax. In other places he repeatedly showed his keen interest in tithing as a tax system for agriculture. In either case, however, it was plain that he thought only agriculture should be taxed, and of the two kinds of taxes on it, he preferred compulsory labour service on public farms.

He also made a study of the forms of collection. He resolutely opposed the tribute form of collection, i.e., an agricultural tax in kind of a fixed amount to be paid by the farmers. His argument was that, as the system then was, the yearly amount of produce to be paid as tax was fixed in advance on the basis of an average of several years' previous land yields, but the result was rather unsatisfactory.

"Because in a bumper year, the grains are much too abundant, so it may not be cruel to the people even if more than the fixed amount is collected. Yet, no such excess amount can be taken. In a year of bad harvest, the yields may not be enough to cover even the cost of the fertilizer. Yet the tax obligation must be fulfilled just the same."⁵⁵

In other words, once fixed, the yearly amount of tribute would lack flexibility in actual application. The form of collection he preferred was "zhu" (assistance), in which the tiller would assist in cultivating a piece of public farmland roughly equal to one ninth of his own private land, which, in Meng Ke's ideal system, was one hundred mu per family. The tiller would need to pay no more land tax. Such a form of collection, in Meng Ke's opinion, was the best system of taxation, because the amount collected by the state was just the amount yielded by the public farm. It would bring no disadvantage to the tiller taking part in the work. But again he did not understand that as a tax system, compulsory labour service was more backward than

⁵⁵ Ibid., "Teng Wen Gong" I.

tax in kind, no matter whether viewed from the angle of the state or of the tiller.

Regarding the rate of taxation, he frequently argued for a one-tenth agricultural tax, but the ideal tax burden, as embodied in the aforementioned "zhu" system, was about one ninth. It was like this: "In the cities and suburbs the farmers are supposed to pay a tax of one tenth of their land products," while "in the countryside they spend about one ninth of their yearly labour in tilling the public farmland." This latter system was what he wanted to stick to.

Another interesting thing in relation to his idea about the rate of taxation was that he insisted on the one-tenth system and stubbornly opposed any other tax rate suggested by his contemporaries, regardless of whether it was higher or lower than one tenth. He forgot that, on the one hand, a tax rate lower than one tenth was really in conformity with the slogan of "light taxes," which he had frequently and actively propagated, while, on the other hand, his preferred system of using one's one-ninth part of yearly labour to help in the cultivation of public farming was already higher than the one-tenth rate.

(6) *Ideal of Jing Land System*

We now come to the most baffling problem that Meng Ke bequeathed to later generations, the so-called *jing* land system. *Jing* is the transliteration of the Chinese character 井 ("well"). The *jing* land system was supposedly an ancient system of farming and land distribution that cut a piece of farmland into nine hundred-mu-square areas in the pattern of the Chinese character 井 — hence its name. Its central square was said to be the communal farm and the surrounding eight squares, private ones. Whether or not such a land system ever existed in antiquity is still a question among modern Chinese scholars. In relating the history of economic thought, we are most interested in the concept, the problem of its dubious existence being of lesser importance.

Mencius was the first and only ancient work to record such an

ideal.⁵⁶ From the mid-second century B.C. onward, it infatuated millions of intellectuals, and in 1724 the feudal Qing government actually selected two counties in the province of Zhili as experimental sites for it, but the attempt very soon met with failure. In the following chapter our readers will time and again come across the idea and the fruitless quarrels about it. As a matter of fact, up to the mid-nineteenth century its fascination was even stronger than that of the ideal of Great Harmony.

Following is the full text on the *Jing* land System in Mencius:

"Benevolent rule should begin with proper boundaries of farmland in the whole country. If the boundaries of farmland are not correct and the size of land of different *jing* and of different families within a *jing* is not equal, then the grains yielded and emoluments drawn from the land will certainly not be even either. However, tyrants and corrupt officials are always inclined to disregard those boundaries. If the boundaries were properly rectified, the distribution of farmland and the regulation of emoluments would be settled easily.

"Now, the territory of the state of Teng is small, but the superior men must be served and the countrymen be looked after, for without the superior men, the countrymen cannot be governed, and without the countrymen, the superior men will have no economic support.

"My request is to apply a system like this: In the countryside, let the countrymen help cultivate the communal farm with one ninth of their yearly labour; in the cities and suburbs, let people pay a tithe with their products. Any official below the rank of minister should have fifty mu of land for sacrificial purposes and a young man of sixteen, not yet an adult, should have twenty-five mu of land.

"There must be no migration from one's village because of either death or change of domicile, and the land of the village must be held by the same *jing*. People are to fraternize with each other in or out of the village, to help each other in keeping watch and defence, and to give each other mutual support in case of sickness. Thus people will be dear to each other and will all live in harmony.

"Out of one square li of land a *jing* is made. Each *jing* consists of nine hundred mu of farmland divided into nine squares of one hundred mu each. The central square is the communal farmland, while the surrounding eight squares are separately owned by eight families as pri-

⁵⁶ Other Confucian canons, particularly the *Rites of the Zhou Dynasty*, occasionally referred to the word *jing* without, however, any detailed explanation. But the many other regulations recorded in *Rites of the Zhou Dynasty* rather contradict the land system advocated by Meng Ke. Moreover, the so-called *jing* land system described by him was not recorded in any other works in the pre-Qin period.

vate farmland. The communal land is to be cultivated conjointly by the eight families. Not until this work is done, can private tilling be taken up. This is the way to govern the countrymen."⁵⁷

This was the original text regarding the so-called *jing* land system that made scholars' heads swim for over two thousand years. About these few lines beset with confusions and contradictions we shall make only a few points. In the first place, as has been shown above, people within a *jing* could not depart from the native village, but the birth and death rates varied greatly in those days, and since the quantity of land possessed by a family or a *jing* was strictly fixed, it was bound to happen that some persons would be without land when the inhabitants increased or land would become vacant and uncultivated when the inhabitants decreased. In a word, if everybody is allotted the same quantity of land, the increase or decrease of inhabitants will make it impossible for the system to be carried on. In the second place, under such a system, only eight families could participate. Economic relations among different *jing* and with the outside world were practically nonexistent. Even if they were able to be self-contained and self-sufficient in food and clothing, where would, for example, the weapons for self-defence and the medicines for sickness come from? In the third place, marriage could be arranged only between members of the same *jing*. This sooner or later would fuse the eight separate families into one, so that one large family would possess the land of the whole *jing*. In the fourth place, since all land of each *jing* other than the communal farmland was already assigned, where would the twenty-five mu of land come from when a young man reaches the age of sixteen? If the land is to be obtained from outside, then the pattern of a *jing* will be destroyed and the principle of nonmigration out of the *jing* broken. Moreover, the land outside a certain *jing* must be land belonging to another *jing*, which cannot be made use of. So, all in all, no land will be available to the youths. Finally, the communal farms were to be tilled by compulsory labour service, which had to be carried out under supervision. But a small state with a territory of

⁵⁷ Mencius, "Teng Wen Gong" I.

one thousand square li would have one thousand *jing* and one thousand pieces of communal farmland. How many officers would have to be employed for such supervisory work, particularly in harvest seasons when the yields have to be reaped within a very short period?

To make a long story short, the *jing* land system must have been a utopian idea without reality or practicability. Even its adorers of later ages, with only a few exceptions, all held that it was unsuitable for restoration in their times. Why did such an impracticable ideal attract so many admirers? Undoubtedly because this ideal project expressed some vital requirements that were indispensable to the newly emerging economy of the feudal land system — for instance, the small scale of peasant economy, correct and precise land boundaries showing property ownership, labour power fixed to the land so as to ensure agricultural production, and so forth. More important was its notion of equitable distribution of land, which had been more or less unanimously accepted by the later Confucians as the best way to prevent relapse into social chaos. Henceforth, the term “*jing* land,” in people’s minds, always represented a state of equitable distribution, or the peaceful life of a bygone golden age.

(7) Summary

Meng Ke worked out some more or less correct ideas on the division of labour, prices and forestalling, but he also advanced some reactionary theories, not the least of which was his idea about the difference between mental and manual work. His idea of the *jing* land system was at best rather confused, as explained above. Above all, he seemed to be engulfed in a rather serious logical dilemma when in his exposition of the *jing* land system he attempted to bring welfare to the peasants without at the same time waiving the right of exploitation on the part of the feudal landlords.

But to be fair it must be said that the positive points of Meng Ke’s economic ideas outnumber the negative ones. Unfortunately, Confucians of later ages became more and more conservative and reactionary as time went on, so the unhealthy part of Meng Ke’s economic thought spread wider and got the better of his healthier ideas. For instance, his idea of permanent property was often, if

not always, read together with his saying that "the intellectuals only are able to have constancy of purpose without permanent property." The idea thus became the pretext for the life of intellectuals, who spent their days eating and drinking with an empty head. His profound exposition on division of labour was forgotten and his other progressive elements were thrown away. But the reactionary view that "those who do mental work are to govern, those who do manual work are to be governed" was constantly used as the canonical basis for the appropriation of the fruits of the labouring masses by the exploiting class. The idea of forestalling was also often employed as a weapon with which to attack the proper activities of commerce. Furthermore, his statement "I have benevolence and righteousness only, why speak of benefits?" was so doggedly adhered to and propagated by later Confucians that it served to hinder any new economic measure or reform proposed by progressive thinkers. This, of course, seriously hindered the development of the Chinese feudal economy and bequeathed an even more undesirable influence on later generations than Confucius himself.

Chapter Four

ECONOMIC THOUGHT OF MO DI AND HIS SCHOOL

Mo Di (c. 468 — c. 367 B.C.), a celebrated philosopher, was the founder of a school of thought antithetical to the Confucian school. Both were very distinguished schools of thought during the Warring States Period. Mo Di came from the stratum of small producers. He possessed a wealth of productive experience in handicrafts and performed hard labour all his life. He had three hundred disciples who all followed faithfully the hard-working, plain-living style of their teacher, preaching sincerely the doctrines of the school.

The central thought of the school of Mo Di (henceforth called the Mo school or Mohism for short) was "universal love," sometimes translated as "egoistic altruism." As regards its economic thought, we shall deal with it under the following headings: 1) Mutual Benefits, 2) Value and Price, 3) Labour, 4) State and Class, 5) Population, 6) Finance, and 7) Consumption. Some of these economic ideas, e.g., the ideas of value and price, were developed by his followers probably during the later part of the Warring States Period, but for the sake of convenience, we shall put them with the contributions of Mo Di himself.

Section I

MUTUAL BENEFITS

Among the schools of thought during the pre-Qin period, Mo Di was the first philosopher to openly put forward "benefits" as the guiding principle of his teaching. On this point, the Mo school presented a striking contrast to the Confucian school. The latter, at least in principle, refrained from talking about benefits as far as

possible and took ethical criteria as the basis of benefit whenever they talked about it. Mo Di, in contrast, spoke of almost nothing else. True, he mentioned righteousness now and then, but its content was conditioned by benefit, which he took as the foundation of social ethics. The standard to judge whether or not an action was righteous was whether or not it was to somebody's benefit. If it was, then it was righteous; otherwise it was unrighteous. Thus he said:

"The so-called good treasure is that which is beneficial to the people. And since righteousness does benefit to man, therefore, it is good treasure under the heaven."¹

"Righteousness is benefit."²

The concepts of righteousness and benefit are the most important difference between the school of Confucius and that of Mo Di. The former, as has already been explained, generally laid down certain moral criteria to regulate the benefit to be obtained. The latter used benefit to define ethics. In nearly all the doctrines preached by Mo Di, benefit was the keynote. For instance, in the doctrine of "universal love," in that of "placing a high value on good and wise men," in that of "objecting to armed attack on another state," in that of "encouraging the identity of human minds," and in others, there was one target they should aim at, "the benefit of the state and people." Even his argument against music also hinged on this. For in his view, "music is of no help in promoting the benefits and abolishing the evils under heaven."³ To lay so much stress on economic factors in the appraisal of music is of course incorrect and even ridiculous, but it certainly shows the extent to which he pushed the application of the principle of benefit.

But let it be immediately pointed out that he meant "benefit" in a broad sense, not the narrow sense of material benefit only, though this latter was the main component of his idea. For instance, he said, "Benefit is something delightful to those who get it,"⁴ and

¹ *Mo Zi* (or *The Work of Mo Di*), "Geng Zhu."

² *Ibid.*, "Classics I."

³ *Ibid.*, "Anti-music" I.

⁴ *Ibid.*, "Classics I."

"Filial piety is to the parents' benefit."⁵ In a word, anything that people liked including even "worship to heaven" and "sacrifices to ghosts," was "benefit." However, the concrete contents of people's benefit was chiefly material wealth. He said, "Clothes and food are the benefits necessary to people's living."⁶ Other things, such as boats, vehicles, houses and other daily necessities, were also what "the numerous artisans under heaven made according to their ability" for the benefit of the people.⁷

Still, what we have just discussed above is not yet the principal aspect of the "benefit" preached by Mo Di. His most important idea in this respect was that of "mutual benefit," derived from his doctrine of universal love. In the eyes of Mo Di, "mutual benefit" was synonymous with "universal love." Or rather, mutual benefit was the purpose of the doctrine of "universal love." He remarked:

"Those who have rendered benefits unto others are sure to be repaid with benefits, and those who have done harm to others are sure to be repaid with harm."⁸

To do something for the benefit of others does not mean that the act was done with a view to the exclusive advantage of others. The benefits were mutual, i.e. advantageous to both the doer and the recipient. An act should never be for the benefit of oneself at the expense of others. Mo Di applied his doctrine of mutual benefit not only to the relationship between sovereign and subject, father and son and elder and younger brothers, but even to the actions of thieves, robbers, feudal vassals and warlike feudal suzerains, because in his eyes their actions were decidedly detrimental to others and for the exclusive benefit of themselves.⁹

So he linked individual self-interest with the interests of others and argued that what one did for others would redound to himself. Unless people refrained from harming one another and did things

⁵ Ibid.

⁶ Ibid., "Plain Burial" III.

⁷ Ibid., "On Frugality."

⁸ Ibid., "On Universal Love" II.

⁹ Ibid., "On Universal Love" I.

of mutual advantage, calamity, usurpation, discontent and hatred could not be averted.

What is the *raison d'être* for this line of thinking? The social foundation of the thought of the Mo School was the stratum of the independent petty producers. The relationship of members of this stratum was characterized by their interdependence and their willingness to render service to each other. Hence the doctrine of mutual benefit was really the expression of their feeling and need. According to Mo Di, if every individual acted on the principle of benefit for others, the others would do the same for him. Furthermore, if every family or every state would do the same, they in turn would be benefited by other families or states. By such reasoning, he came to the conclusion that all would be right in the world if the doctrine of mutual benefit were generally accepted and practised.

Like Adam Smith, who attempted to make use of so-called self-interest to achieve mutual interests and consequently built up a bastion for the self-seeking of a handful of bourgeois, Mo Di attempted to achieve mutual benefit through self-interest, which consequently became a shield for the self-seeking of the emerging feudal landlord class. Nevertheless, the doctrine of mutual benefits is certainly an idea worthy of praise in the history of world economic thought. At least, it sounds more pleasing to the ear than the doctrine of "self-interest," although it can never be realized in any society with antagonistic classes, and it actually never was.

Section II

VALUE AND PRICE

As mentioned above, the concept of value and price was the product of later Mohists. It generally appeared in their essays on problems of logic. Since these passages are all terribly condensed — sometimes only two or three Chinese characters express a complicated argument of logic — their valuable economic ideas have remained long undeciphered.

Later Mohists developed some crude ideas on the value of commodities, which recurred more than once in different places in their

works. First of all, they made the distinction between use value and exchange value, as in the following passage: "Shoes made as a medium to buy are shoes no more."¹⁰ That is to say, if one makes shoes not for one's own personal wear but to exchange for other goods, then those shoes will no longer be shoes to him. It is worth noting that, nearly at the same time and using exactly the same example, Aristotle independently discovered the distinction between two kinds of value, which the English classical economists later called value in use and value in exchange. If the idea of value advanced by Aristotle is praised as the discovery of a genius, certainly Mohists deserve the same honour.

Mohists also seem to have realized that there was intrinsic value in a commodity and a state of equivalent exchange for commodities. They said:

"Buying and selling mean exchanging things mutually."¹¹ "In buying one never pays a high price, for in selling the price charged for goods is high."¹²

Since buying and selling are simply a mutual exchange of commodities, something must exist inside these commodities, for they are entirely different in their physical nature, possessing no common basis for exchange unless a certain intrinsic value is taken as the base. When two commodities are exchanged on the basis of this intrinsic value, a state of equivalent exchange appears. By "in buying one never pays a high price" they simply mean that even when the buying price of a certain commodity is rising, the rise will soon be balanced by a rise in the price of the buyer's own commodity, so that a state of equivalent exchange will soon be restored. In the minds of ancient thinkers, the ideas of value and price were often intimately mixed. One couldn't be distinguished from the other even in a crude way. The following discussion on the idea of price may, then, to a certain degree be regarded as a discussion of value.

According to the view of later Mohists, the price of any goods

¹⁰ Ibid., "Annotations to Classics II."

¹¹ Ibid., "Annotations to Classics I."

¹² Ibid., "Classics I."

has a certain "appropriate" state. Once this state is attained, there will be no reason to speak of it as being either too high or too low.¹³ The "appropriate price" is agreed upon by both the buyer and the seller, after which the quantity of money corresponding to the price is paid by the buyer to the seller.

How is the price's appropriate state to be determined? Mohists gave us two criteria. On the one hand, "a price is appropriate when the goods at that price are all sold out without any left unsold."¹⁴ Modern economists call this the price "clearing the market" under perfect competition. On the other hand, "whether a price of any commodity is appropriate or not also depends upon whether it is wanted by people."¹⁵ This is to say, if people want to buy it at such a price, then the price is appropriate; if not, it is not. This is of course a rather preliminary and subjective theory of value. However, we may amalgamate these ideas into the thesis that if commodities of the same kind are sold out at a certain price, then that price must be the appropriate one, corresponding to the buyers' wants.

In connection with the role played by money in exchange for commodities, later Mohists bring us to an even higher plane, pointing out:

"In any purchasing, money and grain will mutually express each other's price. When money is 'light,' then the grains bought with that money will not be too dear. When money is 'heavy,' then the purchase of the grains will not be easy. The royal copper coin does not change, but the price for the grains does change now and then. If the year witnesses a change in grain price, it will also witness a change in the worth of the copper coin."¹⁶

Today's man in the street generally realizes that in business deals one "uses money to buy something else," but he rarely realizes that money itself is at the same time bought by other things, in exchange. It is quite remarkable that the Mohists made the discovery at a rather

¹³ "An appropriate price is neither dear nor cheap." (*Mo Zi*, "Annotations to Classics I.")

¹⁴ *Mo Zi*, "Classics II," also "Annotations to Classics II."

¹⁵ *Ibid.*, "Annotations to Classics II."

¹⁶ *Ibid.*

early stage of history that money and goods mutually price each other in their exchange relations.

Once more we meet the "light" and "heavy" theory. During the exchange of money and goods, if money tends to become "light," or depreciated in value, the monetary price of goods is bound to rise. But viewed from the value of both money and goods to be exchanged, the price will be exactly the same. When money is "heavy," or appreciated in value, the monetary price of good will tend to lower. The seller may then be reluctant to accept such a low price, and it may not be easy for buyers to do their purchasing.

As to the royal copper coin itself, its form and content might not change within a short period, but the price of grains (representing here commodities in general) may change for various reasons. If the change recurs year after year through causes other than monetary effects, the value of the royal copper coin will also change accordingly in the long run.

Considering the matter historically, one can not deny that these monetary ideas of the Mohists were both eminent and extraordinary for their time, even though they contain some notable errors. For instance, Mohists sometimes took the value of money as something intrinsic in money itself and sometimes as purchasing power. Of course, that contradictions existed in the Mohists' concept of value and price is hardly surprising, for a systematic theory of value and price is possible only when the social economy has reached a stage of development in which a monetary economy predominates. However, during the long historical period when Chinese economic thought remained more or less without any systematic, profound theory of value, the Mohists alone developed one with at least some preliminary insight into the subject and bequeathed it to us. That their significant and valuable economic ideas remained unknown until the early 1960s was the result of the obscurity or even vagueness of their concepts of value and price, which in turn resulted from their extreme compactness of expression and also from their intentionally keeping this part of their teaching obscure in order to keep it secret.

Section III

LABOUR

The most striking aspect of the economic thought of Mo Di is his concept of labour and his profound knowledge of productive techniques. Mo Di himself must have performed manual labour, for among the Chinese philosophers in the pre-Qin period, he was the one most richly endowed with knowledge of labour.¹⁷

He began by pointing out some differences between animal and human life. He argued that animals can make use of their feathers and fur as clothes, of their hooves and paws as shoes and of water and grass as food, so that even if their males do not plough and females do not weave, the things necessary for their livelihood are already provided. "Now, man is different from the animals. He can live only by relying on his own working energy and cannot live if he does not rely on it."¹⁸ It is clear that Mo Di set great store by human labour. He also went one step further, to the recognition that labour creates wealth. He said:

"If the low class exert themselves in their work, wealth will become abundant for the state."¹⁹

"If the lowly men do not make any exertion in their work, wealth will be depleted."²⁰

"Now, why does the farmer go out early in the morning and come back late in the evening, exert himself to cultivate and plant, store much of the grain and dare not slack? Because he knows that exertion will bring him riches for sure, while sluggishness will bring him only destitution. Exertion will enable him to eat his fill, while sluggishness will bring him hunger. So he dares not slack. Again, why does the woman rise early and go to bed late, apply herself studiously to weaving more silk and linen and other forms of textile goods, and dare not slack? Because she knows that . . . studious application will keep her warm; otherwise she is bound to suffer from cold; so she dares not slack. . . . If farmers slack in cultivating and ploughing and women slack in spin-

¹⁷ In the works of Mo Di there are quite a number of essays recording the instances of his proficiency in craftsmanship. Some of these skills were really rather gifted creations in the field of manual technique.

¹⁸ *Mo Zi*, "Anti-music" I.

¹⁹ *Ibid.*, "The Will of Heaven" II.

²⁰ *Ibid.*, "Anti-music" I.

ning and weaving, I am sure that the materials for food and clothing under heaven will soon run short."²¹

Now, since wealth, he asserted, is the fruit of one's labour, should anybody "get into other people's farms and take away the peach, plum, melon and ginger there," he will be punished by the state and disapproved of by the masses. Such behaviour is evidently wrong because "taking no part in labour, yet obtaining the produce thereof, means acquiring things not belonging to oneself."²² This shows that Mo Di opposed unearned gains and condemned them as thievery, but it also shows that he was defending private-property ownership, which was exactly the ideology that independent producers demanded. However, it should be made clear here that those who defend private ownership may not admit that "labour is the source of wealth." So Mo Di's merit in discovering that labour creates wealth should be looked at separately from his advocacy of private-property ownership.

In applying his concept of labour to state affairs, he insisted that "reward should be made according to one's labour and emolument given according to one's merit." Furthermore, one of the important arguments he advanced against the Confucian school was that the Confucians "depart from agriculture and business, content themselves with easiness and arrogance, indulge in drinking and eating and are lazy at work."²³ Also, his main arguments against the rites, music, extravagance, expensive funerals, fatalism and war-waging also rested, consciously or unconsciously, on the fact that these things hampered labour and production.

Amidst acute class conflicts, incessant war between the states and the concomitant ruthless taxes, it is easy to imagine that the vast masses were hard pressed to make a living. So he proposed to intensify people's exertion on the ground that producers were fewer in number than consumers, which is why "the tillers must work with greater haste."²⁴ But Mo Di and his followers did not confine them-

²¹ Ibid., "Anti-fate" III.

²² Ibid., "Will of Heaven" III.

²³ Ibid., "Anti-Confucianism" III.

²⁴ Ibid., "Valuing Righteousness."

selves to persuading others to work hard. They themselves also "worked restlessly day and night" in order to set an example for others to follow. Of course, the fruits of the intensified and accelerated exertion of the labouring masses went for the most part to fatten the well-to-do class. But the main end the Mohists sought in such exertion was to call forth everybody to set great store by labour so as to improve the production of the material means of subsistence. This was precisely the point that distinguished Mo Di from all his contemporaries as a more progressive thinker.

Starting from the doctrine of mutual benefit, he argued that one's labour must not redound only to one's own benefit, but must also be of service to others. According to him, "a man with strength should hasten to help others," and "Heaven desires persons with strength to help one another."²⁵ He firmly opposed "a man of strength not helping others" and "letting one's limbs remain idle without doing anything to help others."²⁶ This is another distinctive idea of Mo Di's representing his allegiance to the labouring masses.

Another even more remarkable fact was that Mo Di paid great attention to the labouring people's need for rest or recuperation. Had Mo Di not put forward such an idea, his preaching about "intensified and sped-up labour" would only increase the miseries of the working masses, in spite of his effort to attach importance to labour. He pointed out:

"Among the people, there are three sufferings: hunger without food, cold without clothing, fatigue without rest. These are three serious sufferings of the people."²⁷

"It is necessary to allow a hungry man to get food, a man suffering from cold to get clothes and a labourer to get rest."²⁸

The fact that Mo Di pointed out hunger, cold and lack of rest as people's three serious sufferings is, of course, a distinct proof that the people under feudalism of his time were suffering great miseries. But among the ancient thinkers, both Oriental and Occidental, very

²⁵ Ibid., "Exalting Virtuous Man" III and "Will of Heaven" II.

²⁶ Ibid., "Exalting Virtuous Man" III.

²⁷ Ibid., "Anti-music" I.

²⁸ Ibid., "Anti-fate."

few cared to talk about the miserable life of the labouring masses. Even fewer were those who had the farsightedness and broadmindedness to consider lack of rest as one of the people's troubles and put it on a par with cold and hunger. In this it seems that Mo Di never did meet his equal in the history of economic thought in China, or probably in the West, either. He added something to the antihunger and anticold struggle of the labouring people in antiquity. He even went so far as to think that the overthrow of some of the feudal princes was well justified because their "people had suffered terribly from overtiring labour."²⁹ And again he pointed out:

"A man may contract diseases in many ways; he may contract them because of cold and heat, and he may also contract them because of restless labour."³⁰

He carried the significance of rest to a new and higher level by relating it to the survival and extinction of the state and to the health of the people. Here we can appreciate to what extent he set store by the rest and recuperation of the labouring people. In this line of thinking, he is quite unique among ancient thinkers, and it is unnecessary for us to dwell further on the soundness and importance of this splendid idea.

Section IV STATE AND CLASS

(1) **Economic interpretation of the origin of the state** Mo Di asserted that the state originated from the economic needs of the people. He argued:

"In remote antiquity, when the human race first came into being, there were no laws and penalties.... People under heaven tried to harm each other with water, fire and poison, so no one would give help to others even though he might possess surplus energy. He would rather let his surplus goods decay than share them with others and would keep secret the valuable knowledge in his possession rather than impart it to others. Thus the whole world was just a chaos like the animal

²⁹ Ibid., "Questions Asked by the Ruler of Lu."

³⁰ Ibid., "Gong Meng."

kingdom. The cause of this chaos under heaven being the want of a ruler, a virtuous and able man under heaven was, thereupon, selected to be the Son of Heaven [king or emperor]. After the Son of Heaven was confirmed in his position, since his ability was not without deficiency, more virtuous and able men under heaven were selected and appointed as his three chief ministers. After the Son of Heaven and the three chief ministers were established, considering the vast extent of the territory under heaven . . . ten thousand states were created and each state had its own prince. After the establishment of these princes, since the ability of each of them alone was not quite sufficient, some virtuous and able men in these states were appointed to be district chiefs at different levels."³¹

There is no need to point out the fallacies and nonsense in this description of the birth of the state. However, his intention here is to show that since the origin of the state lay in the economic needs of ancient people, the states of his time should stress the solution of people's economic difficulties. This should be their chief function. In certain other respects, the economic interpretation of the origin of the state is not an altogether unsound concept. During the period of "divine right of kings," or, in Chinese terms, when "the authority of the monarch is the mandate of heaven," an idea attributing the existence of a state to objective economic needs of human society was a progressive thought.

(2) **Ideas on social classes** Mo Di was resolutely opposed to the system of "hereditary officials and hereditary emoluments," which was firmly upheld by the Confucians as an indispensable part of feudalism. Though he did not object to the existence of social classes, he opposed rigid class distinctions. He frequently referred to the "noble" and the "humble" as in the following passages:

"Men of virtue should be selected and promoted, made rich and noble, and appointed to official posts. Unworthy officials should be demoted and dismissed, made poor and humble, and ordered to do corvée."³²

"The ignorant and humble should not be allowed to govern the noble and the wise. [The noble and the wise] then will be able to govern the ignorant and humble."³³

Here only the difference between the political or social posi-

³¹ Ibid., "Identity Encouraged" I.

³² Ibid., "Exalting the Virtuous Man" II.

³³ Ibid., "Will of Heaven" II.

tions of individuals is being touched upon, not class differences. In a feudal society where the distinction of social strata and classes was rigidly drawn, an opinion venturing to break this distinction must be considered as a good and bold idea in itself, its failure to bear fruit notwithstanding. It was much more admirable and desirable to take such a stand than to take one's class status as being inborn and fixed once and for all, unable to change, as thinkers of some other schools advocated.

Mo Di, however, held that man's social position is and should be changeable. "Even a man on the farm or in the workshop, if he has ability, should be granted high official rank and good remuneration, entrusted to take charge of affairs and given authority to act." A man in office might be demoted and discharged, made poor and humble and even sent down to do compulsory labour if he was unworthy. In this connection, there is a well-known epigram written by him that runs: "No officials will always remain noble, no commoners will always remain humble."³⁴

He demanded that officials be recruited from men of virtue and ability, and in this matter there must be no partiality to one's father or brother, to the rich and high, or to the man with handsome appearance. Only under this condition would it be possible for virtuous and able men of the lower social classes to climb to the upper rung of the social ladder. Then they "would make no complaint even when they had for the time being to live amidst the mean people,"³⁵ for there would be hope that they might move up to a higher social group someday. Here Mo Di unfortunately got into a muddle once more. He did not know that the rigid class and stratum distinctions were chief characteristics of feudalism, particularly in its rising phase, and therefore distinctions that could not be broken except by political violence when the time was ripe. Sermons to the princes or the ruling group with a view to asking for their favour never had an effect.

³⁴ Above quotations are from *Ibid.*, "Exalting the Virtuous Man" I.

³⁵ *Ibid.*, "Associating with Intellectuals."

Section V

POPULATION

Among the ancient thinkers in China, Mo Di was the first to dwell upon the problem of population. But a policy to increase population had already been put forward by a ducal state several decades before him.

During the latter part of the fifth century B.C., Gou Jian, the prince of the state of Yue, had vigorously carried out a policy to increase the number of his people for the purpose of preparing for a war of revenge. He ordered:

"A man of middle age is not allowed to marry an old woman, and an old man is not allowed to marry a woman of middle age. The parents will be declared guilty if their daughters of seventeen or sons of twenty still remain unmarried.

"When a baby stops suckling, the case should be reported to the government. An official doctor will be sent to look after the baby.

"Two bottles of wine and a dog will be given to the married couple who give birth to a baby boy, and two bottles of wine and a pig will be given to the couple who give birth to a baby girl. In case of triplets being born, wet nurses for the infants will be sent at the government's expense, and in case of twins, a food allowance will be given to the parents.

"A father will be exempted from a three-year servitude if his eldest son is deceased and exempted from a three-month servitude if a son other than the eldest is deceased, but the burial service should be the same as that of the eldest.

"The wife and children of a family with no male head or a male head who is ill or indigent will be taken care of by the government.

"Preferential treatment in food, clothing and shelter will be given to the capable child, and his education will be taken up by the state. Foreigners coming in with a view to settling down will be given a grand reception."³⁶

The measures described above certainly left no stone unturned in trying to increase the population. As to whether these regulations were ever put into effect, we have no historical data, but considering the strong and persistent revenge feelings of Gou Jian and the fact that, according to historical data, the number of his people did in-

³⁶ *Discourses on the States*, "Discourses of the State of Yue."

deed increase greatly in his reign, it seems likely that this policy was successfully carried out.

However, Mo Di's ideas on population were quite differently motivated, for he focused mainly on the development of social production, not on war.

The major issue of agricultural production in those days was the disproportion of population to land, which was aptly epitomized by the phrase "vast land with sparse population." Several factors conspired to bring this about, the first being the incessant wars waged by the feudal princes, which killed or maimed a great number of people. Heavy taxes also took their toll by reducing people to distress and poverty. As someone who had earlier done labour himself, Mo Di was a particularly keen observer of the serious effects of lack of labour power on social production. He came to the conclusion: "Now land is abundant, but the king's people are far too few."³⁷ Man and land were, in the beginning, the only participants in the labour process. Mo Di recognized this truth and tried to handle the conflict occurring at that time under the guidance of this principle.

The "benevolent rule" imagined by Mo Di was one in which "the state is wealthy, the people are populous and the laws and penalties are all observed." Since he was resolutely opposed to war in general and the warmongering princes in particular, his "wealthy state and populous people" could never be brought about by a policy of territorial expansion, but only by an increase of population within a given territory. These views led him to his deep analysis of the problem of population.

He pointed out that by practising frugality in government expenditures, the riches of the state could easily be doubled, and if the expenditures of the noble class on luxuries such as pearls, jade, pet animals and fancy birds were used to produce clothes and houses, armour and shields, vehicles and boats, the latter things would increase several times. But for population, the case was very

³⁷ Ibid., "Anti-aggression" II.

different. He said, "Which things are hard to double in number? The population alone is hard to double."³⁸

He proposed several measures with an aim at increasing the population. Some of his measures might be unsound, but all of them are fresh ideas. Five measures were suggested: early marriage, prohibition on keeping concubines and handmaidens, a ban on war, lighter taxes, and a shorter period of bereavement and a simpler burial.

(1) Early marriage He maintained that early marriage was an effective way to increase population. According to him, the law of the ancient sage kings was that a man must marry at twenty and a girl at fifteen years of age. After the death of the sage kings, the law fell into disuse. Some desired to marry at twenty, while others desired to marry at forty. So the average age of marriage was thirty, i.e. ten years later than regulated by the law of the sage kings. If every three years of married life produced a child, ten years would bring three children. Would this not make the population double, as was required by the law of the sage kings?³⁹

(2) Prohibition on keeping concubines and handmaidens He steadfastly opposed the system of the well-to-do class keeping concubines and handmaidens. The reason was that sexual relations were a biological need common to all animals and human beings, including the sages. Even the sage kings couldn't alter this. Everyone had to get satisfaction on this score. If there were no concubines, there would be no bachelors, and the people would multiply more quickly. In Mo Di's day the rulers of a large state generally kept thousands of concubines and handmaidens in their harems, and the princes of a small state, hundreds. That was why many a man had no wife, and many a woman could not get a husband, and why many men and women were unable to find mates at the proper time. The result was a small population. If a ruler wished his people to multiply, limitations had to be imposed on the system of keeping concubines and handmaidens, as Mo Di proposed.⁴⁰

³⁸ Ibid., "On Retrenchment."

³⁹ Ibid.

⁴⁰ Ibid., "Keeping Away from Mistakes."

(3) **A ban on war** The effects of war on population, as far as he saw, were twofold. On the one hand, war directly reduced the size of the population, because "attacks upon fortresses and the pitched battles on the fields claimed countless human lives"⁴¹ and countless warriors died in the ditches and dales as a result of hunger, cold and sickness.⁴² On the other hand, war also indirectly decreased population, because while a short war might last several months, a long one might last several years, and during this period husbands and wives would remain apart from each other. This is a sure way to decrease population.⁴³ Therefore, banning war might for several reasons increase the population.

(4) **Lighter taxes** Ruthless taxation "made people feel worn. It also deprived them of their daily necessities. The number of deaths caused by hunger and cold thus engendered could not be counted."⁴⁴ If people were being required to do only the "normal" corvée and levied at a "normal" rate of taxation, they might be exhausted, yet unharmed, and might be overspent, but not ill. So people would still be able to provide themselves with the necessities against famine and would be insured against the possibility of dying from hunger. This would not only prevent population from decreasing, but would also help to increase it indirectly.

(5) **A shorter period of bereavement and a simpler burial** The undesirable effects of a costly burial and a long period of bereavement, Mo Di thought, would also be twofold. As for the costly burials, he said, "Often several hundred or at least some tens of persons are killed and buried in the tomb of a deceased king. In the case of a deceased general or a senior official, some tens or at least several persons are killed and buried in his tomb."⁴⁵ The total number of persons killed for this purpose in all states at different periods was thus very considerable. As to the long period of bereave-

⁴¹ Ibid., "On Retrenchment" I.

⁴² Ibid., "Anti-aggression" III.

⁴³ Ibid., "On Retrenchment" I.

⁴⁴ Ibid.

⁴⁵ Ibid., "On Frugal Burial" III.

ment, he pointed out, "For the death of a prince of a state, the period of bereavement is three years, that for the death of one's parents or husband is also three years. Besides, for the death of one's uncle, aunt, or cousin, a period of several months in bereavement had to be observed according to what the case might demand." Under such circumstances, one might constantly stay in bereavement. But what was more unbearable was that, during the period of bereavement, in accordance with the rites, the persons concerned were supposed to eat little, wear thin clothes and not do anything besides sitting and weeping. Such ritual requirements were not only detrimental to the production of the whole society, but also harmful to the health of the people. The result was bound to be a decrease in the birth rate. Therefore, he concluded, a shorter period of bereavement and a simple burial would naturally decrease the number of deaths directly and indirectly quicken the multiplication of population.⁴⁶

Although the above measures might have been effective devices for increase in population in Mo Di's lifetime, they were meaningless for later generations and can be disregarded now in the light of modern theories of population. Nevertheless, they showed the attention Mo Di paid to the reproduction of labour power in society.

Section VI

FINANCE

In many respects Mo Di's ideas of finance differed from those of the Confucians. First of all, he opposed only the extortionate levies, not the "normal" rate of taxation. Agricultural tax was approved by virtually all the thinkers in the pre-Qin period, including Mo Di himself, though he did not talk much about it. The main difference between his concept of taxation and that of the Confucians was that he openly assented to the collection of tariffs and specific dues in cities. Many times he mentioned "drawing income from

⁴⁶ Ibid.

tariff revenue, city dues and collection from the resources of mountains, forests and water."⁴⁷

One of the distinctive financial policies of the so-called benevolent rule advocated by the Confucian school was that "goods crossing the passes should only be checked, then allowed to pass duty-free, and the resources of mountains and waters should be made free."⁴⁸ They also argued that "no poll tax should be imposed in cities."⁴⁹ Mo Di was diametrically opposed to the Confucians on these two points.

Another point on which he differed from the Confucians was that frequently he insisted that the state coffers be replenished and enriched and that the riches of the state not be allowed to scatter outside. In contrast, as we have seen, the Confucians firmly opposed that wealth be amassed by the state, for such amassed wealth must be collected from heavy taxes paid by the people. It is odd indeed for a thinker who represented the interests of the independent petty producers to hold such a financial view.

As to the adequate ceiling for tax rates, he said only that, if people were being levied at a "normal" rate, they might not fall ill, although the tax was still exacting for them. This means that a "normal" tax rate should not give people too much trouble and was therefore acceptable. But his objection to the extortionate taxes imposed by the feudal state was an important component of many of his famous doctrines. Here the distinction between the "extortionate" and the "normal" rate was of course of particular significance. Unfortunately, he seemed to have taken it for granted and didn't give us a clear idea concerning the limit of what he himself reckoned as "normal," though he mentioned it many times.

In short, Mo Di's financial ideas are not really remarkable except for their being diametrically opposed to the financial views of the Confucian school. One point that deserves our attention, however, is his suggestion about being prepared for crop failures, the

⁴⁷ Ibid., "Anti-music" I and "Anti-fate" III.

⁴⁸ Mencius, "Liang Hui Wang" II.

⁴⁹ Ibid., "Gong Sun Chou" I.

degree and intensity of which he divided into five conditions: the failure of one crop, a condition of slight deficiency; of two, a condition of drought; of three, a condition of dearth; of four, a condition of imminent starvation; of five, a condition of great famine. Under this classification he advocated that in the case of slight deficiency, the salary of all officials below the senior officials of the state be reduced one fifth; in case of drought, two fifths; in dearth, three fifths; in imminent starvation, four fifths; and in great famine, to food rations only, without pay. The senior officials and up might have to take even more drastic measures according to the requirement of each of the conditions mentioned above.⁵⁰ Why did he recommend the reduction of salaries as a financial measure under conditions of crop failure? In ancient China, although the functions of government were fairly simple, a great number of bureaucrats were kept on the official payroll with no other purpose than to fawn on the higher ruling group. The grand total of the salaries of government officials thus constituted a very considerable part of the yearly expenditures of the central government. Therefore, reduction of the officials' salaries would be an effective measure to lighten the tax burden of the people and in the meantime to mitigate the financial pressure on the government itself.

Section VII CONSUMPTION

Mo Di's leading principle on consumption was to practise frugality. Chinese thinkers in the past held that "Mo Di is much too frugal in principle, thus hard to follow." This is not a completely fair view. The standard of living of the Mohists themselves was indeed extremely hard and exacting, but this did not mean that they demanded that all people live the same mode of life as they. As a matter of fact, an idea of the standard of living they demanded of the common people may be gained from the following points:

"All the handicraftsmen under heaven should do their own part to satisfy people's demand for the necessities of life.

⁵⁰ Ibid., "On Seven Misguided Public Affairs."

"One's food should have enough nourishment to keep limbs strong and ears and eyes alert.

"Clothes should be made of coloured silks in winter for their lightness and warmth, and of linens in summer for their thinness and coolness.

"The house should be an adequate shelter from wind and rain. The interior of the house should always be kept clean, suitable for sacrificial purposes. The walls should partition the house so as to segregate the sexes.

"Of the means of communication such as vehicles and sailing vessels, speed, safety and convenience should be their common standard."⁵¹

The above-mentioned standards were also the highest limits of living for the common people in the eyes of Mo Di, anything beyond which would be liable to condemnation by him as extravagance. These standards might not be low for the common people of those days, because the common people as a class were not included within the group he criticized as leading a luxurious and dissipated life and hence subject to his principle of frugality. These latter were the noble and exploiting class. For the common people, his purpose was to insure a fairly decent living and not to perpetuate their low living level. This can be proved by the following facts: On the one hand, he said, "Those who practise frugality will thrive."⁵² On the other hand, he made it very clear that "one must first be well fed before he can seek delicacies, and warmly clad before he can seek fancy garments, and safely housed before he can seek enjoyable residence."⁵³ From these it is evident that Mo Di never demanded that the common people lead a poor life. Once social production increased, the Mohists would perhaps look upon the improvement of the general standard of living with good grace and satisfaction.

Mohists believed that, in order to maintain a certain level of consumption of the common people, production must be intensified. The explanation for this lay in a certain pessimistic view of the Mohists, who were often worried about material deficiencies all over the world. Production in those days was principally farming and arboriculture, particularly the production of the five kinds of grain.

⁵¹ Ibid., "On Frugality" II.

⁵² Ibid., "Keeping Away from Mistakes."

⁵³ Liu Xiang, *A Collection of Sayings*, "Fan Zhi Pian."

According to them, "the five kinds of grain are what the people rely on and what a ruler uses to keep his people fed. If people have nothing to rely on, the ruler will have nothing to keep them fed. People can't do any work without food. Therefore, food supply cannot be left unattended. Equally, land cannot be left uncultivated or expenditures uneconomized."⁵⁴

So long as agricultural production constituted the main part of social economy, it was impossible for the society to avoid the effects of good and bad harvests. So Mo Di said, "Even the ancient sage kings were not able to make the five kinds of crops turn in a good harvest all the time and prevent waterlogging and drought." Provisions against crop failure were therefore necessary. He quoted a saying from the *Document of Zhou* in support of his view: "A state that stores up food insufficient for three years' use is no longer a state. A family that stores up food insufficient for three years' use will no longer have children." Nevertheless, he still encouraged frugality as an additional measure. This included "speeding up farmwork, keeping a frugal life for oneself" and "producing more profusely and consuming more sparingly."⁵⁵ But this doctrine of frugality was, according to Mo Di, to be applied not only to the agricultural sphere in connection with food in the years of crop failure, but to other trades, like handicrafts and commerce.

Among various schools of thought during the pre-Qin period, Mo Di was the only thinker who made frugality an important part of his various teachings and required all his pupils to practise it strictly. This can be tied directly to the independent petty producers whose interests the Mohist school represented.

Section VIII SHORT SUMMARY

There certainly are some unique points in the economic thought of Mo Di and his school. First, their taking material benefits as the

⁵⁴ Ibid., "On Seven Misguided Public Affairs."

⁵⁵ Above quotations all from Ibid.

foundation of social ethics and developing therefrom a principle of mutual benefit was really without match in the economic thought of the ancient world. As a result of experience gained through actually participating in productive labour, their concept of labour is also the most distinguished and interesting of those of the philosophers in the pre-Qin period. For the same reason, they were able to construct some rather appealing notions of value and price, rudimentary as they might be. Their economic interpretation of the origin of the state shows the demand for a stable economic order current among the vast labouring masses at that time. Their well-known epigram — “No officials will always remain noble, no commoners will always remain humble” — shows their political convictions. Such ideas might be incorrect or even fantastic, but they were progressive ideas at the time, for they helped to undermine the rule of the noble class and their ideology. On the question of consumption, their stress on frugality and their hard-working and plain-living style left a very deep and far-reaching influence on the minds of thinkers in later generations. The measures they suggested for the increase of population might suit the needs of that historical period and indeed in a way were rather fresh and creative, but they contributed nothing to the theory of population. Their ideas on finance showed a tendency to compromise and their weakness as small private producers who merely followed the financial practice of the feudal ruling group and dared not oppose or suggest anything new and creative.

One omission that was rather striking in the fabric of Mohist thinking was their complete silence on the question of distribution, which, as we know, was a rather popular question among ancient thinkers. The reason might be that they paid too much attention to the principle of universal love, or mutual benefit, fancying that everybody would take the initiative to help others who were in want. This failure to touch the problem of distribution made their economic system rather incomplete, but their distinct views on value, price, labour, production, money, population, consumption, and so on were all quite valuable and illuminating. In all these areas, their contributions remained unsurpassed by the other schools of thought in

the pre-Qin period, such as the Confucians, Taoists, Legalists and agriculturalists.

Generally speaking, Mohist economic thought, if not an antithesis to the economic thought of the Confucian school, must be considered as a system dealing with problems that the Confucians never touched, with the exception of the problem of distribution. The most interesting and creative point in their economic thought is the crude concept of value, which stood second to none in the history of Chinese economic thought. It is a pity that they made use of it only to justify some of their logical arguments and did not give it the deep exposition it deserved. Finally, it is highly regrettable that the Mohist school withered silently away in and after the Western Han Dynasty, or since the beginning of the second century B.C. Had it not been so, they might have developed a theory of value from the level they had reached and might possibly have advanced Chinese economic theory. This is all the more likely because the Mohists, unlike the Confucians, who desisted from talking about benefits, adhered to the doctrine of mutual benefit as the guiding spirit in their economic discussions. So their further study of economic matters would most likely have perfected their system, thus greatly increasing their contributions to the field of economic thought.

Chapter Five

ECONOMIC THOUGHT IN *GUAN ZI*

The book *Guan Zi* was traditionally treated as a work written by Guan Zhong, whose economic thought we discussed a bit in chapter two, section I. However, because some lines in the book mention matters that took place at Guan Zhong's deathbed or after his death, some scholars from the third century A.D. on began to doubt that the book was actually written by Guan Zhong himself. It is generally accepted now that *Guan Zi* was written by several anonymous writers of different periods who were ardent supporters of Guan Zhong's economic policies. The compiling of the book was probably completed around the middle of the Warring States Period, or about the fourth century B.C. For this reason, we shall consider the economic thought embodied in this book as one of the contributions of the Warring States Period and deal with it separately from the economic thought of Guan Zhong himself.

Among the existing seventy-six articles in *Guan Zi* more than two thirds concern economic problems. This is rather extraordinary among works contributed by the various schools of thought of the pre-Qin period. Generally the discussions in *Guan Zi* of economic problems are penetrating and meticulous, even preeminent in certain aspects, especially on problems of commerce, money and price, and compare with the ideas of the ancient Athenian philosophers in brilliance.

For the sake of convenience, throughout this chapter we shall use "the writer" or "the writer of *Guan Zi*" to refer to the various anonymous writers of this book.

Section I

ECONOMIC INTERPRETATION OF SOCIAL ETHICS

Among the thinkers of the pre-Qin period, the writer of *Guan Zi* and Xun Kuang (c. 313-238 B.C.), to whom we shall turn in the next chapter, were comparatively thoroughgoing materialists. This materialist viewpoint permeated many aspects of *Guan Zi's* political and ethical concepts, the conditions of material life forming the foundation of politics and ethics.

In regard to ethics, *Guan Zi* held that the practicability of certain moral criteria was dependent upon the conditions of people's material life:

"Man will observe rituals when his barns and storehouses are well packed, and he will care about honour and disgrace when he has enough clothing and food."¹

That is to say, ethics can come into play only under certain economic conditions. It follows that ethical concepts such as virtue, righteousness, rites and the like should be given concrete economic content. For instance, the concept of virtue was supposed to express itself through some thirty-two economic activities, which, in turn, may be classified into six categories: (a) enriching the livelihood of people, (b) facilitating the circulation of goods, (c) improving hydraulic sources for the benefit of the people, (d) lightening the burden of the people, (e) assisting the people in case of emergency and (f) helping the poor.² Supplying ethical concepts with concrete economic details in this way was of course rather uncommon in the philosophical works of ancient China.

The point that production of wealth forms the foundation of social life was also given a very clear expression in *Guan Zi*. The first line of the book runs:

"Those who have land to look after and people to tend, like a shepherd, should keep their eyes on the four seasons and watch over

¹ *Guan Zi*, "Mu Min."

² *Ibid.*, "Wu Fu."

the granaries and storehouses. If the state is wealthy, people from afar will come, and if the land is reclaimed, people will settle down.”³

To rule a state it is necessary to start with economic affairs. This line of thinking was not peculiar to *Guan Zi*, for many thinkers of that time had also pointed out that land and people were the two fundamental factors of social production. But in *Guan Zi* this idea was given special emphasis, from beginning to end, as evidenced by the last article in the work, in which passages to this effect were repeated once more. For example:

“The first thing to rule a state is to enrich the people. It is easy to rule the rich people but difficult to rule the poor ones. How do we know this? When people are rich, they feel contented with their native places and are enamoured of their homes. In turn, this leads them to revere their superiors and fear penalties, making them easy to rule. When people are poor, they are a threat to their native places and take their homes lightly. This in turn makes them dare offend their superiors and break laws, making them difficult to rule. For this reason, a well-governed state is always a wealthy one and a disorderly state always a poor one. Therefore, a ruler who is good at ruling the state must first of all enrich his people, then govern them.”⁴

“One who is good at ruling the government must get the farmland in the countryside reclaimed and make the city prosper ... and get the granaries filled up and the prisons empty.”⁵

“Opulence for those who are high and sufficiency for those who are low — this is the great task of a sage king.”⁶

The policy of “enriching the people” put forward in *Guan Zi* presumes that the economic life of the people affects the conditions of a state, that is, whether it will be peaceful or chaotic and whether the government is good or bad. Passages to this effect are indeed too numerous to be counted in this book. This shows how firm the attitude of its writer was on this problem. But it must be pointed out that in the whole feudal period of China progressive thinkers who upheld or endorsed this important political tenet were by no means few, and their concept of the term “people” varied a great deal, depending on the historical period in which they lived.

³ Ibid., “Mu Min.”

⁴ Ibid., “Zhi Guo.”

⁵ Ibid., “Wu Fu.”

⁶ Ibid., “Xiao Wen.”

In the Warring States Period in China the idea of "the people" also included the newly emerging landlord class, which was then still an oppressed class.

In military affairs *Guan Zi* recognized that what counted in war was: "in the matter of the war chest, that your amount is unrivalled; in that of military engineering, that your skill is unmatched; and in that of weapons, that your instruments are invincible."⁷ In other words, the economic strength of a state is the determinant for victory or defeat in a war. The writer even went so far as to suggest use of the "holy tortoise" (which was looked on in those days as a divine creature and therefore the treasure of a state) as a mortgage for borrowing foodstuffs for the army from rich people.⁸ This means that the school of *Guan Zi* not only rejected the dispensation of divine power, but also went a step further to take advantage of existing superstitions to achieve a certain political and economic purpose. This is what is said: "The wise man enslaves the ghosts and gods, but the fool believes in them."⁹ This perhaps suffices to show the strong inclination on the part of the writer of *Guan Zi* toward materialism.

Section II

WEALTH AND LABOUR

The writer of *Guan Zi*, like other contemporaneous thinkers, understood wealth in its natural form. However, much attention was paid in the book to the part played by gold and jade as money, both of which were thus differentiated from other commodities. But he reckoned that "if the commodities of the time do not flourish in a state, she will be a poor state even if she has plenty of gold and jade."¹⁰

Generally, the term "wealth" in *Guan Zi* referred to things

⁷ Ibid., "Qi Fa."

⁸ Ibid., "Shan Quan Shu."

⁹ Ibid., "Qing Zhong."

¹⁰ Ibid., "Ba Guan."

such as grain, mulberries and flax, the six kinds of domestic animals, houses, and also natural wealth such as land, forest and water. Among these, grain especially was taken by the writer as the principal expression of wealth, while domestic animals, mulberries and flax also seemed to be of particular interest to him. It is easy to understand why grain should be taken as a measure for the wealth of a state. Domestic animals had been accepted as the measure of common people's wealth since the Western Zhou Dynasty. But now in *Guan Zi* mulberries and flax were also reckoned as measures of wealth. This was the inevitable result of the progress made in social economy of the Warring States Period.

Now, how is wealth produced? The writer held that it came from labour and land, a view similar to that held by William Petty in the seventeenth century. In *Guan Zi* we find the following passages:

"Apply human power to the cultivation of land in good time and the state is bound to become rich."¹¹

"A man can't eat without grain, grain can't grow without land, land can't do without man, and man can't get rich without labour."¹²

This clearly shows that while land is an important means of production, labour is really the source of wealth. On this point, Mo Di, as we have seen, also reached the same correct understanding, but his way of handling the problem was not so penetrating as that of *Guan Zi*.

Although in many cases the writer touched upon land in connection with the production of grain, what he comprehended about the role of land was not limited to the production of grain, for other things, such as wood, mulberries, flax and animals, also depended on cultivation of the land, as he pointed out:

"Land is the ultimate source of all things and the root of all forms of life."¹³

"Land is the final cause of politics, so land can direct politics to run properly. Politics can never run properly if land is in a state of

¹¹ Ibid., "Xiao Wen."

¹² Ibid., "Ba Guan."

¹³ Ibid., "Shui Di."

inequality and disharmony, and things can never be well managed if politics are not running properly."¹⁴

This shows that in the writer's mind land is not only an important means of production, but also something fundamental to the feudal regime. Here he of course got hold of the wrong end of the stick. "The final cause of politics" is not the land itself as a natural thing, but proprietary rights over land, which are the foundation of feudalistic privileges.

The reason land was able to play such a great role in political affairs, he thought, was simply because of its role in the production of material means, particularly in agricultural production. Therefore, how land could be brought into play became an important problem. He pointed out: "When the productivity of land is managed, people will get rich."¹⁵ There are at least five articles in *Guan Zi* that deal with problems of land or land utilization. His general view on the subject is: "A state with a vast extent of land not tilled cannot be considered to have really owned the land at all."¹⁶ "Why is a state possessed of a vast area of land yet poor? It is because her countryside has not been cultivated. . . . The land cannot be considered its land if it is left uncultivated."¹⁷

The writer inquired further into the working of the natural conditions and pointed out that among these conditions, "the climatic changes of the four seasons and the rotation of day and night were objective laws. They could not be decreased if they were oversupplied and could not be increased if undersupplied."¹⁸ In other words, they were independent of man's will, in no way alterable. But, he said, it was not so with land. Man could adapt himself to such objective conditions by applying his efforts on land. So, "land can direct politics to run properly. Because of this, land itself must first of all be turned right,"¹⁹ and this will lead to an

¹⁴ Ibid., "Cheng Ma."

¹⁵ Ibid., "Chi Mi."

¹⁶ Ibid., "Pa Yan."

¹⁷ Ibid., "Quan Xiu."

¹⁸ Ibid., "Cheng Ma."

¹⁹ Ibid.

increase in the production of goods. If production failed to increase, that meant that the feudal officials must have failed in their duty to deal with the land problem properly. Here once more the writer not only admitted the objectivity of certain laws of nature, but also admitted that man could utilize his knowledge to alter natural conditions.

The writer of *Guan Zi* therefore paid much attention to the productive utilization of land and took the productivity of arable land as a standard to measure the productive power of land that could be used otherwise. He said:

"The land that grows no grain may be used as follows: The bald mountains may bring about produce amounting to one percent of the grain produced on the arable land. The moors to the same percentage; the barren land, one percent; and the briery areas where people can't get in, also one percent. The jungles where people can get in with hook and scythe, to one ninth. The forested hills where people's axe and hammer can be brought in to get wood for axles and other tools, to one ninth. The mountains where axe and hammer can be brought in and where the woods can be used to make coffins and vehicles, to one fifth. Running waters where nets can be used, to one fifth. And lakes and fens where nets can be used, to one fifth. This is the so-called planning of the land."²⁰

In *Guan Zi* many passages touch upon such problems. Some articles deal with the subject exclusively; for instance, "Di Yuan" deals with the quality of land and "Du Di" with the conservation of hydraulic sources.

As for views on labour in *Guan Zi*, we have already referred to the considerations given to the role played by labour in production. The writer's view is that all the goods of society are produced by human labour. He insisted that "labour creates wealth":

"Things that come into being under heaven are brought about by human efforts. Any human effort can only come from man's bodily labour."²¹

He even went a step further to preach that "once the labour training system is established, the state will become rich."²² But

²⁰ Ibid.

²¹ Ibid., "Ba Guan."

we know that he was firmly opposed to forced labour, as he said about forced labour in the mines: "If the criminals are forced to work there, they will run away."²³ This shows that, in the writer's mind, the recruits for labour training must be from the common people.

However, it is even more necessary to point out that the writer had fathered an entirely new approach to the problem of whether the agent of production was land or labour, because while he recognized both as agents of production, he singled out human labour as the more determining factor for production of wealth. This is fully proved by such remarks as "land can't do without man" and "things . . . under heaven . . . come from man's bodily labour."

But this does not mean that he neglected or ignored the importance of land, for he was fully aware of the importance of the combination of land and labour in the production of wealth. He wrote, "A vast area of land left uncultivated will mean a waste of land, and a vast population left unmanaged will mean overpopulation."²⁴ In other words, though it may be good for a state to possess vast land, it will be an encumbrance if it is not used for production. Likewise, a huge population may be a desirable thing, but the state may be encumbered by too many people if they are left without proper management and the usual pursuits. This means that he looked at the problem of land and population not from their absolute measurements, but from their interrelationship. This represented a great advance on the part of the writer of *Guan Zi* in the investigation of this problem.

Section III SELF-INTEREST

In *Guan Zi* self-interest was very definitely affirmed as human nature. One of the passages leading to this point runs:

²² Ibid., "Chi Mi."

²³ Ibid., "Qing Zhong," IV.

²⁴ Ibid., "Ba Yan."

"It is human nature to feel pleased on getting what one desires and to feel worried on meeting what one is averse to. This is something common to both the high and the low."²⁵

But his full-fledged theory can be found in the following:

"It is human nature not to refrain from going after profit and to keep away from danger when either of them is in sight. Where profit is anticipated, traders will quicken their pace day and night and make light of travelling over a thousand li to get it. When gain is expected from the water, fishermen will go out to sea thousands of fathoms deep, sail against the tide and venture on a dangerous voyage of hundreds of li for nights on end. So where there is profit, no mountain can remain unclimbed even if it might be thousands of metres high, and no water can be immune from being penetrated even if it might be unfathomable. Therefore, if a wise ruler takes advantage of this inclination to seek profit, the people will naturally be satisfied and content. They will go forward with nobody's push and come along with nobody's pull, and the ruler will have no worries and troubles while the people get rich spontaneously. It will be like a bird hatching eggs, sitting there easily and silently, expecting fledglings to come out."²⁶

Here the writer of *Guan Zi* made self-interest the principle by which all the economic activities of the society could be interpreted. He even sounds like Adam Smith on the same subject. Like Smith he argued that so long as human nature is inclined to go after profit and to keep away from danger, it would of course be well and wise for government officials to anticipate and follow what people desire. Again he said, "A government that fits in with the will of the people will thrive, and one that goes against the will of the people will decline."²⁷ The people must be given satisfaction in their material life, for "there is no better way to win over the people than to benefit them."²⁸ If the material wants of the people are not satisfied, or, as he said, if a ruler is unable to "satisfy people's wants and gratify their desires" and even leaves their basic needs unattended, who will be willing to serve him or his subordinates? In another connection he noted, "A heartbroken man cannot be expected to do his best."²⁹

²⁵ Ibid., "Jin Zang."

²⁶ Ibid.

²⁷ Ibid., "Mu Min."

²⁸ Ibid., "Wu Fu."

²⁹ Ibid., "Chi Mi."

The writer of *Guan Zi* not only took individual human nature as the basis of his system of economic thought and insisted that a government should "fit in with what people desire," but attached a very high value to the collective wisdom of the masses:

"As for the people, if you listen to them individually, each may be ignorant, but if you listen to them collectively, they will make sages. A ruler should verify the soundness of his own behaviour against the words of the townspeople, even though he possess the virtues of King Tang and King Wu. Therefore, a wise ruler should follow the people's will, keep people's temper at ease and act according to public consensus. In that way decrees will be carried out without fail and punishments stipulated will find no chance of application. The great kings of the past were indeed good at identifying themselves with their people."³⁰

"The observation of the common people is indeed keen and penetrating. There is no escape from it. . . . If you achieve merit, they will praise you immediately. If you commit an error, they will defame you immediately. Facing the disapproval or praise of the masses, you have no need to go home to inquire of your intimates."³¹

This view is unique among ancient thinkers. The early Confucians had preached, "Heaven sees through people's eyes and hears through people's ears." The Mohists had also taken the "will of the people" as proof of the "will of heaven." Both still appealed to certain divine power. In *Guan Zi*, however, the problem was approached from a different angle. Here the merits or failings of a ruler were to be appraised directly by the people. The writer even went so far as to place the collective wisdom of the people on the same level as that of the sages, to affirm the infallibility and inescapability of the people's judgment. On the basis of this belief, he demanded the "virtue" of the so-called sage kings be tested by the collective wisdom of the masses and the ruler identify himself with the people. Such insight and breadth of view were certainly beyond the intellectual level achieved by his contemporaries.

In the course of the drastic changes of social economy in the Warring States Period, the newly emerging exploiting classes grew daily in strength. A theory justifying their money-making

³⁰ Ibid., "Qing Zhong," pt. I.

³¹ Ibid., "Xiao Cheng."

behaviour thus became necessary. The idea of self-interest met this need. Besides *Guan Zi*, the legalists and Confucians at the end of the same period also vigorously propagated the idea. So the idea of self-interest was really nothing other than an ideological expression of the demand of the new exploiting classes of this period.

Nevertheless, similar conceptions appearing in different historical eras may lead to different conclusions. Though the attractive picture of self-interest drawn in *Guan Zi* was very similar to the one Adam Smith drew later in his famous work, unlike Adam Smith, who lay out the principle of free competition that conformed to the capitalistic mode of production, the writer of *Guan Zi* went on to propound only the policy of economic interventionism that conformed to the feudalistic mode of production.

In spite of the general inclination of the people "to feel pleased on getting what they desire and to feel worried on meeting what they are averse to," he held that people, considered individually, have very different "likes and dislikes. Each will seek after what he wants." But "whether such seeking will entail safety or danger for him also varies with individual cases." Through this process, "the shapes of different men, whether wise or wicked, will emerge," because the wants of worthy men are usually rational and thus safe, whereas the wants of wicked men are usually irrational and thus dangerous. Moreover, "things may be plentiful or scarce, while man's wants can't be made even, and human enterprises may meet with success or failure, while man's intentions can by no means be the same." Therefore, there must be a certain political power to coordinate and guide them, in order to "keep them off the dangers and on the track of benefits." Only then "may wealth increase and mistakes be reduced."³²

Dwelling on matters of ruling a state, as we have seen, he very much emphasized the need to pursue what is desired by people. But concerning the training of people, he argued, "Though the ends of both politics and training are alike, the way to handle these

³² For all the above quotations, see *Ibid.*, "Lin Zang."

ends should be different."³³ That is to say, though in handling political affairs a ruler must follow what is desired by the people, in the training of vast masses he should do exactly the opposite. He said:

"People who want to lead an easy life must be taught to be hard-working. . . . Once the labour training system is established, the state will get rich."³⁴

The idea that labour training will make a state rich also shows the emphasis the writer placed on the significance of labour. He even recommended that the ruler let people "see merely the appearance of something being given to them, but not the substance of things being taken away from them. Then they will love their ruler."³⁵ This is a rather honest confession of the out-and-out trickery of the newly emerging exploiting class.

Section IV DISTRIBUTION

Up to this historical period, the magnates of society consisted of the remnant wealthy feudal lords, the newly emerging rich merchants, the usurers and the rising landlords. The antagonism between rich and poor had to a certain degree been recognized by the enlightened thinkers of various schools of thought. The writer of *Guan Zi* asserted that this inequality between rich and poor was an objective social reality, but his solution to the problem was merely to mitigate the antagonism, not to wipe it out entirely. His position in this respect differed from that of other thinkers of the time in that he paid much attention to the causes of this antagonism and suggested some way out of it.

The causes of the inequality between rich and poor, according to *Guan Zi*, may be grouped under three headings. First were the seasonal changes of agricultural work. He noted that the

³³ Ibid., "She Fei."

³⁴ Ibid.

³⁵ Ibid., "Guo Xu" and "Qing Zhong," pt. II.

farmers had ten days of ploughing in the spring, ten days of hoeing in the summer, ten days of harvest in the autumn and twenty days of other farmwork in the winter, so they badly needed a means of production and subsistence in the critical intervals. Again, according to him, this would be a time when prices fluctuated greatly and also a time when people would tend to annex other people's property.³⁶

Second, the fluctuation of harvest conditions and bad management of tax collection also play their part, for the yearly harvests may be good or bad, depending on the whims of nature, and the time for tax collection may be delayed or advanced. These factors directly affect the prices of grain. On the day payment is due, a farmer may have to sell his produce at any price offered by the dealer, because he desperately needs the money to pay the tax.³⁷ The dealers of course net fabulous profits from such transactions at the expense of the farmers.

Finally, the difference in mental faculties of the people was another factor. According to him, even if the amount of land or property given to men was the same at the start, "the clever may achieve ten times more success than others, while the stupid may not even be able to cover the cost of the production."³⁸ Many ancient thinkers had a similar attitude toward the uneven distribution of land in this period.

These conditions are not, however, the entire explanation for the antagonism between rich and poor. The writer reckoned that too wide a gulf between rich and poor was not good for the feudal state. Therefore, he advanced the principle of "limited difference between rich and poor" and made it an important component of the rites that underlay the class order of the feudal system and claimed that "if there is no limit on the difference between rich and poor, things will go wrong."³⁹ Why is that so? In the article

³⁶ Ibid., "Shan Guo Guai."

³⁷ Ibid., "Guo Xu."

³⁸ Ibid.

³⁹ Ibid., "Wu Fu."

"Guo Xu" the writer gave his answer:

"When people are wealthy, it will be impossible to direct them by emolument; when they are poor, it will not be possible to coerce them by punishment. Therefore, the reason laws are not enforced and the people not well governed is just the result of the inequality between rich and poor."

It is apparent that the writer did not oppose the gulf between rich and poor from an ethical standpoint but from the angle of maintaining the political stability of feudalism. However, he disapproved of keeping the people in poverty, as he pointed out, "People are hard to govern if they are poor."⁴⁰ Again: "A man of extreme poverty knows no sense of shame."⁴¹ He was also opposed to people being excessively rich, for an extremely opulent man "cannot be directed,"⁴² and "those who can well support their family would never follow the sage [meaning the ruler]."⁴³ In modern language, the writer of *Guan Zi* disapproved of an extreme polarization in the economic conditions of the people but not the existence of a difference between rich and poor within certain limits. This is what is meant by the doctrine of "limited difference between rich and poor."

In order to prevent excessive polarization, the writer insisted that a ruler should so manage his affairs as to be "able to take from the rich and to give to the poor,"⁴⁴ "to disburse the wealth accumulated, and to equalize the superabundant and the deficient."⁴⁵ We must make it clear that the writer of *Guan Zi* did not stand for expropriating the properties of the rich so as to even up the difference between rich and poor. On this problem, the writer's instinct as a spokesman of the merchant class was also given full play. What he meant by "take" or "equalize" was no more than that the feudal government should make use of the price policy to

⁴⁰ Ibid., "Zhi Guo."

⁴¹ Ibid., "Chi Mi."

⁴² Ibid.

⁴³ Ibid., "Qing Zhong," pt. II.

⁴⁴ Ibid., "Kui Du."

⁴⁵ Ibid., "Guo Xu."

prevent unscrupulous merchants from making fabulous profits. As to the meaning of "giving" to the poor, it was really lending in a certain form, not charity or any kind of free donation. All these, according to him, were proper and legitimate ways "to adjust the business of the people." In default of this, any effort to improve production or to issue a lot of money will be of no avail, because efforts along this line would simply pave the way for the speculators and "annexation by the magnates,"⁴⁶ which *Guan Zi* took as the principal cause for the gulf between rich and poor. As to the measures suggested in *Guan Zi* to lessen the antagonism between rich and poor, they may be summed up under the following headings:

(a) The feudal government should store up a considerable quantity of the means of agricultural production and means of subsistence, in order to lend or sell at credit to the peasants at busy seasons.⁴⁷ For grain, "the old grain should be given to those in need of capital and the new grain to those in need of seeds."⁴⁸ Both would be repayable by the borrowers' own produce, so as to avoid speculation, manipulation and profiteering by the magnates.

(b) The government should pay close attention to the price fluctuations of goods needed by the peasants in busy seasons and it should adopt a price policy to cut off all opportunities for annexation by the magnates.⁴⁹

(c) The government should use the system of advance buying, i.e., the government pays a certain sum of money in advance to the peasants as their productive funds. This is one of the important functions of another measure in *Guan Zi*, the so-called public money, or Huan Cheng money,⁵⁰ which we shall discuss more fully later.

⁴⁶ Ibid. The original meaning of "annexation" indicated the practices of some feudal princes in waging war to annex others' territory; since the latter part of the Warring States Period it has been extended to indicate the practices of magnates (big merchants or landlords) annexing the wealth of small merchants or farmers.

⁴⁷ Ibid., "Shan Guo Gui."

⁴⁸ Ibid., "Qing Zhong," pt. IV.

⁴⁹ Ibid., "Guo Zhun."

⁵⁰ Ibid., "Shan Guo Kui."

(d) The government should use its fiscal policies to adjust the food supply of the people and lessen their tax burden. Because the grain prices in districts with good harvests would be low and those in districts with bad harvests high, the state should regulate the tax rate in terms of money and require people to pay tax by grain according to the current local price of each district. Thus, the amount of grain collected in districts with a good harvest would be several times larger than that collected from districts with a bad harvest, and the grain collected from the good-harvest districts could be used to meet the urgent needs of the bad-harvest districts.⁵¹

(e) The government should order the magnates to lend money or goods to the peasants at low interest, or persuade the lender to charge no interest at all, or even to give the capital gratis to peasants in need.⁵²

Other policies with the same purpose were also suggested in *Guan Zi*, such as state operation of the salt and iron enterprises and nationalization of forests and water resources. Nevertheless, all these measures could not narrow the gap between rich and poor at the root, but only bring about a state of "limited difference between rich and poor." Such was the writer's purpose, and his policies of price, lending and taxation could be of use for achieving that end.

Section V

THE PRODIGALITY THEORY OF CONSUMPTION

The idea of consumption in *Guan Zi* is quite distinctive. Like many other thinkers of his time, the writer preached the gospel of frugality, but he also encouraged prodigality under certain circumstances. This is not as contradictory as it might seem at first glance, because the conditions under which these principles are to be applied and the ends to be attained by them are not the same.

⁵¹Ibid., "Qing Zhong," pt. IV.

⁵² Ibid.

Frugality, in the writer's view, should be the principle generally practised under normal economic conditions, whereas prodigality should be adopted in a special situation. He seemed to realize that consumption, whether frugal or prodigal, was closely connected with goods production. Therefore, any unwisely frugal or prodigal consumption would ultimately affect production.

We shall see how the writer handled the problem. He began by saying that frugality was the first of the six important missions of a sage king.⁵³ Many other passages keep the same tone in their encouragement of frugality. He not only emphasized the importance of frugality in normal times, but also realized the special effects of prodigality under special conditions. Both have their appropriate and inappropriate circumstances. He said:

"As frugality will do harm to business, so prodigality will do harm to goods."⁵⁴

Why? Let us start from his second point. The reason "prodigality will do harm to goods" is fairly simple in modern economic terms, for it means consuming more goods than is necessary, leading finally to a shortage of goods. The writer, however, approached the problem in terms of the price of gold:

"Prodigality makes gold dear, and dear gold makes goods cheap, so it is harmful to the goods. . . . If a shortage of goods cannot be predicted until they have been entirely exhausted, that is what we call want of anticipation."⁵⁵

Briefly, he means this: prodigality will require more gold, which will raise the price of gold and correspondingly lower the price of goods, and the low price of goods in general will do harm to their production, or, as the writer put it, be "harmful to the goods." So a wise ruler should keep an eye on the tendency for gold to become dear and goods to become cheap and take steps before the goods are entirely exhausted.

As regards the first point, "Frugality will do harm to business,"

⁵³ Ibid., "Qi Chen Qi Zhu."

⁵⁴ Ibid., "Cheng Ma."

⁵⁵ Ibid.

he used the same approach in terms of gold price, explaining:

"Frugality makes gold cheap, and cheap gold makes success in business difficult, so it is harmful to business. . . . If the oversupply of goods cannot be known until after businesses come to an end, that is what we call want of regulation."⁵⁶

Put in other words, it means this: Frugality will require less gold, so the price of gold will fall. Cheap gold will make people lose interest in business activities. This is what the writer called being "harmful to business." So steps must be taken beforehand in anticipation of businesses' becoming burdened by an oversupply of goods.

The writer's analyses of both the practice of frugality and that of prodigality are apparently incomplete, because his arguments seem to be based wholly on the quantity theory of money, which cannot alone explain the fluctuation of businesses. Moreover, he even used the gold in circulation as a measure of social consumption. He said:

"Gold is the measure of expenditure. Some intimate knowledge of the rationale of gold will enable one to know whether to practise frugality or prodigality, and with this latter knowledge man will defray all expenditures economically."⁵⁷

Certainly the circulation of gold, i.e., money itself, is connected intimately with the circulation of goods. Thus the movement of money is bound to reflect the conditions of production and marketing of goods in the whole society. Social consumption can thus be regulated by grasping the conditions under which either frugality or prodigality may be required for the purpose of preventing social products from becoming either overabundant or deficient.

According to *Guan Zi*, prodigality was called for when all goods in society failed to sell well, thereby impeding the development of social production. The relevant passages are as follows:

"How is the situation of dull sale to be improved? Answer: Nothing is better than to practise prodigality."⁵⁸

⁵⁶ Ibid.

⁵⁷ Ibid.

⁵⁸ Ibid., "Chi Mi."

"In a year of drought or waterlogging, when people lose their farm-work, efforts should be made to construct palaces, houses, terraces and arbors, in order to employ those people who possess at home neither dogs nor pigs. In doing so, the aim is not to enjoy the luxuries, but to practise the policy of the state."⁵⁹

The writer of *Guan Zi* added the caution that "if the masses are ordered to construct palaces" at an unsuitable time, "people will lose their businesses."⁶⁰ So whenever the sage kings practised the policy of prodigality, they did not do it for the sake of prodigality itself, but for the prosperity of people's businesses. And of course they could only do so when a certain accumulation of wealth existed, since only "the accumulators can afford to take delicious meals from their abundant store of food, to drive in beautiful horse carriages, and to drink voluptuously fine liqueurs."⁶¹

If objective conditions rendered it necessary, he was even in favour of "prolonging the period of bereavement, spending a lot of money for luxurious burials and encouraging relatives to visit one another frequently." According to him, a luxurious burial would bring quite a number of advantages to production and employment, since "to make a large and beautiful tomb would employ many poor people . . . to make big coffins would require more carpenters and to increase in number the expensive clothes of the dead would engage more female hands." All these would enhance the earnings of the people. If all these were still not quite enough to promote social production, then things like "additional outer decoration of the coffin and of the grave, more trees at the burial place, and more precious and valuable things as burial objects can be tried." All these, he thought, would employ more people and stimulate social production through the consumption of already existing goods.

Furthermore, he held, "the more prodigally the rich consume, the more profusely will the poor produce." In other words, prodigal consumption of the rich creates opportunities of work for

⁵⁹ Ibid., "Cheng Ma Shu."

⁶⁰ Ibid.

⁶¹ The following quotations in this section are all found in "Chi Mi" in *Guan Zi*, unless otherwise noted.

the poor. So one's productive activity "is not only for himself," but also for others' consumption. Others' consumption can also incite one's production. The writer even pushed his prodigality theory of consumption to such an extent as to say that "to paint the egg before it is about to be boiled and to carve the firewood before it is about to be burned" would be by no means wrong, because it would give work to people and improve their standard of living.

In sum, the core of the conception of prodigality in *Guan Zi* is that "without prodigality, the fundamental work [i.e. farmwork] cannot be promoted." When society is faced with an unfavourable condition in agriculture, and consequently in the social economy in general, frugality in consumption will make the recovery of its economic condition even more difficult. If at this conjuncture, however, "the ruler spends prodigally and the officials follow him . . . then their wealth will not be locked up, and the poor will have an opportunity to work and earn a living from it." Nevertheless, even the writer himself admitted that there are limits to his suggestion; for example, "it cannot be practised in an unsafe and small state."⁶²

A prodigality theory of consumption such as the one described above certainly is nothing new to modern economists, though unacceptable to many old Chinese thinkers. But in the Western world, such an economic theory did not come into being until the seventeenth century, when it made its first appearance in William Petty's work, and became later widely propagated by J. M. Keynes in the 1930s. Had Keynes read the aforementioned passages, he would certainly have quoted them with great delight to give the theoretical ground of his public-works policy some additional support.

Section VI

THE "LIGHT-HEAVY" THEORY

We shall now study in some detail the so-called light-heavy theory, which we mentioned in passing in foregoing chapters. It

⁶² *Guan Zi*, "Shi Yu."

was a unique concept of classic economic thought in China and fully elaborated in *Guan Zi*. It is important to remember in reading this section that “light” and “heavy” are literal translations of the Chinese characters. Throughout this chapter, or whenever we refer to this theory in the present work, the words “light” and “heavy” will always mean the relative position of a certain thing — money, a given commodity, or commodities in general. For instance, when we refer to something, say, money, as “light,” we mean that in comparison to other things, such as grain, goods, or money itself in a former period, the money is already or about to become too easy or too abundant or people are somewhat indifferent to it. This meaning should not be difficult to keep in mind after reading two or three pages of this section.

(1) The Origin and Aim of the “Light-Heavy” Theory

The “light-heavy” theory did not appear first in *Guan Zi*. The idea had existed for centuries before the work was compiled, as we have already mentioned, but until the writing of *Guan Zi* the idea was not given elaborate and systematic treatment.

The writer of *Guan Zi* attributed the origin of the theory to many persons, whom he called “light-heavy” specialists and who, he claimed, lived several centuries before the compilation of the book. Although these persons might be legendary, the theory itself is certainly real. From the historical data concerning the concept recorded in several other ancient works as well as from the complexity of the theory demonstrated in *Guan Zi*, it is perhaps fairly safe for us to conclude that the concept was not an original contribution by a single author, without forerunners. Since the beginning of the Spring and Autumn Period, all ducal states had been hankering for the art of “making the state rich and the army powerful.” It was to meet the demand of the time that the “light-heavy” theory was developed.

Among all the economic thoughts of *Guan Zi*, this theory is the most remarkable and complicated. If the value theory is the theoretical foundation of modern political economy, the “light-

heavy" theory can justifiably be seen as the cornerstone of the economic system of *Guan Zi*.

The aim of the "light-heavy" theory is comparatively comprehensive. Its original content, according to the explanation in *Guan Zi*, included matters such as drawing the "Eight Diagrams" (the basis of the ancient system of philosophy and divination), planting the five kinds of grain, discovering fire and cooked food, burning mountains and jungles (i.e. opening up lands), driving away bad fowl and beasts, mastering water and earth, building towns and houses, training oxen and horses, utilizing pearls and jades, improving trade activities and so on.⁶³ In a word, anything concerning the social life of people, or what are called today socioeconomic activities, was included in the scope of the theory, but the subjects actually discussed in *Guan Zi* may be grouped into three categories:

(A) **Things in general** Any kind of commodity is or will be "heavy" if it is artificially locked away, cornered, or in a state of contending purchase. Its "heaviness" is shown by its shortage of supply, its rising price, or its meeting with a ready sale. In opposite circumstances the commodity is, or will be, "light." Generally, the same kind of commodity will flow into the native market from other places when it is getting "heavy" and flow out from the native market when it is getting "light." The original text reads: "A thing is bound to flow in when it is 'heavy' here and flow out when it is 'light.' . . . When a certain thing is locked away, it will become 'heavy'; otherwise, it will become 'light.'⁶⁴ . . . When a certain thing gets cornered, it becomes 'heavy'; if not, it becomes 'light.' When a certain thing is worth hoarding, it becomes 'heavy'; if not, it becomes 'light.'"⁶⁵

(B) **Grain** Grain occupies a peculiar relationship to other commodities. First of all, "if the grain is 'heavy,' all other things will be 'light,' and if the grain is 'light,' all other things will be

⁶³ Ibid., "Kui Du" and "Qing Zhong," pt. V.

⁶⁴ Ibid., "Kui Du."

⁶⁵ Ibid., "Qing Zhong," pt. I.

'heavy.'⁶⁶ Again, "grain becomes 'heavy' if it is being stored up by the government."⁶⁷ Second, "grain alone can itself be dear and cheap."⁶⁸ That is to say, the "lightness" or the "heaviness" of grain is primary, causing the "lightness" or "heaviness" of other goods to change inversely. So the high price of grain will make all things relatively cheap, and the low price of grain will make all things relatively dear.

(C) **Money** This is a topic on which there is a very detailed and elaborate discourse in *Guan Zi* and also the part of the "light-heavy" analysis most frequently cited by thinkers of later generations. Examples of the application of the doctrine given in the articles in *Guan Zi* are as follows:

"Guo Xu"—"If [a prince] manages things accurately with an eye to the 'heaviness' or the 'lightness' of things, an adjustment can be made between what is dear and what is cheap, and the prince will net profit therefrom."

"Shan Guo Gui"—"When nine tenths of the money is recalled to the top [the state treasury] and only one tenth remains below [in circulation], the money will become 'heavy' and all things become 'light.' In this conjuncture the money in the state treasury should be used to purchase all sorts of things. The money will circulate again and all things will be in the state's keeping. As a result, all things will become ten times 'heavier' than before."

"Shan Zhi Shu"—"The intellectuals take their emoluments in form of money, the high officials draw their remunerations from the fief in form of money, and commoners' food and horses' feed are also paid in the form of money. As a result, a great quantity of grain will be kept by the state, while a huge amount of money goes into circulation. Then the price of grain will rise ten times. This is the art of government. Hence, if money is 'heavy,' all things will be 'light.' Contrarily, if money is 'light,' all things will be 'heavy.'"

"Di Shu"—"Therefore, the sage kings of the past made use of the 'heaviness' of every kind of money, making pearls and jade the money of the high degree, gold the money of the middle degree and copper coins the money of the low degree. When the decree to collect tax is urgent, gold will become 'heavy,' and when the decree to collect tax is easygoing, gold will become 'light.' By intensifying or relaxing the

⁶⁶ Ibid., "Cheng Ma Shu" and "Qing Zhong," pt. II.

⁶⁷ Ibid., "Kuang Cheng Ma."

⁶⁸ Ibid., "Cheng Ma Shu."

urgency of the decree to collect tax payments, the past sage kings could manipulate the rise and fall of the price of money of the middle degree so as to control the use of money of both high and low degree." (Similar passages can be found in the article "Qing Zhong," part II.)

Here the writer of *Guan Zi* took money mainly as a medium of circulation and used it to regulate the supply and demand of goods through its recall or release by the government. Money itself would be "heavy" when it was stored up by the treasury, but "light" when released, just like other things. He also said, "Gold and copper coins are the instruments of circulation for the people, so a wise ruler manages them so as to control the supply of grain."⁶⁹ The *Guan Zi* theory of money will receive detailed consideration in the next section.

The "light-heavy" doctrine was also applied to personnel affairs. Another historical work mentions that seven articles dealing specifically with the application of the doctrine to personnel affairs once existed in *Guan Zi*, but they were all lost long ago. The book now contains only a few passages concerning the system of reward and penalty.⁷⁰ The application of the doctrine may also sometimes be extended to foreign relations. For example, the writer said that, when the princes of other ducal states had not yet been subjugated, the "light-heavy" doctrine should be employed as one of the weapons to wage war against them, and when they had already become vassal states, the doctrine should be employed to develop benevolent and righteous relations with them.⁷¹

In short, the scope of the doctrine is rather comprehensive and inclusive. Anything in a ducal state, such as public finance, land policy, money, prices, commodities, wealth accumulation, and economic policies and measures, may be regarded as an object for the application of the doctrine. However, the writer lay the greatest stress on money, prices and the exchange of agricultural produce.

⁶⁹ Ibid., "Guo Xu" and "Qing Zhong," pt. II.

⁷⁰ Ibid., "Kui Du" and "Qing Zhong," pt. II.

⁷¹ Ibid., "Kui Du."

(2) Rules of the "Light-Heavy" Doctrine

The rules governing the relationship between "lightness" and "heaviness" can be classified into two categories: rules applicable to one kind of commodity and rules applicable to several kinds of commodities.

(A) Rules of the "light-heavy" doctrine applicable to one kind of commodity If one understands the factors that cause a commodity to become "light" or "heavy," one will be able to manipulate these factors to produce a state of "lightness" or "heaviness" anticipated or desired. The following are the rules mentioned in *Guan Zi*:

"Goods if concentrated will become 'heavy,' but will turn 'light' once they are scattered about." (Guo Xu)

"Goods locked away will be 'heavy,' but will turn 'light' if they are freed." (Kui Du)

"Goods will be 'heavy' if they are scanty or run short, but will be 'light' if they are superabundant or plentiful." (Guo Xu)

"Goods worth being hoarded will become 'heavy,' and conversely will become 'light.' Goods cornered will be 'heavy,' or otherwise will be 'light.'" (Qing Zhong, part I)

"An urgent decree to collect tax in the form of certain goods will make the goods in question 'heavy,' but a go-slow decree will make them 'light.'" (Di Shu)

Whenever a commodity is concentrated, no matter whether by the state or by some big merchants, it is bound to bring pressure upon consumers and give rise to the public feeling that it is not easily obtainable. This is what the writer called the state of being "heavy." If, however, it is scattered everywhere on the market, consumers will feel that it can be bought anywhere. This is the so-called state of being "light." The same is true of goods "locked away" or "freed." The writer of *Guan Zi* argued that while a state should be allowed to concentrate or lock away any commodity to achieve certain desirable ends, the magnates should by no means be allowed to do the same thing. Instead the commodity ought to be scattered or freed on the market. Then "a fair flow of all things will make their exchange easy and frequent, and the frequent exchange of goods will make them cheap."⁷² The

⁷² Ibid., "Qing Zhong," pt. I.

"lightness" or "heaviness" of a commodity is accordingly related to supply and demand. Anything desired by everybody will sell well and thus be "heavy," but if it is not desired by anyone, it will be a glut on the market and thus "light." It is plain that a cornered commodity must be dear in price, and so "heavy." Once it is freed from the cornering, it will be relatively cheap, or "light." When a government decree requires a given tax to be paid in kind shortly, taxpayers will make a rush for the goods required by the state, which will consequently be "heavy." If the decree slows up the demand for the tax, the same goods will turn "light." If the tax is to be paid in money, the same phenomenon will occur to the money in circulation. On the whole, the terms "concentrated" and "scattered," "locked away" and "freed" must be understood relatively.

(B) Rules of the "light-heavy" doctrine applicable to two or more kinds of commodities The foundation of the "light-heavy" rules for different commodities is the relationship of the commodities in question. Not all commodities can be "heavy" or "light" simultaneously, but each of them may be "heavy" or "light" under certain circumstances. The correlations described by the writer of *Guan Zi* can be encapsulated in the following categories:

a. Money versus things in general: When money is "heavy," things in general will be "light" (i.e. cheap); when money is "light," things in general will be "heavy" (i.e. dear).

b. Money versus grain: When money is "heavy," grain will be "light"; when money is "light," grain will be "heavy."

c. Grain versus things in general: When grain is "light," things in general will be relatively "heavy"; when grain is "heavy," things in general will be relatively "light."

As *Guan Zi* mentions, "gold and copper coins are the instruments of circulation for people," but there was not yet any "monetary fetishism." What people eagerly sought was still grain, not metallic money, because the latter was still more or less looked upon as a thing "the wearing of which does not give you any warmth and the eating of which does not give you the feeling of satiety." But not so with grain, for, as the writer said, "the five kinds of grain are the master of all things" and also "the arbiter

of the fate of the people." Grain was not only necessary to life but also dominant in the sphere of production, which caused the "high price of grain to lead to lower prices for all things, and the low price of grain to lead to higher prices for all things." Others besides the writer of *Guan Zi*, such as Fan Li at the end of the Spring and Autumn Period, realized this truth, though none elaborated on it so thoroughly as he.

As for the problem of how grain alone could become dear or cheap, the writer took it for granted and made no explanation. It is, however, no longer an unanswerable question. In a society where agriculture still occupied an absolutely dominant position in the social economy, the yearly harvest had to be at the mercy of natural conditions, and changes in the yearly yields would definitely make the price of grain high or low and have an inverse effect on the prices of other commodities. Under the abnormal conditions of either a bumper harvest or crop failure, grain would play a determinant role; even the value of metallic money would be affected by changes in grain prices. But under normal conditions of grain production, metallic money played a decisive role.

The crucial point for the system of *Guan Zi* was that the state was supposed to be directly engaged in the business of selling and buying grain on the market and the transactions were carried out by means of money. The government could flood the market with grain previously stored up, creating a situation of "heavy" money and "light" grain. The government could also make use of money in the treasury to buy a considerable quantity of cheap grain on the market, making grain "heavy" and money "light."

It can thus be seen that both grain and money can play a decisive role. Upon this assumption, "the ruler will be able to conquer the whole world if he has command over the balance between grain and money."⁷³ Grain is of course produced by people and not originally possessed by the state treasury. Its special ability to be dear or cheap on its own is also beyond the control of the state. But because the state can use its control over the coinage

⁷³ Ibid., "Shan Zhi Shu."

of money, it can regulate the supply of grain and its market price by means of purchasing and reselling it. The writer insisted that the state must go one step further to adopt a policy of "controlling the currency in order to ride on the arbiter of human destiny [grain]." ⁷⁴

In brief, among the various interrelations of "lightness" and "heaviness" those having to do with things in general are passive in nature and those having to do with grain and money are active. But because grain specifically is the "arbiter of human destiny," the state must manipulate the "light" or "heavy" condition of grain by putting money into or taking it out of circulation, as well as by manipulating the "light-heavy" condition of money itself.

The "light-heavy" theory is somewhat like equilibrium analysis in modern economics. According to the modern idea, however, the process occurs spontaneously, while according to *Guan Zi*, the equilibrium must be managed by the state. Another difference is that modern theorists take equilibrium as a desirable state to be reached, while *Guan Zi* saw a ceaseless pendulous movement from "lightness" to "heaviness" and back again. The theory requires constant adjustment. Every adjustment has its own specific end, whereas the end of the process as a whole is to benefit both the state and the people.

(3) General Application of the "Light-Heavy" Doctrine

Some explanation of the guiding spirit of the "light-heavy" doctrine is given in *Guan Zi* as follows:

"Any 'heavy' thing is bound to be shot at; any 'light' thing is bound to be drained away." ⁷⁵

"To use the thing that is 'heavy' to shoot at that which is 'light,' to use the cheap to level down the dear, these are the great advantages that can be drawn from the application of the 'light-heavy' doctrine." ⁷⁶

"There is no rigid art of the 'light' and 'heavy,' but to respond to

⁷⁴ Ibid., "Qing Zhong," pt. II, and "Guo Xu."

⁷⁵ Ibid., "Shan Quan Shu" and "Cheng Ma Shu."

⁷⁶ Ibid., "Guo Xu."

anything that is showing signs of coming and to take advantage of any tidings heard.'⁷⁷

What do the above quotations mean? The first one means that a commodity will be sought after by the public if it is "heavy" and will drain away to somewhere else if it is "light." The second means that the state must use something "heavy" to solve the problem of something "light" and not vice versa. That is because the thing in the grasp of the state is also the thing that is "heavy" on the market. Therefore, if, say, grain is "heavy" in the market and money is "light," the grain of the treasury should be used to shoot at money in circulation, and vice versa. Furthermore, according to the system suggested in *Guan Zi*, the high market price of any commodity can be made to fall only by the government's flooding the market with the same commodity at a comparatively low price. Finally, the government must act at the opportune moment — "to avail oneself of the opportunity either to get into a certain activity at the necessary moment or to retreat from it."⁷⁸

To conclude, when the supply of an important commodity is abundant in the market, it will be "light," that is, its price will fall below the desirable level. Then the state should purchase it in order to boost its market price. However, its price may soon rise to an undesirably high level and at that time the state should place the same commodity on the market, in order to make its price fall. Such measures have two purposes. On the one hand, they make the price of some important commodity constantly approach a certain ideal level, in anticipation of its becoming either too high or too low. On the other hand, the state will definitely make a considerable profit. Both these elements must be taken into account simultaneously, and there must be no overemphasis on one to the neglect of the other.

The above, then, are the general guiding principles of the "light-heavy" doctrine. If it is to be applied to a given situation, specific problems relating to the particular case must be considered.

⁷⁷ Ibid., "Qing Zhong," pt. I.

⁷⁸ Ibid., "Shan Quan Shu."

We can divide the application into two categories — intrastate and interstate relations.

(A) **Application of the "light-heavy" doctrine within a ducal state** The writer pointed out that those who govern a state should do the following:

"[A state should] put on sale what the people are short of and buy what they feel is superabundant. When people have something in abundance, they consider it 'light,' so the ruler must gather it in by reason of its being 'light.' In contrast, when people feel something is running short, they consider it 'heavy.' Then the ruler must distribute it by reason of its being 'heavy.' By buying what is 'light' and selling what is 'heavy' the ruler will make ten times profit, and in the meantime the wealth of the people will be evened up."⁷⁹

The measure has three distinct advantages: benefit to the people, fabulous profits for the state, and smoother movement of market prices.

But how does a situation of shortage or overabundance come about? Fundamentally it was determined by the natural conditions of agricultural production under feudalism, for good or bad crops played a decisive role in people's lives. As the writer put it, "During the years of bumper harvest, the grain on the market can't be sold even at a pitifully low price, and dogs and pigs eat the food man does. But during years of famine, grain can't be bought even at an exorbitant price, and there are cases of starvation on the road."

The writer went a step further to point out that famine and bumper harvest were not the sole causes of shortage or overabundance. In good harvest years the grain was "light" and therefore cheap, but the government made no effort to purchase and store it, so large quantities of it were wasted. Consequently supplies were deficient when the harvest was poor. This should not be attributed to infertility of the land or shortage of goods. It showed only that the state had not done its duty.

Therefore, within a state, the aim of the "light-heavy" doctrine is to adjust the surplus or shortage of things in general and par-

⁷⁹ Ibid., "Guo Xu."

ticularly grain, to level the market price of all goods and by means of both to replenish the state treasury.

(B) Interstate application of the "light-heavy" doctrine In interstate economic activities the main aim of the doctrine is to keep vital materials in the home market, constantly ensuring that "the home state will keep the things 'heavy,' while they are 'light' abroad."⁸⁰ This will induce goods to flow into the home market from the outside world. In addition, the writer said that "a wise administrator of government should carefully keep the 'heavy' things to himself so that they may not flow into the outside world."⁸¹ In other words, a state should maintain a high price to prevent home goods from flowing out of the state and to induce foreign products to flow in. Curiously, however, the writer was not in the least troubled about exporting gold from his home state. He even held that if his home country, the state of Qi, were as rich in gold as the state of Chu, it should take advantage of the gold produced to make the princes of the world come pay their respects at the court of Qi.

Nevertheless, the writer's general policy of preventing home products from flowing out was not without exception. For example, the salt produced in the state of Qi and monopolized within the state was exported at a high price for the purpose of obtaining gold. The writer himself called such a business transaction a "kingly deed" of the state.⁸² In this case the salt exported was really "light" at home and "heavy" in other states, exactly in opposition to the doctrine cited above. Moreover, the import of things the home market greatly lacked was also encouraged. In general the aim was "to follow any circumstances as far as one is able and to take advantage of them to the extent possible. This is to control the world by utilizing the events of the world."⁸³

The above is merely a rough sketch of the "light-heavy" theory.

⁸⁰ Ibid., "Qing Zhong," pt. II.

⁸¹ Ibid., "Shan Zhi Shu."

⁸² Ibid., "Qing Zhong," pt. I.

⁸³ Ibid., "Qing Zhong," pt. IV.

Details include a wide variety of activities such as stockpiling goods and materials, replenishing public finance, adjusting the waxing and waning of businesses, levelling market prices, preventing the annexation of wealth, protecting materials from outflow, absorbing foreign materials, dealing with interstate trade, even disrupting the economic order of the enemy. In the following sections we shall expand merely on the ideas of money, price, finance and other economic policies in *Guan Zi*.

On the surface the theory is certainly kaleidoscopic and all-embracing, but in the final analysis, it is no more than measures a state can adopt to control the relationship between money and commodities. In modern terms, one aspect of it was a kind of quantity theory of money, while another part concerned adjusting the purchasing power of money. In his own terms, the writer of *Guan Zi* saw the fundamental policy of handling the state economy of a feudal kingdom as just making use of the business methods of merchants. Therefore, the "light-heavy" theory is essentially a mixture of feudal power and the commercial spirit. But if we put aside the historical and class limitations of the theory and consider only the process of commodity circulation, with which the theory dealt at great length, then its well-considered system, deep-going analysis and flexible application are indeed quite astonishing.

Section VII

THEORY OF MONEY

Ideas about money in *Guan Zi* are quite numerous. Some of them are common to all the world since the first monetary theory. Others are entirely novel views never offered by anybody else in ancient China.

(1) **Functions of money** In *Guan Zi* several functions of money are mentioned separately, among which money as a circulating medium is most clearly pointed out. The writer's opinion:

"Gold and money⁸⁴ are the currencies of people."⁸⁵

"Gold and money are people's instruments of circulation."⁸⁶

"Money is a channel."⁸⁷

Money as a medium of circulation was easily comprehended by the ancient thinkers. But the idea that money is a "channel" of circulation in society was not so easy to comprehend in a society in which the natural economy still occupied a dominant position. This means that *Guan Zi* had made some rather deep observations on the matter. Money's function as a medium of payment, though not pointed out explicitly, was, however, affirmed implicitly. For instance, the writer mentioned many times several kinds of emoluments paid by money,⁸⁸ lending and repayment carried out in terms of money⁸⁹ and tax payments as well as interest loans carried on in the same way.

As to the function of money as a store of value, the writer said:

"A state with a national defence force of ten thousand chariots must have savings of no less than ten thousand catties of gold, one with one thousand chariots, no less than one thousand catties of gold and one with one hundred chariots, no less than one hundred catties of gold."⁹⁰

"A city with ten thousand families must have savings of ten thousand piculs of grain and ten million strings of money, and one with one thousand families, savings of one thousand piculs of grain and one million strings of money."⁹¹

The writer even went on to suggest the establishment of a

⁸⁴ The word "money" in *Guan Zi* generally means the copper coins of the time. Copper coins in the pre-Qin period consisted of two forms, each with several denominations. One of them imitated the shape of a sword, so it was called *dao*. The other was something like a shovel with a short handle and two broad, short prongs on its lower part, called *bu*. Therefore, "money" other than gold at that time may be called *dao* or *bu* or *dao bu* (sword and shovel) instead.

⁸⁵ *Guan Zi*, "Qing Zhong," pt. II.

⁸⁶ Ibid., "Guo Xu."

⁸⁷ Ibid., "Kui Du."

⁸⁸ Ibid., "Shan Zhi Shu."

⁸⁹ Ibid., "Shan Guo Gui."

⁹⁰ Ibid., "Shan Quan Shu."

⁹¹ Ibid., "Guo Xu." One "string" equals a thousand copper coins.

system of *huan cheng* money,⁹² which is something like the public reserve fund today, with the aim to meet seasonal needs of agricultural production.

The function of gold as universal money was also frequently mentioned in *Guan Zi*. The copper coins at that time differed from one ducal state to another, hence interstate trade had to be carried on by means of gold. For example, in *Guan Zi* we read:

"The merchants of the states of Lu and Liang were told by the prime minister of the state of Qi, 'Bring me one thousand pieces of silk. I shall give you three hundred catties of gold. Do it ten times and you will get three thousand catties of gold.' . . . The merchant of the state of Chu was told, 'Bring me twenty live deer. You will be paid one hundred catties of gold. Do it ten times and you will get one thousand catties of gold.'"⁹³

"Bringing corn to our state in exchange for money, they will drive out with gold in their vehicles."⁹⁴

All these show clearly that the function of gold as universal money had been duly understood by the writer of *Guan Zi*.

However, the above-mentioned functions of money are conclusions we draw from passages in *Guan Zi*, not the systematic analysis of the writer. Unfortunately, he never touched on the most important function of money, i.e., as a measure of value. But this is to be expected, since the theory of value in general remained undiscovered in the system of economic thought in *Guan Zi*.

(2) Quantity theory of money About two thousand years before the seventeenth century, when the quantity theory of money was first elaborated in Europe, a similar monetary theory was set out in *Guan Zi*. It reads:

"When nine tenths of the money is recalled to the top [the state treasury] and only one tenth of it remains below [in circulation], money will get 'heavy' and things in general will get 'light.' At this conjuncture, money in the state treasury should be used to purchase things in general. Then money goes into circulation again and things in general are kept by the state. Consequently, things in general will become ten times 'heavier' than before."⁹⁵

⁹² Ibid., "Shan Guo Gui."

⁹³ Ibid., "Qing Zhong," pt. V.

⁹⁴ Ibid., "Qing Zhong," pt. II.

⁹⁵ Ibid., "Shan Guo Gui."

Here the word "light" or "heavy" is used solely to express the price, high or low, of the commodity in general. If nine tenths of the circulating money was recalled to the state treasury by putting on the market commodities formerly hoarded by the state, the quantity of money remaining in circulation would be only one tenth as much as before. As a result, the price of all commodities would fall greatly. But should the state now come into the market with a considerable quantity of money and purchase commodities in the market, the quantity of money in circulation would increase greatly, leading to a tremendous rise in commodity prices. In short, commodity prices would rise or fall in accordance with the increase or decrease of the quantity of money in circulation.

One can find here and there in *Guan Zi* passages concerning the influence of the quantity of money on changes in commodity prices. On the problem of whether any absolute proportion between changes in the quantity of money and changes of price exists, the writer of *Guan Zi* seems to have committed the same error as the early classical economists of the West. But in many places he is more inclined towards believing that there is an inversely proportional relationship between the "lightness-heaviness" of money and the "lightness-heaviness" of the commodity in general.

The writer seemed to have some idea of the necessary quantity of money in circulation. As we have explained above, he advocated that "a state with a national defence force of ten thousand chariots must have savings of no less than ten thousand catties of gold." Of course, such a quantity of money stored is money hoarded, not circulated. But in the writer's mind, the money was kept not for the sake of hoarding, but to meet the urgent business needs of the society, so it was really a fund to adjust and regulate the quantity of money necessary for the whole society. In those days the right of coinage was monopolized by the state and the system of free coinage was not yet in practice. In order to enable the money in circulation to meet business needs, the establishment of a system of *huan cheng* money, or public money, might be quite wise and expedient.

The necessary quantity of "public money" was to be estimated

on the basis of certain factors in a given district such as "number of inhabitants, amount of farmland . . . amount of grain produced yearly, how much grain would remain after the yearly needs of all inhabitants were met . . . or how much would be wanted to meet the yearly needs of all the inhabitants."⁹⁶ In other words, the estimate of the amount of public money required was based on the relation between the population and the grain produced in the locality. This was the reserve fund formed to adjust the local quantity of money required for circulation. In a state whose territory was not too large, changes in the circulation of money were rather small, so its necessary quantity of money could be determined if the requirements proposed by the writer were fulfilled.

(3) Monetary policy and other monetary problems In *Guan Zi*, money was looked on as an important instrument for the control of the state economy. Should a state have control over both money and grain, it would be capable of mastering the world of commodities. But the grain produced by private individuals can come into the grasp of the state only through money. Hence, money must be strictly controlled by the state. This is the foundation of the monetary policy of *Guan Zi*. The writer says, "The kings in the past" made use of money "to keep wealth, to manage the affairs of people, and therefore to give peace to the world."⁹⁷ We shall dwell upon his views for a short while.

(A) On standard of money The monetary standard described in *Guan Zi* was very peculiar. Money was classified into three degrees.

"Pearls and jade are money of high degree; gold, money of middle degree; and copper coins, money of low degree. . . . Kings in the past always manipulated the rise and fall of the value of money of the middle degree, so as to control the use of money of both high and low degrees."⁹⁸

⁹⁶ Ibid.

⁹⁷ Ibid., "Fuo Xu."

⁹⁸ Ibid., "Di Shu." The same statements can be found in "Kui Du" and "Qing Zhong," pt. II.

This means the state had to hold and intentionally change the purchasing power of gold in order to regulate the value of high-degree money (pearls and jade) and low-degree money (copper coins). High-degree money played only a very negligible part in reality. Gold and copper coins, especially the latter, were therefore the currencies generally in use. As we have mentioned before, in some ducal states copper coins were called *dao*, while in others they were called *bu*. This explains why the writer often wrote, "Gold and *dao bu* are the instruments of circulation of people," "gold and *dao bu* are much appreciated by people," and so on.

Gold was mainly used in state finance and foreign trade. As mentioned in the article "Shen Ma" in *Guan Zi*, "gold is the measure of expenditure," and "twenty-four taels of gold are enough to cover the expenses of feeding the men and horses of one hundred chariots in a night." Again in the article "Shan Quan Shu": "One catty of gold is worth eight piculs of corn," and so on. All these show that gold was used as the medium of payment in state finance.

Copper coins were used mainly by common people. For example, "the price of corn in the west part of the state of Qi is one hundred coins for one *fu* [a dry measure of corn] . . . and in the east part, ten coins for one *fu* . . ." ⁹⁹ and "in a normal year the price of corn is ten coins one picul, while in a year of crop failure the price of grain rises and is twenty coins one picul." ¹⁰⁰ In all these dealings copper coins were used as the medium of exchange.

It can be seen from the above that what the writer desired was to peg the exchange ratio of coin to gold, for instance, to maintain a fixed ratio of one to four thousand, one catty of gold being worth four thousand coins. ¹⁰¹ Thus when the state adjusts the gold prices of some principal goods, the coin prices should also be adjusted accordingly. The writer did not know that in the history of currency the maintenance of a stable ratio of exchange between two metallic currencies for a long period has been proved

⁹⁹ Ibid., "Qing Zhong," pt. IV.

¹⁰⁰ Ibid., "Guo Xu."

¹⁰¹ Ibid., "Qing Zhong," pt. I.

unattainable, particularly for a country that possesses no gold mine. However, an argument for the necessity of a stable exchange ratio between two currencies at that early date showed advanced thinking.

(B) Monetary policy Based upon the quantity theory of money on the one hand and money as an instrument for the management of the state economy on the other, the aim of the monetary policy in *Guan Zi* was, first, to control directly the prices of important commodities and, then, to influence indirectly the prices of other commodities by means of recalling money from circulation or putting it back into circulation. Following is an account of the policy synthesized from the articles "Kuang Cheng Ma," "Guo Xu," "Shan Guo Gui" and "Shan Zhi Shu" in *Guan Zi*.

The policy proposed was something like this. The state treasury uses its money to purchase in advance grain still in the early stage of production. When the grain bought in advance has been delivered, the state should make use of it and the treasury money to buy silk and other commodities, some of which the state needs. The state then holds a considerable quantity of grain and other commodities, while, because money has flooded into circulation and there is a shortage of commodities in the market, money will become "light" and things in general become "heavy." But the foodstuffs needed by the nonagricultural population must be bought from the government, so money returns gradually to the treasury from circulation. Finally a situation ensues wherein money becomes "heavy" and all commodities "light." Then comes another round when the state uses treasury money to purchase things, causing their prices to rise again, and the state puts the commodities on sale, in order to force down general prices. This process is supposed to be repeated endlessly.

The movement of money and goods may take the following forms:

(a) Money may come into circulation through several channels, as advance payments to peasants for their grain, emoluments of officials and the expenses of government, and the disbursements of the treasury for the purchase of commodities when they are cheap.

(b) The channels through which money may be recalled from circulation are income from the state's sale of grain, income from the state's sale of ordinary commodities and tools for production, and taxes.

(c) Forms for the collection of grain: from advance buying by the state, from repayments in the form of grain from peasants buying farm tools on credit from the state, from land taxes paid in grain.

(d) Forms for the distribution of grain: purchase by officials and the nonagricultural population, and grain used by the treasury in exchange for silk and other things.

In short, money is made to flow in and out of circulation chiefly through the collection or distribution of grain. The ingenuity of this policy lies in that the state does not in the beginning make use of the treasury money to purchase the commodities in general. Instead, it purchases the grain in advance and then, through its direct control over both the grain and money, influences the price level in general. Ordinarily, grain is used for the exchange of other commodities while their prices are high, and money is used to buy other commodities while prices are low. The commodities purchased by the state are mainly used to pay for the advance buying of grain from the peasants and secondarily offered for sale when their prices are high. Therefore, it is necessary for the state to hold both money and grain. The purchase and sale of other commodities are merely side activities. In the modern economic sense this means that the control of general price levels must be tightly connected to the law of supply and demand on the market. In the mind of the writer of *Guan Zi* it seems that the conditions of supply and demand of a commodity will follow closely the rise and fall of its market price, while the latter, in turn, follows the changes of quantity of money in circulation, and again this last, in its turn, follows the operation of the state in recalling money from circulation or putting it into circulation. In not too big a state with a more or less closed economy, such a monetary policy might perhaps be practicable.

Section VIII

PRICE AND COMMERCE

Guan Zi's analysis of the problems of price and commerce brings us into a rational kingdom of the merchant class. Here, the writer gave full play to his originality. The only baffling point is that he insisted on restricting the speculation and annexation practised by the "rich and big merchants" while trying to encourage them at the same time. However, considering the interests of the whole merchant class, these measures to restrict speculative and annexing activities could have served to mediate conflicts within the class as well as those between it and other classes. Consequently they would benefit the whole merchant class in the long run.

(1) **Fundamental view on price** The price concept in *Guan Zi* is really a partial application of, or even an important part of, its "light-heavy" theory, for on many occasions the latter manifests itself in the change of prices. The writer never demanded a perfectly stabilized price for any commodity, although he insisted on making use of grain and money to regulate the prices of things in general. This is the general principle of his idea on price. One passage in *Guan Zi* on this subject says:

"Duke Huan asked of Guan Zhong, 'Is the balancing of prices dependable?' Guan Zhong answered, 'No, price balancing is not dependable. Balancing can simply send the price up and then down, without any assurance of permanent stability.' 'But,' said the duke, 'is there any way the dependability of balancing may be adjusted?' Guan Zhong answered, 'No, it is not adjustable. Adjustment in this connexion will lead to placidity, and placidity will lead to rigidity. With rigidity there will be no difference between high and low prices, and when the high and low prices are not differentiated, the myriad commodities will be thrown out of order. There are four seasons in a year and four times of payment of taxes. So when the state issues decrees at each season for the collection of tax payments, the "lightness" or "heaviness" of things may vary tenfold to a hundredfold. Hence, it is unnecessary to stabilize the prices of things permanently, and that is why I say balancing of prices is not dependable.'"¹⁰²

"Price balancing" here is somewhat like the equilibrating move-

¹⁰² Ibid., "Qing Zhong," pt. II.

ment of price in modern political economy, which fluctuates ceaselessly around a certain centre. Therefore, keeping the price of any commodity absolutely stable was, to the writer, unnecessary, if not impossible, because where there was no fluctuation, there would be no equilibrating movement at all, and then there would be no economic development. This idea of price movement must be considered a praiseworthy achievement for ancient times, although the writer was far from knowing the centre around which the price fluctuated.

Precisely because the writer realized that the rise and fall of market prices was an objective fact, his price policy was built on that and then used to regulate the economic activities of the people. For instance, he assumed that "when grain is 'heavy,' things in general will be 'light,' and when grain is 'light,' things in general will be 'heavy.' The two situations change inversely."¹⁰³ Therefore he proposed to use the price policy to raise the state selling price of grain in order to improve agricultural production and to sell at a price lower than the speculative price of merchants on the market in order to prevent speculators from amassing fabulous profits. At the same time the state treasury could be replenished by seizing a large part of the ill-gotten profit of the professional speculators. Moreover, so doing would also bring in a considerable amount of fiscal revenue in place of the tax revenue that the government tended to rely on at that time. As the writer pointed out:

"Things in general will be cheap if the grain is dear and things in general will be dear if the grain is cheap. The two stand opposed to each other and cannot be made level themselves. Therefore, the ruler should take advantage of the mutual antagonism between them and manipulate the situation when they are out of balance with each other. In this way, the profits of the whole state will go to the ruler, yet the common people need to pay no tax."¹⁰⁴

This is to say that a well-managed price policy would bring in fiscal revenue sufficient to replace the revenue collected from compulsory levies.

¹⁰³ Ibid.

¹⁰⁴ Ibid., "Guo Xu."

The effects of the relative price seemed to have also been more or less understood by the writer of *Guan Zi*. He said:

"When the ruler is keeping the linens, he should impose a tax on hemp at a rate ten times its price. Then the price of linen will rise fifty times. This is an art. When the ruler is engaged in the weaving of fine silk, he should impose a tax on raw silk. Then the price of fine silk will rise twenty times."¹⁰⁵

The figures listed in this passage are of minor significance. What the writer intended to show was that a heavy tax imposed on the materials for producing the commodity one possessed would greatly raise the price of the finished products. Or if one possesses a certain kind of commodity and wants to see the price rise, it is not necessary to raise the price of the commodity itself directly. The aim can be achieved by raising the price of another commodity directly related to it. This ingenious idea is akin to the modern theory of relative prices.

(2) Interstate price policy As regards interstate price policy, there is another set of expedients to be employed quite different from those practised inside the state. *Guan Zi* advises:

"One who can manage well the things of his motherland will conduct himself as if riding on the crest of a sea wave. He shall see how the wind lies and make the price at home high if it is high in the world and low if it is low in the world. If it is high in the world and low at home, the wealth at home will be grabbed by others in the world."¹⁰⁶

"In former days, when Kui Du came to stay in another man's state, he would look around the world to see whether the prices of goods in the state were high when they were high in the world. If they were low when they were high in the world, then that state would be lost to the world."¹⁰⁷

This is manipulation of price policy to prevent important commodities from flowing out. Changes in price in the home market should keep pace with changes in price of the same commodity in

¹⁰⁵ Ibid., "Qing Zhong," pt. IV.

¹⁰⁶ Ibid., "Di Shu."

¹⁰⁷ Ibid., "Qing Zhong," pt. IV. Kui Du is the name of a person who was supposed to be an ancient specialist of the "light-heavy" doctrine by the writer of *Guan Zi*. It is also the title of an article in *Guan Zi*.

the world market. If home prices are much lower than those on the world market, the commodity in question would inevitably flow out of the state. The writer considered this situation so serious as to bring about a state's extinction.

But for the purpose of attracting certain foreign commodities to the state, arbitrarily raising the home price was regarded as necessary, as he explained:

"'How can the fine materials of the world be called in?' Guan Zhong replied, 'If you pay a price of six for a thing that is worth only five, or pay a price of ten for a thing worth only nine, then you are bound to get them.'"¹⁰⁸

"One who can well administer the state will make the prices of things high at home when they are low in the world, make things 'heavy' at home when they are 'light' in the world and make things scanty at home when they are plentiful in the world. This will place the princes of the other states in a position subordinate to the court of the state concerned."¹⁰⁹

Then the writer gave an example to illustrate his point: "Suppose that the price of corn in the states of Teng and Lu is one hundred coins for one *fu* [a dry measure], then our state must raise the price of corn to one thousand coins per *fu* in the home market. In this way, the corn of both the state of Teng and the state of Lu will pour into our state from all directions like water flowing into a ravine."¹¹⁰

Under certain conditions price policy may even be employed as a weapon to destroy other states, for instance, by intentionally making the price of a certain important commodity much lower at home than abroad. In part IV of the article "Qing Zhong" in *Guan Zi*, many passages give evidence of the attempt to manipulate the price of corn in such a way that it would become very dear in other states while remaining very low in the state of Qi. As a result of such manipulation, a very large number of the people of other states were induced to migrate to the state of Qi to become its subjects.

But it is not to be supposed that the foreign price policy would

¹⁰⁸ Ibid., "Xiao Wen."

¹⁰⁹ Ibid., "Qing Zhong," pt. II.

¹¹⁰ Ibid.

remain the same under different circumstances. Under normal conditions, the price both inside and outside a state should be kept on the same level, rising together and falling together. When the import of a certain commodity was to be encouraged, its price should be made higher than it was abroad. When the export of a certain commodity was to be promoted, its price should be made lower than it was in the outside world. The ultimate end of the price policy on foreign trade, according to the writer, was "to control the world through the course of the things of the world." In this respect, the policy seems much more comprehensive than those of the European Mercantilists in the sixteenth to eighteenth centuries.

(3) **On commerce** It was repeatedly stated in *Guan Zi* that a state with a national defence force of ten thousand chariots must have merchants who possessed ten thousand catties of gold, and a state with a national defence force of one thousand chariots must have merchants who possessed one thousand catties of gold.¹¹¹ He also spared no effort to prevent the annexing activities of the speculative rich merchants. He remarked:

"The tax payment may be either easygoing or urgently demanded, so things may be either 'light' or 'heavy.' The harvest may be either bad or good, so people may either enjoy abundance or suffer from shortage. The season may be either spring or fall, so grain may be either dear or cheap. Should the ruler fail to make the necessary adjustments, the itinerant merchants will avail themselves of the opportunity and make their capital multiply ten times."¹¹²

The writer did not aim at eliminating the speculative activities of merchants altogether. He simply attempted to somehow curb commercial profit so that it would not outdistance agricultural income too much. Thus he spared no pains to devise measures such as boosting the price of agricultural products and encouraging farmers to borrow from the rich merchants at low interest or even without interest¹¹³ in order to mitigate or prevent the annexation of the peasants' property by the merchants.

¹¹¹ Ibid., "Guo Xu" and "Qing Zhong," pt. I..

¹¹² Ibid., "Qi Chen Qi Zhu" and "Guo Xu."

¹¹³ For examples see "Qing Zhong," parts II and IV.

He divided the merchants into two categories: the "rich merchants and commercial travellers," who always availed themselves of any opportunity to make fabulous profits, and the "honest traders," who carried on business fairly and squarely.¹¹⁴ This is of course an unrealistic and impractical idea, because under the feudal system, any merchant must "buy cheap and sell dear," so that whether a certain merchant is "honest" or not is simply a difference of degree.

Foreign trade was given more encouragement in *Guan Zi*. For example, the writer said, "Goods getting across the passes should be checked only and not taxed, and the shops in cities should pay no house tax."¹¹⁵ And, "Goods taxed on the pass should not be taxed again in the city, and goods taxed in the city should not be taxed again on the passes." The writer took the frontier passes as the "doors of foreign wealth" and advised that, on the passes the "empty vehicles shall not be searched and the packmen shall not be taxed, in order to draw in people from afar."¹¹⁶ Special accommodations were to be set up for the foreign merchants, for instance, special inns. Those who arrived in one carriage were to be supplied with food free of charge; with two carriages, with the fodder of their horses free of charge; and with three carriages, with the food of all their followers free of charge.¹¹⁷ In the ancient history of China he was the first and only thinker who openly encouraged foreign trade from a purely economic standpoint.

(4) **Concerning the market** In the commercial field the problem of the market was rarely approached by thinkers during the whole period of feudalism in China, but the writer of *Guan Zi* submitted many ideas concerning the market, some of which were rather distinguished. He pointed out:

a) Since markets supply the wants of the people, they should be set up everywhere. There should be five markets in each district, for "the absence of a market in a place will make it impos-

¹¹⁴ Ibid., "Cheng Ma."

¹¹⁵ Ibid., "Wu Fu" and several other articles.

¹¹⁶ Ibid., "Wen."

¹¹⁷ Ibid., "Qing Zhong," pt. II.

sible to satisfy people's wants."¹¹⁸ The market had traditionally been understood ever since remote ages as the place "to exchange what one has for what one has not." This was a manifestation of the ancient barter system and also a rather passive and primitive view of the function of the market. But the writer took the market as a necessary agency for humans, a place where people might meet their needs. It was certainly a more penetrating idea expressive of a more developed exchange economy.

b) "The market is the scale for goods."¹¹⁹ This is to say that the market is the place where the price of a commodity, whether high or low, and its quality, good or bad, are determined.

c) "The market shows the order or disorder of a state."¹²⁰ This is a view traditional since the Western Zhou Dynasty, upon which we have already touched in Section V of Chapter One.

d) "The market can inform us about the quantity of goods in circulation, but cannot produce the goods itself."¹²¹ By means of the market activity, one can find out whether a commodity is too abundant or too scanty, but the quantity of a commodity is not determined by the market itself, because the market cannot produce anything. The writer seemed already to have a clear idea of the difference between the process of production and that of circulation. As a matter of fact, the market is generally the place for the exchange of commodities as well as the place where numerous handicrafts are produced. That the market concerns itself only with the process of circulation is a high abstraction of modern political economy.

e) "The market is an instrument for amassing the wealth of heaven and earth and is common and beneficial to all people."¹²² That is, when people want goods, there is no need to go personally to the mountains and seas; they can get them directly in the market. Thus, everyone will benefit through the exchange on the market.

¹¹⁸ Ibid., "Cheng Ma."

¹¹⁹ Ibid.

¹²⁰ Ibid.

¹²¹ Ibid.

¹²² Ibid., "Wen."

This is really looking at the market as the kingdom of fair play and equal authority, which somewhat resembles the view held by some earlier classical economists in the West.

f) "The market is a place of persuasion for the promotion of the fundamental [farming]." ¹²³ That is, it may stimulate production, particularly agricultural production. Here it seems that the writer has some idea that exchange is bound to react on production. If we link this with his previous view that the market itself couldn't produce goods, what he meant ought to be even clearer.

All the above points on the problem of the market in *Guan Zi*, with the exception of point (c), which was a traditional view, were advanced by no other thinkers in Chinese history before the end of the nineteenth century. From the vantage point of today, these ideas might seem nothing special, especially since some of them are not altogether correct, but seen in their historical context, some of the ideas are really quite remarkable.

Section IX PUBLIC FINANCE

If the economic thought in *Guan Zi* exerted influence on the feudal dynasties that followed its writing, the influence came chiefly from its thought on public finance. Scarcely any important economic reformer in China before the mid-nineteenth century failed to take something from it as a model to be followed. Therefore, the writer's financial thought was not only given a place among his many other independent views on economic matters, but also given recognition as having produced immense positive effects and far-reaching significance for later ages. The thought itself was also matchless among thinkers in the pre-Qin period.

The fundamental concept of finance in *Guan Zi* was to diminish the part of compulsory revenue collected from taxes and to enlarge the economic revenue by means of certain productive and commercial enterprises operated by the feudal government. In this

¹²³ Ibid., "Chi Mi."

line of thinking, *Guan Zi* of course did not stand alone. The theoretical representatives of the rising merchant class of the pre-Qin period, including Fan Li and Bai Gui, were also generally inclined towards this strategy instead of taxation. The view expressed in *Guan Zi*, however, is more distinct, penetrating, concrete and systematic.

(1) **On taxation** Many kinds of tax are mentioned in *Guan Zi*. The writer seemed to classify all kinds of state revenue into roughly two categories: compulsory revenue and voluntary revenue. Of the former, the writer said, "The levy is of a compulsory nature." The so-called levy here includes tariffs, tolls, poll taxes, livestock taxes, house taxes and the like. Voluntary revenue indicates the land tax and the rents from natural resources, all of which were reckoned by the writer as the "ruler's deserved income," the payment of which is "thoughtfully asked for" by the people. The reason all sorts of rent were reckoned as a voluntary payment is obvious. Because all the natural resources were monopolized by the state, anybody who wanted to make use of them had to pay rent voluntarily. But why is the land tax also designated by the writer as voluntary payment? This because although private land ownership was already widely established during the Warring States Period, the old idea of the Western Zhou Dynasty that "under heaven every spot is the sovereign's ground" remained. The land, no matter how it was appropriated, was still generally regarded, at least in principle, as belonging to the sovereign. Therefore, in the minds of the thinkers of those days, the land tax to be paid to the state was just as reasonable as the rent paid to other kinds of lenders. So naturally, it became the ruler's "deserved income." So long as anybody "thoughtfully asked for" the use of land, the payment was considered voluntary.

Like many thinkers of other schools of thought at that time, he also opposed heavy levies. He argued:

"Wealth is produced by land according to season, and efforts made by people are punctuated by their fatigue, but the rulers' desires are without limit. The limitations issuing from productive seasons and people's fatigue confronted with boundless desire will, if no boundaries are set up between them, cause animosity between the high and the low.

So if you take from people only within certain limits and spend within certain bounds, the state will be safe even though it may be small. But if you take from the people without limits and spend without bounds, then the state will be endangered even though it may be large."¹²⁴

This argument against heavy levies is obviously advanced in the interest of the rising merchant class and the landlord class. The writer's concept of taxation differed from that of his forerunners in three respects:

First, compulsory levies are detrimental to production, so, he pointed out, "A tax on houses will lead to destroying the houses already built . . . the poll tax, to masquerading human nature . . . the tax on six kinds of livestock, to slaughtering the livestock . . . the tax on wood, to cutting down the trees."¹²⁵ In a word, all these taxes are bound to harm social production.

Second, compulsory levies would cause great losses to the wealth of people, because they would compel people to sell their products at a low price in order to be able to pay the taxes. The nearer the day of payment, the greater would be the loss to the taxpayer as a result of the necessity to sell his products at any price offered. The writer said, "Now suppose the ruler imposes a tax on people. If the decree demands it be paid in ten days, the price of the taxpayer's goods will fall by one tenth. In eight days, the price of goods will fall by two tenths; in five days, to one half; and if the decree is issued in the morning, requiring the payment to be made in the evening, the price of the taxpayer's goods will fall nine tenths."¹²⁶ The losses suffered from the urgent requirement to pay was always a heavy burden to the payer, even heavier than the ruthless tax itself. The evils of a tax system like this also occurred in Europe in the Middle Ages. However, the writer of *Guan Zi* was probably the first to point them out anywhere.

Finally, compulsory levies would very likely bring about discontent among the people. Since they were compulsory in nature, they would inevitably be resented by the people and give rise to a

¹²⁴ Ibid., "Quan Xiu."

¹²⁵ Ibid., "Qing Zhong," pt. I, and "Guo Xu."

¹²⁶ Ibid., "Guo Xu."

situation wherein "the low would complain against the high, making the decrees no longer enforceable," because "people would feel angry if something were being taken away from them and become pleased if something were being given, which is indeed human nature."¹²⁷ Therefore, compulsory levies would be most unwise and unsound. The best financial principle, he held, was to let people "see merely the form that something is given to them, but not the substance that things are taken away from them."¹²⁸ This artful principle of taxation might even be more advanced than the famous "pulling goose-down" skill preached by the French financial experts of the seventeenth century.

In spite of the writer's disapproval of compulsory levies, the taxes could not be abolished entirely, owing to the urgent needs of the state. Hence, he asked for a reduction of the various rates of taxation. It is said that the customs tariff of the state of Qi was reduced to a rate of two percent. As for the land tax, he maintained that it should be "collected biennially at a rate of three out of ten [i.e. 3/10] in a bumper year, two out of ten [2/10] in a normal harvest year, one out of ten [1/10] in a bad harvest year, and free of tax in case of famine."¹²⁹ Thus the yearly average rate of the land tax would be somewhere around five percent, almost one half of the tithe recommended by his contemporaries. Whether these low rates of taxation were ever put into practice is of no interest to us. Here we merely note the writer's advocacy of light taxation.

(2) **On economic revenue** The writer's distinctive contribution in the field of finance was his teaching that every possible effort should be made to expand economic revenue in place of the compulsory revenue from taxes. The economic revenue of the state, in the writer's view, could be obtained in the following ways:

a) *From the purchase and sale of grain by the state* As we have mentioned more than once the feudal treasury could hold great quantities of corn by means of taxing in kind and buying in

¹²⁷ Ibid., "Qing Zhong," pt. II.

¹²⁸ Ibid., "Guo Xu."

¹²⁹ Ibid., "Da Kuang."

advance. This would make the price of corn rise greatly. But the foodstuffs needed by the nonagricultural population had to be bought from the state, so the state could make immense profits from this business, which would thus become one of the important sources of public finance.

b) From the partial monopoly of salt By "partial monopoly" we mean that the state merely controls the principal salt pits and some of the important salt markets, but does not wholly control the production and sale of salt. The writer pointed out that salt was a need of everybody. "A family of ten members means ten consumers of salt, and a family of one hundred members means a hundred consumers of salt." According to his estimation, a state with a national defence force of ten thousand chariots might have a population of ten million or so. If a poll tax were imposed upon every adult, the taxpayers would probably amount to one million, and thirty coins per month would add up to thirty million coins. Now, if a monopoly of salt could be put into practice, the state might be able to obtain sixty million coins each month by raising the salt price a little. This could double the total amount levied by the poll tax. And since on the surface this extra charge did not take the form of a tax or levy, people would not feel so bad about it and would be unlikely to object. This was workable not only within the state, but also in the export trade of salt, which would then be "tantamount to taxing the people of the world by means of merely boiling the water."¹³⁰

c) From the exclusive sale of iron works by the state Iron tools were indispensable in agricultural production, communication and needlework. As he said, "A girl must have a needle and a knife if her work is to be carried on; a tiller must have a hoe, a rake and a scoop if his work is to be accomplished; and a craftsman must have an axe, a saw, an awl and a file if his work is to be done."¹³¹ Now take the needle as an example. If its price were in-

¹³⁰ Ibid., "Hai Wang." The process of salt production was mainly drying up the natural salt water from the salt pit, so it was just like boiling water.

¹³¹ Ibid.

creased by one coin, thirty needles would turn in thirty coins. This would equal the poll tax of one person. By analogy, the total revenue from this source for the whole state might equal the sum total of the poll tax collected. This was another case in which, on the surface, no tax was levied, but in fact there was a levy from which "none was exempted."¹³²

d) *Finally, from the lease of mountain and water resources*
The writer maintained that the mountains, forests, lakes and grasslands were places where firewood could be found and livestock bred. Therefore, the state should let people make use of them by paying a certain amount of rent. The produce of the mountains and waters was a rather complicated matter that the writer did not discuss in detail. Some principles relating to the utilization of timber ran as follows:

"The materials for the palaces and houses and also for tools and furniture can be obtained from no other source than the mountains. Therefore the ruler should announce three grades of rent for the timbers of the mountains—namely, trees with a girth of less than the size of a hand's grasp will be used as firewood, those with a girth of more than a hand's grasp will be used as building material and those with a girth of more than three spans of stretched arms around will be used as material for coffins. How much is to be charged for firewood, how much for building material, and how much for coffin material should be clearly stipulated. Wealthy families who wish to give their parents a rich burial shall be charged a high rent for their material, but poor families who can afford to give their parents only a simple burial shall be charged less for the material of their coffins. Again, big families who wish to embellish their palaces and mansions shall pay a high rent, while small families who wish to build simple lodgings shall pay less."¹³³

Anyone could go into the mountains to fell whichever wood might suit his purpose if he was able to pay the stipulated rent. As regards materials for buildings and coffins, though the discrimination in rents was based on the economic condition of the renter, the writer was not offering a means to equalize the rich and the poor. His concept of discriminating in rent was itself an interesting idea, however, for not until quite recently did the theory of

¹³² Ibid., "Hai Wang" and "Qing Zhong," pt. II.

¹³³ Ibid., "Shan Guo Gui."

price discrimination make its appearance in the field of economics.

Fishery was one of the important economic activities of the state of Qi, but the writer of *Guan Zi* mentioned only that the activity of fishing should be put under state control. Probably the monopoly of fishery was not practicable under the prevailing technological conditions. For other economic activities, such as stock-breeding and hunting, the conditions were somewhat the same. He suggested that definite districts be marked out wherein people could carry on production along these lines, provided a stipulated rent was paid. All these belonged to activities for which a levy was supposed to be "thoughtfully asked for" by the people.

In a word, all the economic revenues advocated by the writer were obtained by means of commercial exchange, not through the profits made by the state's direct participation in productive activities.

(3) **On expenditure** The writer's view on the fiscal expenditure of the state was to "maintain a certain limit." So he condemned "a ruler who had no accumulation of wealth, yet kept luxurious mansions and palaces," as one who would "cause the custom of the state to become profligate," adding, "A ruler who spends ceaselessly . . . and keeps palaces in long vistas will engender resentment between the high and the low."¹³⁴

But this does not mean that the writer was bent on tightening all public expenditures. The doctrine of "strengthening the fundamental [farming] and economizing expenditure" preached by other contemporary schools of thought was never unconditionally accepted by him. He argued, "The doctrine of strengthening the fundamental and economizing expenditure may make a state richer, yet it is not sufficient to safeguard her existence." Why? Because, if a state could not maintain increased wealth by practising an adequate price policy, her wealth would "flow out to other states in all directions."¹³⁵ This would do serious harm to the state. What is more, he even maintained that, under certain conditions, "the practice of

¹³⁴ Ibid., "Ba Guan."

¹³⁵ Ibid., "Qing Zhong," pt. II.

prodigality may enrich the expenditure of a state,"¹³⁶ a point we have already discussed in Section Five of this chapter.

Section X OTHER ECONOMIC POLICIES

We have already covered some of the economic policies in *Guan Zi*, such as the domestic and foreign trade policy, monetary policy, price policy and financial policy. There are still a few aspects of its views that we have not yet touched upon.

(1) **The state programme** The first thing to be mentioned here is that the writer staunchly advocated a policy of economic intervention. Unlike the intervention measures advocated by many other thinkers, which were mere expedient measures differing from man to man and from thing to thing in their application, the writer's intervention policy was a well-designed overall programme that could be used as a guiding principle for the economic activities of the state.

There is no doubt that the writer had in mind the economic activities of the state as a whole, not merely random matters. The scope of his state programme was rather wide, including such items as land, population, public expenditure, domestic industry and money. These items are connected to one another, but each also forms a system on its own. Such a programme needs to be the conclusion of a thorough investigation and understanding of actual economic matters, not an abstract plan. Once drawn up, it should be put into practice, which the writer called "the state programme kept in its orbit." He added, "There are programmes for farmland, men, expenditures, villages, domestic industry, money, prefectures and the state. Those who are not conversant with the programme and its practice and yet desire to rule a state will achieve nothing."¹³⁷

Every regional division should take the village as a unit for making a programme, then by extension take the prefecture and

¹³⁶ Ibid., "Shan Quan Shu."

¹³⁷ Ibid., "Shan Guo Gui."

the state as units for the programme, taking the number of farms and the size of the population as the basis. Therefore, the first thing to be known was how many farms and people there were within a village or a prefecture. As regards the farmland, not only its total area in a village should be known, but also the amount "of fertile land, of medium land and of upland" in it should also be known. Thus, how much grain was produced yearly by the land in a village or in a prefecture might roughly be known. In comparing the number of people in the locality, one would know whether the quantity of grain produced in a given village would be enough to supply the needs of the local people. In his words, "How much grain may still be wanted to meet the yearly needs of the people?" or "How much grain will be left after the yearly needs of the people have been met?" This is the fundamental plan that the writer called "the grand programme." On the basis of this grand programme, the state should set up a public fund, or *huan cheng* money, for lending to the peasants in accordance with the size of the borrower's family. At harvesttime, the yields from the very fertile and moderately fertile lands would be more than needed by the borrower, so that the amount of excess grain could be used to repay the state according to the local market price. But yields from the uplands might not be enough to meet the family needs of the borrowers. In this situation, the state should use the public fund to help tide them over difficulties. In so doing, a large quantity of grain would be concentrated in the hands of the state. The price of the grain would rise and the state could make great profit from the sale of grain, which would thus become an important source of revenue for the state.

Besides grain production, weaving was a very important activity for the female members of a peasant family, so the number of women competent at weaving in a given village and the amount of cloth needed to meet the clothing requirements of the local families each year should be listed in the grand programme. With all these data in hand, the state could place an order for surplus woven products and pay for them in advance with a certain amount of grain, the price of which would be rated in accordance with the

local market price. The state thus also held the woven products of the peasant families. By selling the grain and woven products, the state could recall a large amount of money from circulation, force down the market price of grain and cloth, and so forestall annexation by the merchant-speculators and private usurers. But what is more important is that the state treasury would thus obtain tremendous revenue from such a transaction. The writer explained, "The state should draw up its programme before things have taken place, take advantage of them when they happen and seize the opportunity either to go forward or to draw back, while seeking nothing from the people. This is what is meant by the programme of the state."

For other things, such as oxen, horses, weapons and chariots needed by the armed forces, the same method might be adopted, i.e., advance buying of grain. This would place military expenditures outside the effects of market price fluctuations. Moreover, the state should also manage the so-called heavenly wealth — that is, the things produced from the raw materials of mountains and water, such as bamboo or wooden tools for farming and domestic uses. These should be stored up by the state beforehand so as to lend them to the peasants in due time. The writer assumed that this would make it "impossible for the plutocrats of wealth and merchant princes to engross the profits,"¹³⁸ but actually it was nothing other than a way for the state to monopolize this line of goods.

In order to make the state programme practicable, a comprehensive investigation and understanding of the economic activities of the state as a whole was of course necessary. In an article in *Guan Zi* titled "Wen" [questions] more than seventy questions are listed for a general survey of national situations, about one third concerning the economy. These questions follow:

1. Are there any bereaved of a martyr who have no farm or house?
2. How are the pensions of the widows of the martyrs?
3. How many widowers, widows and orphans are there who are sick?
4. How many persons have been adopted by the rich families in the village?
5. How many poor families in the town are living on loans?
6. How many families have to earn their living by gardening?
7. How many families

¹³⁸ Above quotations all from *Ibid*.

cultivate newly reclaimed land? 8. How many warriors have personally taken up farmwork? 9. To what tribes do the poor in the village belong? 10. How many warriors do not cultivate their own land? 11. How many lords and vassals are there with official positions yet without land? 12. How many families moving from abroad to our state are still without land and house? 13. How many young people of our state are wandering abroad? 14. How many young people are there in the village who can be taken as a model for others in their efforts in farm work? 15. How many families have borrowed corn from others with bills outstanding? 16. How many places are there where the potential resources may be made use of by people in case of urgent need? 17. How many warriors at the front have farms and houses in their native places? 18. How many men and women are there whose special skills may be of use? 19. How many girls are engaged in domestic weaving work? 20. How many people are there who do nothing but waste the food of the state? 21. How many years of food have been kept by individuals? 22. How many handicraftsmen are there whose skill may be useful either for the army at the front or for the repair of city walls and other defensive works at home? 23. How many people make their living off the mountains, jungles, forests and water? 24. How many families and villages are benefited by the cultivation of wild land? 25. What sorts of things to the advantage of people's production have been written into the memorial?

In antiquity such a thoroughgoing and meticulous investigation into the social economy of a state certainly makes the writer a rather astonishing genius. He not only advised the ruler to understand the economic activities of the state as a whole, but also asked him to pay attention to persons with special productive skills and to encourage them by one means or another, for instance, by exempting them from military service, by granting them one catty of gold and so on. Apart from the craftsmanship of military weapons and engineering, productive skills for him also included the ability to master farmwork, the ability to increase the number of domestic animals, the ability to cure people's sicknesses, the ability to forecast climatic conditions, expertness in sericulture, the ability to prevent silkworms from falling sick, and so on. And he insisted that "what those people say must be respectfully listened to and carefully kept in the official record."¹³⁹

Of course, the "state" in the mind of the writer could not have been a large one, or else investigation into its economic condi-

¹³⁹ Ibid., "Shan Quan Shu."

tions could not be as meticulous and detailed as he recommended. Treasuring the experience in agricultural production of the labouring people was another noteworthy point in *Guan Zi*.

(2) **State-operated enterprises** The general principle of the economic policy in *Guan Zi* was interventionism, but it might take different forms in accordance with the different conditions of the specific trades, no panacea being offered indiscriminately for all situations.

Besides agricultural production salt and iron production were very important enterprises in ancient China. As regards salt, the writer stood for a policy that might be called partial monopoly by the state. It went more or less like this: The state employed many workers to boil (produce) salt. Once a quantity of thirty thousand *zhong* (a dry measure equal to 6.4 piculs) was reached, under the pretext that the season was busy for farmers, private individuals would no longer be permitted to "gather the employees to boil the salt." As a result, the price of salt would rise immensely. Thereupon, the state would make tremendous profit by selling the salt on domestic and foreign markets.¹⁴⁰ It can thus be seen that salt production was not entirely operated by the state and the salt trade was not exclusively carried on by the state either. The state only used its political power to stop individuals from producing it at a certain time of the year, so the salt produced by the state would control the market.

The mines for iron and other metals belonged, in principle, to the state. This had been a tradition ever since the Western Zhou Dynasty and was endorsed by thinkers of those days. The writer also said:

"On the mountain, if there is ochre on the surface, there will be iron underneath; if there is lead on the surface, there will be silver underneath; if cinnabar on the surface, there will be gold underneath; and if magnetite on the surface, there will be copper underneath. This is the glory of the mountains. Should such glory appear on the mountain, it should be carefully marked as a prohibited zone."¹⁴¹

¹⁴⁰ Ibid., "Di Shu" and "Qing Zhong," pt. I.

¹⁴¹ Ibid., "Di Shu."

It does not follow that private individuals were to be barred absolutely from exploiting the mines in the prohibited zone. The writer made no mention of the exploitation of gold, silver and copper mines, but private individuals were at least permitted to exploit iron mines on condition of paying a given amount of rent. Although the iron mines belonged to the state, the writer opposed the state's carrying on the work of iron-smelting itself, because "if criminals were forced to work there, they would run away, and if the common people were driven to do it, they would hate their superiors, and in case of war breaking out on the frontier, they would not fight out of their old grudge. Hence, the state will collapse from within before it gains the profit." The ideal way was therefore sharing it with the people who desired to take the work on the basis of "measuring the weights of the iron smelt and counting the gains therefrom, seven tenths to go to the people and three tenths to go to the ruler."¹⁴²

Ironwares such as needles, knives, hoes, saws and the sort might be produced by individuals, but their selling prices should be regulated by the state. How they divided this part of the profit between the state and the private traders the writer did not say. Nevertheless, the fact that the state controlled only the selling price of ironwares without partaking in their production and exchange was rather obvious. It was probably because the production of ironwares was on too small a scale and too scattered, so not so amenable to state control as salt production. Again, it might turn out to be unprofitable if it were carried on directly by the state, so it would be better to have it produced by petty producers and distributed by small traders, the state merely reaping part of the profit without lifting a finger. The trade would perhaps be placed under the management of some exclusive agency.

Gold, silver and copper were either the materials for coining money or money itself. They were probably owned and managed by the state, if such mines existed in the state of Qi at all.

Mountain and water resources definitely belonged to the state,

¹⁴² Ibid., "Qing Zhong," pt. II.

but their products, such as timber and fish, were neither operated by the state nor placed under the management of an exclusive agency. They were generally lent to private individuals for a given period in return for a certain amount of rent.

Last of all, food production and circulation were entirely the activities of private individuals, the state doing nothing except gathering a quantity of grain large enough to control its market price when necessary.

Thus it can be seen from the above that all the economic policies in *Guan Zi* were based upon the special characteristics of various commodities, differing in accordance with the specific needs of the case. Though each had its own special feature, their common aim was only to enhance the economic strength of the state through artful methods of profitmaking.

Section XI

GENERAL SUMMARY

Though thinkers in ancient China sometimes developed certain outstanding economic views, many of their views can be discovered only by hunting for needles in haystacks. *Guan Zi* is very different, for many of its economic views are explicit and easily found, and most of them are original, brilliant and appear there for the first time.

Whether considered quantitatively or qualitatively, the economic thought of *Guan Zi* is superior to that of all other thinkers during the whole pre-Qin period. Quantitatively, the articles concerned with economic matters in *Guan Zi* add up to thirty — about a hundred thousand Chinese characters. Qualitatively, with the exception of the theory of value and the theory of trade cycles, most socioeconomic activities were to some degree touched upon, often in an original way. Even if we extend our historical horizon to the whole world, such an original, brilliant and prolific economic work was also rare in the long period of precapitalistic history.

The problems of commodity production, trade and money are phenomena common both to antiquity and the modern age, and be-

cause the writer of *Guan Zi* relied fully on his own instinct as a bourgeois in analysing these problems, his views are the most original and outstanding in his whole economic system. Such economic concepts as self-interest, the prodigality theory of consumption, the "light-heavy" theory, the quantity theory of money, price policy, his ideas on the market, economic revenue in public finance, and above all the theoretical analyses of those parts that have comparatively close links with commodity circulation fairly reached the level of the early classical political economists of Europe.

The notion that "labour creates wealth" is a point in *Guan Zi* worth special mention. It is to be regretted that right after the idea "Once the labour training system is established, the state will get rich" the writer added, "Once the system of dare-to-die training is established, authority will be in full force."¹⁴³ Under the feudalistic system the riches of a state do not necessarily mean the riches of the masses. However, it does no harm to the notion of labour creating wealth. As for the "dare-to-die" training, it is really nothing other than driving the masses into serving the ruling class and is therefore a reactionary view. At the same time, the writer's view that "the superior man lives on principle, the inferior man lives on his physical strength"¹⁴⁴ would place him in the same class as Meng Ke, who preached, "Those who are governed feed others, those who govern are fed by others,"¹⁴⁵ although the former's expression is not so open as the latter. Regarding the common people, although the writer said, "Listening to them [the people] collectively, they will make sages," he was full of contempt for them when he recommended that they "see merely the form that something is given to them, but not the substance that things are taken away from them."¹⁴⁶ This amounted to teaching the feudal ruling class to employ the tricks of the merchant class to plunder the masses, in addition to the feudal rights they already possessed.

¹⁴³ Ibid., "Chi Mi."

¹⁴⁴ Ibid., "Fa Fa" or "Jun Chen."

¹⁴⁵ Mencius, "Teng Wen Gong," part one.

¹⁴⁶ *Guan Zi*, "Guo Xu" or "Qing Zhong," pt. II.

The economic thought in *Guan Zi* is essentially the view of the rising merchant class. It also expresses to a certain extent the political and economic demands of the newly emerging feudal landlord class and the stratum of small proprietors. This explains why the starting point of the writer's investigation never deviated from the feudalistic state as a whole, and why his economic policies continued to wield considerable influence every now and then for the next two thousand years. In its system of thought one can frequently discover an ideology that was a fusion of the evil instincts of the rising merchant class and the landlord class. This is discernible even in such outstanding concepts as price, money, the market, finance, the state programme, economic policy or even the "light-heavy" theory. For example, on the problem of taxation, his objection to the compulsory levy is certainly what the merchant class would have demanded, whereas to look on the land rent, which takes the form of land tax, as the "deserved revenue" of the ruler and the voluntary payment as being "thoughtfully asked for" by the ruled is obviously the view of the feudal landlord class.

However, in the last analysis, as an ancient economic thinker or even as an economic thinker of precapitalistic society, the writer of *Guan Zi* made many valuable and outstanding contributions in his field, thus proving himself a brilliant star in the history of economic thought in ancient China and even in the world.

Chapter Six

XUN KUANG AND HIS CONCEPT OF WANTS

Xun Kuang lived from about 310 to 238 B.C., during the latter part of the Warring States Period. With some discrimination he accepted the materialistic viewpoints of the various schools of thought that preceded him and broke away in some respects from the doctrinal teachings of his Confucian forerunners, thus becoming an important representative of materialism in the pre-Qin period. Some idea of his philosophical system can be gleaned from such famous tenets of his as "Heaven itself is governed by certain laws," "Master the heavenly mandate and make use of it," and "Man is by nature inclined to evil." Starting from such a philosophical base, he paid the greater part of his attention to the objective study of economic life. Nevertheless, he was still far from able to cast away the tradition of letting ethical criteria intrude upon his economic thinking. Therefore, his contribution to economic thought was rather limited, being even below the level attained by the Mohist school, not to speak of *Guan Zi*. But his economic thought was certainly superior to that of the earlier Confucians in its penetration and insight.

Section I

HUMAN WANTS

The problem of human wants had been mentioned by many thinkers of the pre-Qin period, but they no more than scratched the surface of the subject. Xun Kuang alone made a deep and independent analysis along this line. He acknowledged that human wants were physiological functions according to which one would "desire food when hungry, warmth when cold, and rest when tired and love gains and abhor losses. These are things born to a man."¹ Hence, it

was human nature to seek satisfaction of needs.² As for how needs were expressed, he explained:

"Now, for the eyes to like good colours, the ears to like sweet voices, the mouths to like delicious tastes, the minds to like gains, and the bones and muscles to like comforts—these are inborn in human nature."³

"According to the passions of man, he will desire delicious meat for eating, silk garments for clothing, vehicles and horses for travelling, and in addition, savings and accumulation for riches. But it is the nature of man that he will never feel contented on those scores for years and generations."⁴

Similar passages are numerous in his work, *Xun Zi*. Their significance is that by affirming human wants as inborn and efforts seeking their satisfaction as behaviour agreeable to nature, he repudiated two other concepts of wants current in his day, the Mohist concept of "decreasing wants" and the Taoist concept of "forgoing wants."

The Mohist Song Jian (c. 360 — 290 B.C.) rejected the thesis that humans always desire to get more and insisted that "what the passions of man desire is to get less." To this concept Xun Kuang offered the following criticism: "If man's passion is really to desire to get less, then that equals saying that he desires riches and honour and yet dislikes to acquire goods, or desires beauty and yet dislikes the famous beauty, Xi Shi."⁵ Moreover, if it were really so, rewards and fines would fail to work, for a reward would increase one's riches, and a fine decrease it. So if Song Jian were correct, rewards and fines would be absurd, "rewarding somebody with things he does not desire and fining him with things he does desire."⁶ Since the works of Song Jian are lost, we cannot be sure exactly what he said on this matter, but Xun Kuang's criticism seems reasonable.

Regarding the Taoist concept of forgoing wants, his criticism was, "Anyone who attempts to rule a state on the expectation of

¹ Xun Kuang, *Xun Zi*, "Fei Xiang."

² Ibid., "Zheng Ming."

³ Ibid., "Xing E."

⁴ Ibid., "Rong Ru."

⁵ Ibid., "Zheng Lun."

⁶ Ibid.

forgoing all wants and makes no attempt to guide them will ultimately be troubled by the wants of man."⁷ Why? He gave no explanation, besides stating that wants are a natural physiological function of man. He thought that generally human wants were capable of being satisfied, but he noted:

"To give full play to one's nature and to let one's passion run its own course would inevitably lead to contention."⁸

"With wants unsatisfied, man cannot but seek after their gratification, but seeking gratification without proper limits will give rise to struggle, which will lead to disorder, and disorder will lead to poverty."⁹

Therefore, he came out with the doctrine of "controlled wants" and "guided wants" — regulating or guiding one's wants.

Xun Kuang differentiated wants themselves from the action of seeking satisfaction of wants. The wants themselves were a natural physiological phenomenon, regardless of whether or not there was the possibility of satisfying them. He said, "Desire exists irrespective of the possibility of acquiring the things desired. It is bestowed by heaven."¹⁰ This is somewhat like the "natural need" of modern political economy. As for "seeking satisfaction of wants," he called it "demand," which was "the decision made through the rational exercise of thinking, complying with the possibility of acquiring the thing to be desired." In short, it is "a judgment by the mind."¹¹ He explained several consequences of this differentiation.

First, he observed that while the attempt to satisfy all the physiological desires, or the "natural needs," was theoretically impossible, rational thinking would make some wants, judged satiable, worth seeking to satisfy. The differentiation between natural need and rational demand thus made it possible for the analysis of wants to take a giant step forward.

Second, he argued that since within certain limits the satisfaction of wants is entirely rational, it is unnecessary to "forgo" or "decrease" them. Rather they should be given full satisfaction. For

⁷ Ibid., "Zheng Ming."

⁸ Ibid., "Xing E."

⁹ Ibid., "Li Lun."

¹⁰ Ibid., "Zheng Ming."

¹¹ Ibid.

example, a king and a doorkeeper, he said, each have their own specific wants. The doorkeeper's wants need not be given up without being satisfied simply because of his humble occupation. Similarly, the king's wants need not be restrained from satisfaction because they are so very much more numerous than those of a doorkeeper. Thus he took social caste into account in judging whether the wants of an individual were rational or not. In so doing, Xun Kuang lay down a theoretical foundation for completely different levels of consumption among various social classes.

Third, since the supposed desire is "bestowed by heaven" and the so-called demand is decided "by the mind," the working of these two factors may bring about different results. There could be "too many desires and too little action," resulting from restraint by the mind, or "too few desires with too much action," resulting from the mind giving impetus to action for the satisfaction of the want.¹² In any case the rational exercise of thinking can restrain certain wants impossible and unnecessary to satisfy and sets in motion the satisfaction of other wants.

Finally, although not all wants can be fully satisfied, they can be so approximately, and although the wants themselves cannot be fundamentally extinguished, the action of seeking after their satisfaction can be rationally considered and kept within certain bounds. This is the essence of the so-called doctrine of guided wants. In a word, satisfaction of wants that can be reasonably satisfied should be pursued, while appropriate self-restraint should be exercised for those incapable of being satisfied.

From the standpoint of modern economic theory this concept of wants has its merits as well as its demerits. It realizes that human wants can be satisfied only under certain conditions, though they are infinite in number and therefore can never be fully satisfied, but these "certain conditions" in a modern sense mean an objective standard at a given historical stage. For Xun Kuang it was the result of rational thinking, hence a subjective standard. His differentiation between the wants proper and the demand for their satisfac-

¹² Ibid., "Zheng Ming."

tion, growing out of the rational exercise of thinking, is also a rather valuable idea. The drawback is that the so-called demand, which corresponds roughly to the modern idea of "solvent demand," was not expressed in terms of money, but considered to be the result of rational thinking. To be sure, the factor of payable capacity can also be within the scope of rational judgment, but if it does not exist as a determining factor of demand, such capacity will not be of much significance in political economy. On the relationship between wants and their means of satisfaction, he also has a comparatively reasonable opinion. He demanded that "the development of wants should not be arrested because of the limitation of things [the means of satisfaction], while the development of things should not be entirely subordinated to wants either. Each should be improved by association with the other."¹³ Because of limitations in the level of production in his time, Xun Kuang could not understand that wants are bound to develop following the development of the means of their satisfaction. However, he established an objective limit for human wants, namely, the rites. With rational thinking already the subjective limit, the addition of the rites as an objective limit, he thought, would make the means of satisfaction fit in with everybody's wants. As a matter of fact, this is really no more than satisfying one's wants in accordance with one's social position, high or low, rich or poor. It also sounds like a search for a theoretical ground to justify the extravagant living of the rich and to accept the low level of consumption of the poor as right and proper.

Section II

PRODUCTION OF WEALTH

Xun Kuang's idea of production of wealth may be discussed under the following heads: division of labour, encouragement and protection of production, differentiation between righteousness and benefit, and the idea of productive occupation.

¹³ Ibid., "Li Lun."

(1) **Division of labour** He pointed out that people in society might have the same needs, although their means of satisfaction might differ, and they might have the same desires, although their wisdom or skills for realization might also be quite different. Hence division and coordination of labour became necessary. Commodities required for life were produced by various skills, but nobody was able to acquire so many special skills. If everyone lived alone without the support of others, he would be hard up.¹⁴ Therefore, he concluded that the situation must be: "Each farmer ploughs his own land, each trader deals with his own goods, each artisan carries on his own work, and each intellectual is devoted to his own duty."¹⁵ Everyone could thus accumulate experience and enrich his own professional knowledge.

In the same manner, further specialization was needed within each occupation. He said, "People who took to tillage were numerous, yet the ancient minister Ji alone was known to posterity. Why? Because he did his job with a single mind. . . . People who took to music were numerous, yet the ancient musician Kui alone was known to posterity. Why? Because he too did his work with a single mind. . . . No ingenuity can be achieved when the mind is divided."¹⁶ If there is anything particular in his idea of division of labour, it must be that apart from its necessity, he pointed out its role in improving the quality of the products concerned.

Four centuries before Xun Kuang, Guan Zhong had preached the doctrine of professional succession, that is: "Intellectuals' sons should also be intellectuals, peasants' sons peasants, handicraftsmen's sons handicraftsmen, and tradesmen's sons tradesmen." Xun Kuang preached permanency of profession, that is: "A peasant should be a peasant straight through, the intellectual an intellectual straight through, the handicraftsman a handicraftsman and the tradesman a tradesman straight through." Whereas Guan Zhong looked on social professions as hereditary, Xun Kuang took them as the result of habit and practice. For instance, he said, "Seldom does the son of an artisan

¹⁴ Ibid., "Fu Guo."

¹⁵ Ibid., "Wang Ba."

¹⁶ Ibid., "Jie Bi."

fail to succeed to his father's work."¹⁷ He even integrated the social professions with the cardinal ethical relations of society, that is, the relations between sovereign and subject, father and son, elder and younger brothers and husband and wife, all treated as component parts of the order of feudal classes, which he considered to be "the eternally unchangeable, fundamental principle."¹⁸

With regard to the problem of mental and manual labour, his view differed somewhat from that of Meng Ke, although both belonged to the same reactionary category. Xun Kuang assumed that "superior men rely on virtue, while inferior men rely on bodily strength. Those with bodily strength are to serve those with virtue. People's bodily strength can work only under the direction of virtue People's riches can be accumulated also only under its direction."¹⁹ This differs from Meng Ke's view in two ways. To Meng Ke, the difference between superior and inferior was inherent, while Xun Kuang considered it something that might be transmuted by training. Meng Ke did not tell us why superior men, doing mental work, should govern and inferior men, doing manual work, should feed the superior men.²⁰ It seemed that they were born to do so. Xun Kuang took the characteristic of "virtue" — meaning here mental labour — as the capacity to organize physical labour for production of wealth. Therefore, those with virtue were entitled to be served by those with bodily strength.

(2) Encouragement and protection of production Xun Kuang attached importance to the proper use of people's "stamina," or "energy" labour power in the modern sense and emphasized its role in the production of wealth much as Mo Di and the writer of *Guan Zi* did before him, unlike the earlier Confucians who took natural power as the decisive factor of production. So he said. "Of those who rule a state, only those who can make use of the energy of com-

¹⁷ Ibid., "Ru Xiao."

¹⁸ Ibid., "Wang Zhi."

¹⁹ Ibid., "Fu Guo."

²⁰ Concerning the views of Meng Ke, see Chapter Three, Section II (3) of the present work.

mon people will make the state rich,"²¹ and insisted that people's energy should not be allowed to be improperly used.

He also emphasized improvement in the method of production for the purpose of increasing productivity of labour and the full utilization of the fertility of land. He said:

"Now, the land produces five kinds of grain. If it is well managed, it may yield several piculs of grain per mu and give men two harvests a year. Then the gourds, peaches, dates and plums each may yield several piculs of fruit or even more; then the yield of vegetables will be even more abundant; then each of the six kinds of domestic animals may fill up cart after cart; and the fish, turtles and creatures that breed in water each may form groups at different times; then all sorts of birds will form flocks like clouds; and then the insects and myriads of other things will prosper therein. All this will mean inexhaustible supply for the needs of the people."²²

The optimism on production of wealth expressed here was rather rare among the thinkers of the pre-Qin period. It formed a striking contrast to the pessimism of Mo Di on the same subject.

Xun Kuang also took account of the effect of the accumulation of wealth on production. According to him, "People when enriched by the state will become wealthy, and when they are wealthy, they will definitely make the soil fertile and cultivable. But if the state doesn't care to economize on expenditures and to enrich the people, then people will be poor, and poor people will let the soil remain poor and weedy." He added, "Fertile and cultivable soil will yield crops a hundredfold . . . while poor and weedy soil will yield no more than half a normal harvest."²³

In regard to the protection of production, he considered it an important duty of the feudal ruler. If the ruler's way of handling the problem was suitable, he said, "then all things will get what suits them, the six kinds of domestic animals will grow up well, and all creatures will enjoy their life."²⁴ If the ruler doesn't do his duty, then social production is bound to be adversely affected. He

²¹ Ibid., "Wang Ba."

²² Ibid., "Fu Guo."

²³ Ibid.

²⁴ Ibid., "Wang Zhi."

repeatedly mentioned this problem. His guiding principle was: "Slaughtering and feeding the animals at the proper time will make them multiply quickly, and cutting and growing plants at the proper time will make them luxuriant."²⁵ In a word, the important thing was to grasp the "proper time" whenever any operation was to be carried out. This had been, of course, prevailing knowledge ever since the Western Zhou Dynasty, but Xun Kuang emphasized it more and dwelt on it in greater detail than his forerunners and contemporaries.

(3) Differentiation between righteousness and benefit Ethical criteria were a fetter on the world's economic thought for thousands of years. Whether even modern economics has been able to cast them off entirely is still a question. In China some ancient thinkers like Mo Di and the writer of *Guan Zi* insisted on making ethical considerations subordinate to economic considerations, but most others in the past held the opposite view. Because the relationship between righteousness and benefit has been a problem raised every now and then during the past more than two thousand years, its part in the history of Chinese economic thought is by no means negligible.

Towards this problem, Xun Kuang took a neutral stand, holding:

"Righteousness and benefit are the two ideas common to all men. Even the ancient sage emperors Yao and Shun couldn't get rid of the people's desire for benefit, but they could make them desire it less than their desire for righteousness. Likewise, even the ancient tyrants Jie and Zhuo couldn't get rid of people's desire for righteousness, but they could make them desire it less than their desire for benefit."²⁶

He also said, "When righteousness overrules benefit, there will be a world of peace, but when benefit overrules righteousness, there will be a world of upheaval."²⁷ Though he did not cast off the restrictions of ethics on wealth production, he put benefit on a par with righteousness, which was a step beyond that taken by the earlier

²⁵ Ibid.

²⁶ Ibid., "Da Lue."

²⁷ Ibid.

Confucians. Thus, against the slogan of "benevolent rule" propagated by his forerunners he preached loudly the idea of "enriching the people" and insisted that a wise king should make his people wealthy, and that his management of political affairs and other things ought to aim at benefiting the common people.²⁸ This idea of enriching the people was cited afterwards by many progressive thinkers.

Before Xun Kuang, there had been discussions of the relationship between ethical and economic considerations, but he was the first to make the differentiation between righteousness and benefit a special problem and to deal with it as such.

(4) The idea of productive occupation Since the production of the means of subsistence is the very first condition of man's existence, it is perfectly understandable that the ancient thinkers would generally recognize agriculture as the most important branch of social production and would bestow favour upon it. As for whether handicrafts and commerce were productive and important, the answer differed in different countries of the ancient world. In China, from the Yin Dynasty (1711-1066 B.C.) down to the Spring and Autumn Period, there was never any scorn for either of these trades. In the middle of the Warring States Period a change in attitude began to take place. For with the exception of Bai Gui (c. 370-300 B.C.), who was proud of his specialty in the art of commerce, and the writer of *Guan Zi* who looked on both handicrafts and commerce with favour, thinkers began to doubt the wisdom of paying too much attention to both or either of them openly. Some thinkers even took to objecting, the most outstanding example being the famous Legalist statesman Shang Yang, who about half a century before Xun Kuang was the first man devoted to the policy of restricting commerce. However, the influence of Shang Yang's policy was limited to the state of Qin (now Shaanxi Province), whereas the theoretical influence of Xun Kuang's prejudice against handicraft and commerce was much more far-reaching.

Starting from the view that agriculture was the sole source of

²⁸ Ibid., "Wang Zhi."

the production of wealth, he condemned handicrafts and commerce as unproductive. He said:

"If scholar officials exist in great number, the state will become poor, and if handicraftsmen and traders exist in great number, the state will also become poor. . . . Therefore it is the countryside and the suburbs that are the source of wealth."²⁹

"Lightening the tax burden of the countryside, abolishing tariffs, decreasing the number of handicraftsmen and merchants, seldom calling for people's labour service, and not taking away people's time from farmwork, the state will become rich."³⁰

Indeed, Xun Kuang may be regarded as an ancient Chinese "physiocrat" who affirmed that agriculture alone is the direct source of wealth and that nonagricultural labour is not productive. On this theoretical basis he therefore proposed to restrict handicrafts and commerce with a view to increasing the wealth of the state. In his own words, "to decrease the number of handicraftsmen and traders, to increase the number of farmers . . . are ways to bring good livelihood to the people."³¹

Thus, the traditional attitude toward handicrafts and commerce underwent a conspicuous change in Xun Kuang's hand, and a new tendency to stress farming to the detriment of handicrafts and commerce took shape. But he did not deny the social functions of both. Among the philosophers of the pre-Qin period he had a clearer knowledge than many others of their social functions. Many passages in his work mention these two social occupations and their useful functions in society.

What was the reason for affirming the social functions of these two occupations, while insisting on restricting the number of people engaged therein? The explanation is that when the productivity of agriculture remains poorly developed, the number of labourers engaged in nonagricultural work in a society must depend on the quantity of products the agricultural masses produce minus the quantity consumed by the farmers themselves. This means that too

²⁹ Ibid., "Fu Guo."

³⁰ Ibid.

³¹ Ibid., "Jun Dao."

many people in handicrafts and commerce will bring pressure and harm to the rising landlord economy of feudalism. This is the objective ground on which the view of Xun Kuang was built and is also the reason why such a view was generally accepted by thinkers of many later generations after the end of the Warring States Period.

Section III DISTRIBUTION OF WEALTH

Xun Kuang was the first thinker in the pre-Qin period who did not demand equalization of wealth distribution. He even argued that the difference between rich and poor was reasonable.

Why didn't Xun Kuang favour the equalization of rich and poor? First of all, there was his optimism on the production of wealth. In his work *Xun Zi* whenever he touched upon the problem of wealth production, he usually expressed optimism. He assumed that the yield of grain, fruit and vegetables produced by the land would be abundant and the animate products, such as animals, fish and other creatures, would also be countless. In addition, he said:

"Now, heaven and earth grow a myriad of things. They are certainly enough to feed all the people; the hemp and silk, the feathers of the birds and the hides of the beasts are abundant enough to clothe all the people."³²

Not only was the wealth produced enough to satisfy all the needs of people, but in the eyes of Xun Kuang it might even be so abundant that "the goods may be inexhaustible like a fountain, vast like a river or sea, and enormous like a mountain. One may have to burn them sometimes because of the lack of places to store them."³³ Such blind optimism on the social production of wealth naturally led him to neglect the problem of poverty and to feel indifferent toward the problem of distribution.

He held that the cause of poverty was to be found in the uni-

³² Ibid., "Fu Guo."

³³ Ibid.

versal neglect of the "sense of status." For him "status" was everybody's definite position and profession in the society. There was a distributive order according to which all individuals in society must live. Hence, if the sense of status were clearly understood and carefully observed by everybody, society would surely be harmonious. He reasoned that man could not live apart from a community, a community without a proper distributive order would lead to conflict, and conflict would lead to poverty.³⁴ Therefore, the real root of people's poverty was their lack of the sense of status, or, more precisely, of the class order of feudalism. However, "once Confucianism prevailed, the world would be extensive and opulent,"³⁵ and there would be no problem of poverty calling for equalization.

Xun Kuang therefore considered the existence of slight differences between rich and poor rational and rejected resolutely any measure for the equalization of wealth distribution. He asserted that to let everyone get an equal share of wealth was bound to lead to conflict, because the quantity of the various goods produced was not the same; some may be quite abundant, some may be insufficient to distribute to everybody. Naturally, equal distribution of goods (wealth) is impossible and impracticable. Following his concept of wants, he added, "Equality in influence and position would make men cherish the same likes and dislikes. It would lead to conflicts if the goods supplied could not equally satisfy each of them." Therefore, "there must be some social gradation of high and low, rich and poor, strong enough to place them under control."³⁶

Hence, the system of wealth distribution must be built upon the foundation of class difference, that is, based on the difference between high and low, old and young, rich and poor, each having his own proper standard of consumption. By controlling the rites objectively and rational thinking subjectively, men of different social classes would all become satisfied with unequal distribution.

³⁴ Ibid.

³⁵ Ibid.

³⁶ Ibid., "Wang Zhi."

Thus, we are told that, within the whole system of feudalistic class order, men of every social class "will not feel themselves enjoying too much even though they are being rewarded by the emolument of a king, and will not feel themselves getting too little when paid as low as janitors, porters, guards and watchmen."³⁷ So only unequal distribution is able to satisfy the wants of men of different social classes. As a result, conflicts and poverty arising from the "shortage of goods" would be avoided.

In short, the distribution of wealth could be equal only upon an unequal foundation. And this, according to Xun Kuang, was the most wonderful way to make men of different classes contented, so they would live together peacefully.

However, he believed that an individual's wealth or poverty was transmutable, not inborn. He said, "If I wish to change from humble to honourable, from stupid to wise or from poor to rich, is that possible? The answer is: The only possible way is through learning."³⁸ That is to say, through learning the rites and righteousness one could change from poor to rich, or conversely fall from wealth to poverty if one failed to conform to the standard of rites and righteousness.³⁹ But he did not seem to consider that his ideal system of distribution, based on graduated consumption according to one's class status, might be doomed to confusion if poor and rich were mutually transmutable.

Section IV

OTHER ECONOMIC THOUGHT

(1) **Foreign trade** As for trade in general, his elucidation did not go much beyond what Meng Ke had said on the subject. The more interesting thing was his advocacy of active development of foreign trade.

He assumed that all states under heaven belonged to one

³⁷ Ibid., "Rong Ru."

³⁸ Ibid., "Ru Xiao."

³⁹ Ibid., "Wang Zhi."

family. Therefore, one shouldn't keep the secret of one's own special skill from nearby states or spare any effort to come into contact with faraway states. No remote or secluded states should be neglected.⁴⁰ What was the advantage of positively promoting foreign trade? He said:

"The North Sea (foreign land) breeds fast horses and barking dogs, yet China is able to get them and use them. The South Sea produces feathers, ivories and hides, indigo and cinnabar, yet China is able to make them her wealth. The East Sea has purple silk, fish and salt, yet China is able to take them for clothing or for food. The West Sea produces leather and banners with yak tails, yet China is able to make use of them. . . . Hence, among the things under heaven and carried by the earth, all might be collected and used by China to the full extent of their value."⁴¹

He thus expressed his economic optimism once more and painted a rosy picture of the possibilities of foreign trade. All the world would send their finest products to China to be placed at her disposal. Regretably, he did not tell us how these fine imported commodities were to be exchanged or paid for.

During the Warring States Period, with the exception of the writer of *Guan Zi*, who touched on the problem of interstate trade, thinkers seldom dealt with the problem. Hence Xun Kuang's ideas in this connection deserve our mention, though his exposition was much too simple. His attitude toward this problem may also be taken as evidence that the activities of commercial capital at that period had extended to the most distant regions. They had an even greater effect upon relations among the several powerful feudal states in China proper.

(2) **Consumption** Xun Kuang's general outlook on consumption did not go much further than "preaching frugality," which was a doctrine prevailing in his time, only he did not push it to such an extreme as did the Mohist school. The most remarkable thing about his view in this connection was that he took the practice of frugality as a means to struggle against nature. He declared:

⁴⁰ Ibid.

⁴¹ Ibid.

"If one strengthens the fundamental [farming] and practises economy, even heaven cannot impoverish one. . . . If one neglects the fundamental and spends extravagantly, even heaven cannot make one rich."⁴²

This was a direct refutation of the idea of the earlier Confucian school that "wealth and honour come from heaven" and also a view most valuable in a period when the supernatural view of "God's way" was increasing its stubborn influence upon people's minds.

Another point of difference between him and other thinkers was that others thought of "preaching frugality" in terms of the beauty of human character, while Xun Kuang thought of it in terms of preparedness for the future. The Mohists, because of their pessimistic view of production, took frugality as a necessary measure, for according to them, human beings simply couldn't survive otherwise. Xun Kuang, however, approached the problem from a different angle. His view was: "Now, since the coming into existence of human beings, they have learned to raise chickens, dogs, pigs, then cattle and sheep. Yet they dare not take meat and wine at their meals, and having money and riches, they dare not wear silk . . . and dare not go out in carriages or on horses. What is the explanation for all this? Not that they don't like these things; rather that they are afraid that if they lack foresight and consideration for the future, the continuation of their life may become impossible. So they retrench their expenditure, control their wants, accumulate and save to insure their future."⁴³ In other words, his main idea was to save and practise abstinence from extravagant consumption for the benefit of the future.

(3) **Public finance** Xun Kuang's financial ideas did not differ much from those of the earlier Confucians. Only on two points did he differ from Meng Ke. On the question of land tax, the latter took the one-ninth tax rate for the countryside as an ideal system, while the former insisted that the single tithe on agriculture be applied to the whole country. On the question of tribute, the latter

⁴² Ibid., "Tian Lun."

⁴³ Ibid., "Rong Ru."

insisted on the abolition of the tribute system based on an average rate of payment over a number of years, whereas the former held fast to the opposite view.

However, an independent financial point was observed as a doctrine of public finance by those in charge of state finance. Xun Kuang's doctrine of "reducing the outflow of expenditure and tapping the sources of revenue,"⁴⁴ later called the doctrine of "tapping new sources of revenue and cutting down expenditures," was generally accepted as a maxim of public finance by later generations until the first half of the present century. In many cases the doctrine was also a maxim of private finance.

⁴⁴ Ibid., "Fu Guo."

Chapter Seven

ECONOMIC THOUGHT OF THE LEGALIST SCHOOL

The difference between the Chinese Legalists of the pre-Qin period and the jurists of ancient Rome lies chiefly in the fact that while the latter were formal students of law, the former tended to be famous statesmen or political reformers who believed that to rule a state by law was much better than to rule by ethical criteria as preached by the early Confucians.

In this chapter we shall discuss three famous representatives of Legalism, namely, Li Kui, Shang Yang and Han Fei.

Section I

LI KUI'S TEACHING

"ON THE BEST USE OF THE PRODUCTIVITY OF LAND"

Li Kui (c. 450-c. 390 B.C.), a famous prime minister of the state of Wei in the early part of the Warring States Period, is considered one of the important exponents of the Legalist school of thought, for he enacted, during his tenure of office, a six-chapter classic code of law that influenced the criminal law of later feudal dynasties as much as Roman law did the later law of European countries.

He abolished the system of official hereditary posts and emoluments in the state of Wei and insisted on "feeding those who have rendered services and awarding emoluments to those who have achieved merit."

The notable economic contribution of Li Kui was his widespread teaching "on the best use of the productivity of land," which was generally recognized as the cause of the wealth and power of the state of Wei. Other than this discourse, we know little about his economic opinions, except for his attention to the profits pro-

duced from mountains, forests and water, recorded in *Han Fei Zi*.¹

Li Kui was not only a well-known statesman but also the earliest thinker to emphasize agriculture. Of course, ancient thinkers all favoured agriculture, but they generally stressed a certain specific philosophical doctrine rather than the importance of agriculture. For instance, the early Confucians stressed the ethical criterion of benevolence and righteousness, the Mohists universal love, the Taoists quietism, and so on. But this was not so of Li Kui, whose teaching on the best utilization of the productivity of land justifies us in counting him as a thinker partial towards agriculture.

He seemed to assume that agriculture was the sole source of wealth. He said, "The state will become poor when agriculture comes to harm."² According to him, the state would become rich if it did no harm to agriculture. He added:

"The art of carving and lacquerwork are detrimental to farming. Embroidering brocade and weaving fancy satin are harmful to domestic female work. Impaired farming is the root cause of starvation, and impaired female work is the source of cold. Therefore, a state will become poor and people extravagant if the ruler does not prohibit these skills."³

As we have shown in previous chapters, before the Warring States Period there was no prejudice against handicrafts of any sort, but after the early decades of the fifth century B.C. thinkers appeared who showed disapproval of handicrafts. Aside from Li Kui, the canon of the Taoist school, *Lao Zi*, also looked on them with disfavour, even going so far as to treat them as a wicked thing in the world. However, Li Kui did not show any disapproval of commerce. Around the end of the Warring States Period disapproval of handicrafts, especially of commerce, gathered strength until finally it became an irrevocable dogma controlling the field of economic thought generation after generation. Therefore, Li Kui's partiality towards agriculture and disapproval of domestic handicrafts was a turning point in this important ideological change.

¹ Han Fei, *Han Fei Zi*, "Nan Er."

² *History of the Western Han Dynasty*, "Record of Food and Commerce."

³ Liu Xiang, *A Collection of Sayings*, "Fan Zhi Pian."

Li Kui paid great attention to the productive activity of agriculture, particularly to the role played by farmers. He pointed out that if managed "dutifully and carefully," the yield per mu would increase three *dou* (1 *dou* = 10 litres); if not, there would be an equal decrease.⁴ That is to say, the difference between high and low labour productivity will amount to a farm yield of six *dou*, or forty percent per mu. It was no small matter for a thinker of his day to realize the importance of labour productivity and put it down in such clear and definite language.

Even more important is his clear understanding of the effects of price on relations between production and consumption in society. He said:

"If the purchase price of grain is too high, it will harm the common people, and if it is too low, it will harm the farmers. When the common people are harmed, they will leave their native places, and when the farmers are harmed, they will make the state poor. Hence, it is equally harmful one way or the other, whether the grain price is too high or too low. So it is up to those who are skilful in the government of a state to see to it that no harm is rendered to the people and yet give encouragement to the farmers."⁵

Unfortunately, this view of emphasizing the benefit of both consumers and producers later became a popular onesided and abbreviated *cliché* — "cheap grain is harmful to the farmers."

Another economic policy proposed by Li Kui was the so-called *ping di*, a measure for stabilizing grain prices. Basically it was that the feudal government should purchase and store grain in bumper-harvest years, then sell it in bad-harvest years so as to supply the people's need for food and at the same time bring down the price of grain. His policy was similar in substance to that suggested by Fan Li about half a century before, although different in aim. First and foremost, what Fan Li sought was "equal benefits to both farmers and traders," while the goal of Li Kui's policy was "to harm neither the farmers nor the common people." The explanation is that the former reflected the ideology of the rising merchant

⁴ *History of the Western Han Dynasty*, "Record of Food and Commerce."

⁵ *Ibid.*

class, while the latter represented the interests of the newly emerging landlord class and the peasant proprietors and inhabitants of the new cities. Next, Fan Li wrote expansively on manipulation of grain prices, whereas Li Kui demanded only that grain prices not be allowed to rise in times of bad harvest. So generally Li Kui's exposition was inferior to Fan Li's. Nevertheless, Li Kui's remark in this connection was frequently quoted by thinkers of later generations, while Fan Li's words were allowed to fall into oblivion. The reason for this is rather simple. Ever since the beginning of the Western Han Dynasty, commerce had been stigmatized as the most despicable social occupation, and Fan Li was taken as the first incumbent of this disgraceful speculative profession by the intelligentsia. Thus his great merits in political affairs, valuable contributions to philosophy and particularly his eminent economic thought were all thrown into the garbage bin of history.

Li Kui's teaching, "On the Best Use of the Productivity of Land," recorded in the "Record of Food and Commerce" in the *History of the Western Han Dynasty*, has been unanimously praised as very valuable economic reference data by modern Chinese historians and students of economic history. But the figures given in the latter part of this historical document are so unreasonable that we cannot help doubting their authenticity and credibility. An example is enough to show how irrational they were. According to the document, in the normal-harvest year when the state was neither purchasing nor selling grain, the total yield of grain would be 150 piculs⁶ per 100 mu. This would be sufficient to support the total consumption of an average family. But, according to the document, in a bad-harvest year the total yield per 100 mu would be 100 piculs, while the state's sale of grain to the farmer would also be 100 piculs, thus making a total of 200. This would make the total supply better than in a normal year. Moreover, in a worst-harvest year, the yearly yield per 100 mu was only 30 piculs, but the state sold 300 piculs, the two making a total of 330, meaning that the more severe the crop failure, the more abundant the supply

⁶ Picul is a dry measure that in the Warring States Period was only one fifth that of the present day (133.33 pounds).

of grain, so that while in the best-harvest year the total grain supply of an average family (deducting the amount purchased by the state) would be 300 piculs, its supply in the worst-harvest year would still be 330 piculs. That is to say, so far as a family's total supply of grain was concerned, the best-harvest year would be no better than the worst year. Therefore it is hardly credible that such an impracticable and irrational design was ever proposed by Li Kui, who, we are given to understand, was a great statesman with a wealth of practical experience. Our belief is that this part of the text was probably counterfeited by someone living in the second or first century B.C. and carelessly adopted by the author of the *History of the Western Han Dynasty*.

Nevertheless, apart from these unreasonable figures, some noteworthy thoughts can still be found in his writing. For the sake of reference, we introduce the text in full as follows:

"At that time Li Kui worked out his instruction, 'On the Best Use of the Productivity of Land,' for Prince Wen of the state of Wei. He surmised that a fief of one hundred square li [1 li=0.5 kilometres] would be equal to nine million mu of land, but deducting about one third, which consists of mountains, water or residential towns, will leave six million mu of land for farming.

"If the farmwork is dutifully and carefully managed, the yearly yield of the land will increase by three *dou* per mu. The decrease will be the same. The total quantity of grain increased or decreased in a fief of one hundred square li may amount to 1.8 million piculs.

"He added that the purchase price of grain would harm the common people [consumers other than farmers] if it was too high, but would harm the farmers if it was too low. When the common people are harmed, they will leave their native places, and when the farmers are harmed, they will make the state poor. Hence, it is equally harmful one way or the other, whether the grain price is too high or too low. So it is up to those who are skilful in the government of a state to see to it that no harm is rendered to the people and yet give encouragement to the farmers.

"Now, for a man with a family of five cultivating a hundred mu of farmland, the income on the basis of a yearly yield of 1.5 piculs per mu will be a total of 150 piculs of grain. Deducting the one-tenth land tax of 15 piculs, there will be a surplus of 135 piculs. For monthly food, one person will need 1.5 piculs, so food for five members per year will amount to 90 piculs, leaving thus a surplus of 45 piculs. The price of the grain being 30 copper coins per picul, this will make a total of 1,350 coins for the 45 piculs of grain. Deducting the social, conventional and sacrificial expenses of 300 coins, the surplus will be

1,050 coins. For clothing the cost was 300 coins per man; for five men the total will be 1,500 coins per year, so there will be a deficit of 450 coins. And this is not inclusive of the expenses for sickness and bereavement, which may unfortunately happen, nor of the occasionally imposed levies. This is why the farmers often get into difficulty and show no enthusiasm for farming, thus causing the price of grain to become high.

"Therefore, one who is good at managing the policy of *ping di* [the buying or selling of grains by the government with an aim at stabilizing the grain price] should look carefully at the conditions of yearly yield. There are three grades of good harvest—bumper, excellent and fair. In a bumper-harvest year the yield of grain will be four times that of a normal year, which will thus leave the farmer a surplus of 400 piculs of grain; in an excellent-harvest year the yield will be three times a normal year with a surplus of 300 piculs, and in a fair-harvest year, the double of a normal year with a surplus of 100 piculs. In a poor-harvest year the yield will be 100 piculs, in a relatively bad harvest year, 70 piculs, and in an extremely bad harvest year, only 30 piculs. So the government should purchase 300 piculs of grain out of the surplus in the bumper-harvest year, 200 piculs in the excellent-harvest year, and 100 piculs in the fairly good harvest year. This is to enable the people to get a sufficient supply of grain until the grain-price is stabilized. In the case of a poor-harvest year, the government should sell grain purchased in a fairly good harvest year; in a relatively bad harvest year, sell what it had purchased in an excellent-harvest year; and in an extremely bad harvest year, sell what it had purchased in a bumper-harvest year. Thus, even in time of famine, drought or flood the grain price will not become high, and people will not leave their native places. Deficiency in lean years is made up by surplus in fat years.

"This was practised in the state of Wei, which thus became rich and powerful."

Section II

SHANG YANG'S POLICY OF FARMING AND WAR

Shang Yang (c. 390 — 338 B.C.), an outstanding exponent of the Legalist school, was the father of a series of epochal reforms of politics and the economy, later called the "Political Reform of Shang Yang." The most important result of his deep reform was the assumption of political power by the feudal landlord class in the state of Qin in his lifetime, thus laying the foundation for China's first unified feudal empire, founded about a century after his death. He was put to death by his political opponents.

Applying the Legalist theories of reform to the specific conditions of the state of Qin, Shang Yang carried out the reform by introducing a series of measures. First and most fundamental was his use of political power to break up the paths and earthen embankments that were traces of the farms belonging to the feudal lords. Then he destroyed the old aristocrats' hereditary prerogatives on land and legalized free dealing in land, which in turn made possible the establishment and development of the newly emerging landlord economy. Other measures were awards for military exploits, abolition of the institution of hereditary posts and emoluments for officials, inauguration of the prefecture and county system instead of the old fief system, together with the building up of a unified system of military forces and taxes collected for them. Thus he strengthened the state's centralized power. Other reforms were a system by which every ten neighbouring families would collectively guarantee that none of them would violate the law and be implicated in crimes and the establishment of a unified system of weights and measures.

As recorded in ancient books of history, in consequence of these measures, "order prevailed in the towns and countryside" in the state of Qin and "the state became rich and powerful."⁷ Some of his reform measures were adopted with slight modifications by later feudal dynasties.

(1) Shang Yang's Economic Ideas in General

Although Shang Yang's economic and political reforms greatly influenced the course of Chinese history, the economic thought he left us is comparatively fragmentary and limited in scope. His economic expositions are also no more profound than the analyses of his contemporaries or the thinkers before him.

Like many of his contemporaries, he affirmed agriculture as the source of wealth. As he said, "The farmers are inclined to be

⁷ *Records of the Historian*, "Biography of Lord Shang."

industrious, and being industrious will lead to wealth.”⁸ Again, “Concentration on business [farming] will make the state wealthy.”⁹ Here by wealth he chiefly meant millet and silk, for he said, “To let people obtain official rank and duty through the quantity of millet produced will make the state wealthy.”¹⁰ So he gave special consideration to the utilization of farmland and declared that “to own vast lands and yet to fail to cultivate them is equal to owning no land at all.”¹¹ He did not seem to be much interested however, in the rich resources of mountains and water that existed in the state of Qin, even though the advantages that could be derived therefrom were realized by many other thinkers at the same time.

Self-interest This was another comparatively popular view of the thinkers in the pre-Qin period, Shang Yang not excepted. According to him, “to seek food when hungry, rest when tired, comfort when miserable, honour when humiliated, these are human nature. . . . Shame, humiliation, labour and suffering are what people dislike; fame, glory, comfort and happiness are what people will seek after.”¹² Further: “In a man’s life he will take the longest of things measured, the heaviest of things weighed, and the most advantageous of things considered.”¹³ The greatest economic satisfaction is the aim of every human behaviour. Although his view somewhat resembles the “economic man” described by English classical economists, unlike the classical economists, who took self-interest as the motive of all man’s economic activities, Shang Yang took self-interest as the foundation upon which to build the power of feudal order and law.

Distribution His fundamental idea of distribution of wealth was “to keep the state rich and the people poor.” In his eyes, a rich state, a powerful state and an orderly state are all synonyms, for

⁸ *Work of Shang Yang*, “Yi Yan.”

⁹ *Ibid.*, “Nong Zhan.”

¹⁰ *Ibid.*, “Qu Qiang.”

¹¹ *Ibid.*, “Suan Di.”

¹² *Ibid.*

¹³ *Ibid.*

"a powerful state must be orderly, and an orderly state must be powerful; a rich state must be orderly, and an orderly state rich, and a powerful state rich and a rich state powerful."¹⁴ That is to say, wealth is indispensable for bringing about order within a state and making its army powerful. But as for the people's wealth, he insisted that in order to build up a powerful army, people must be made weak, timid and ignorant, for only thus would they turn into brave soldiers through the application of heavy punishment and rich reward. Only when people were poor to the extent of "not even having any millet stored up in the family," would they be motivated by rich rewards. If everyone were rich, the punishments and rewards of the ruling class might fail to work. So he held that "the best way to rule a state is to be capable of making the poor rich and the rich poor, in doing which the state will become powerful."¹⁵ Here "the rich" does not mean the well-to-do class or the nobility, but only those common people who had enough means for subsistence. "Making the poor rich" also means simply allowing some poor people to get enough means for subsistence. Such a policy was akin to the policy of "being able to take from the rich and give to the poor" advocated in *Guan Zi*,¹⁶ but the methods of the two differed. *Guan Zi* relied chiefly on economic measures, generally the price policy, to accomplish this end, whereas Shang Yang was entirely given to using punishment and reward of the feudal state to accomplish it. As he said, "To threaten the poor with punishment will make them rich, and to deprive the rich of rewards will make them poor."¹⁷ That is, threatening the poor people with punishment might make them do farmwork with a single mind and purpose, and hence make them rich, while depriving certain people of rewards would make them poor. It is clear from the above that, under the political system of Shang Yang, the only possible way, apart from farmwork, for any commoner to get

¹⁴ Ibid., "Li Ben."

¹⁵ Ibid., "Shuo Min."

¹⁶ See Chapter Five, Section IV of the present work.

¹⁷ *Works of Shang Yang*, "Shuo Min."

"rich" i.e., to have sufficient means of subsistence — was through a reward for outstanding army services. Hence, reward and punishment were indeed effective means to make common people either rich or poor under his economic system.

Commerce Shang Yang was resolutely prejudiced against commerce. He said, "Among people's callings, nothing is harder than farming, being the hardest and yet the least profitable in contrast with the professions of the traders and the artisans."¹⁸ And since "commercial professions are both comfortable and lucrative,"¹⁹ in order to make people feel contented with farmwork, the traders should be restricted, or at least not encouraged.

The measures he advocated for the restriction of trade included banning merchants from the grain trade, raising grain prices so as to increase the commercial costs of trade and thus decrease people's interest in such an occupation, imposing very high taxes on goods going through the passes and cities in order to discourage farmers from trading, and intensifying the feudal corvée of the traders in order to create the impression that commerce was more laborious than farmwork.²⁰

It should, however, be pointed out that the restrictions he wished to impose on commerce were aimed more at encouraging farmwork than at repudiating the social functions of commerce at the very root. The following remark is evidence to this effect. He said, "The farmer, the merchant and the official are the three functional organs of the state; the farmer cultivates the land, the merchant handles the goods, and the official governs the people." He added, "If the number of farmers is decreased while that of the merchants increased, the nobles will be impoverished, and if the farmers, merchants and officials are all three poor, the state will be weakened."²¹

Population After the end of the Spring and Autumn Period,

¹⁸ Ibid., "Wai Nei."

¹⁹ Ibid., "Suan Di."

²⁰ Ibid., "Ken Ling."

²¹ Ibid., "Qu Qiang."

thinkers of the various schools of thought generally sought an increase of the population in their own land. In the middle of Warring States Period, some thinkers began to realize the problem of proportion between land and population, Shang Yang and *Guan Zi* being notable examples. Shang Yang's view was as follows:

"The fault of the recent rulers is that, those who wage a war fail to consider the number of their manpower, and those who manage reclamation fail to consider the size of the land. So there may be little land with a dense population, bringing about a situation wherein people overcrowd the land. And there may be vast land with few people, bringing about a situation wherein land overwhelms the people. In the former case, reclamation of land is due, and in the latter case, immigration of farmers from abroad is to be encouraged."²²

The state of Qin at that time was a case of the land overwhelming the people. If things were allowed to take their course, the way to solve the problem would be to encourage the natural increase of population. Shang Yang seemed to realize this, for he stressed the registration of births, deaths and the total number of people in his country and requested a census of the total number of men and women of middle age and the number of old and weak.²³ He was the first statesman in Chinese history to carry out the registration and census of population on a national scale. However, he never resorted to measures encouraging the natural increase of population, apparently because such a course would take a long time to bring about the desired result. With the incessant wars between the ducal states of those days, the policy of encouraging immigrant farmers from abroad might be a more speedy way to accomplish his purpose and also more easily accepted by the government he was serving.

In contrast to the state of Qin, her two neighbouring states on the east, potential enemies, had "little land with a dense population." Thus if the state of Qin enforced the policy of encouraging immigrant farmers from abroad, it would rapidly increase its population, particularly the peasant population. And since this would,

²² Ibid., "Suan Di."

²³ Ibid., "Qing Nei" and "Qu Qiang."

on the one hand, enable numerous native farmers to enlist in the army and would, on the other hand, deplete the enemy states of their agricultural population, the enemy states would thus be endangered in both their food production and their fighting strength. For the attainment of such a strategy he gave the immigrant farmers very favourable treatment, that is, "granting them farmland and houses and exempting them from corvée for three generations."²⁴

In the enforcement of his other economic policies, Shang Yang usually employed political power to accomplish his purpose, but in giving encouragement to immigrant farmers, political power would not do. It could be realized only through suitable economic measures. It was generally believed that this policy played a remarkable role in the consolidation and development of the feudal political power of the state of Qin.

Finance Shang Yang left us only two financial ideas — the unity of state finance and a heavy tax policy — to both of which he held fast and firm. Concerning the former, the abolition of the institution of hereditary official posts and emoluments and the inauguration of the prefecture and county system also helped bring about the unified and centralized financial administration of the state through strengthening and unifying central political power. This was what he actually did, but we have no detailed explanation as to how he did it.

Ancient thinkers, no matter which school of thought they belonged to, generally advocated light taxation. A few even suggested the abolition of part of the taxes then levied. Shang Yang alone held a different opinion, advocating a policy of heavy taxation. His fundamental idea about taxation was that "levies on the nonagricultural professions or products should be made both onerous and numerous, and taxes on the gains from business in the cities should also be made heavy."²⁵ Under this guiding principle he put into practice a policy of heavy tariffs and city taxes, heavy taxes on wine and meat and heavy taxes on nonworking persons. Apart from

²⁴ Ibid., "Lai Min."

²⁵ Ibid., "Wai Nei."

these, all the profitable businesses in the market were also to be taxed heavily.²⁶

What exactly the heavy tax rate amounted to, he didn't make clear. He mentioned only that the tax on wine and meat should be "ten times its cost." From this one can safely surmise that other tax rates must also have been rather high.

The purpose of heavy nonagricultural taxes was to discourage and reduce nonagricultural activities. As such activities decreased, the state revenue collected from them would decrease as well. Consequently, the fiscal revenue of the state would have to come chiefly from agricultural taxes. So the tax on agriculture could not be too light either. By adopting a policy of heavy taxation on nonagricultural activities, he intended not to increase financial revenue, but rather to employ taxation as a direct measure to restrict such activities, indirectly promoting farming and war. This was rather characteristic of his ideas on taxation and also in conformity with his ideas on heavy punishment and rich rewards.

(2) Policy of Farming and War

Now we shall turn to Shang Yang's famous policy of farming and war. His partiality towards agriculture was not entirely aimed at developing social production, but also at strengthening the military forces of the feudal state and sweeping away all obstacles in the way of consolidation of the political power of the landlord class, a historical mission he himself was perhaps still unconscious of. The logic for his policy is not difficult to understand. According to him, "farming and war are what bring about the prosperity of a state, and it is on farming and war that the safety of a state and the dignity of a ruler rely."²⁷ Why? He did not tell us, but it really needs no explanation. In a historical period of endless wars of annexation, the need for a powerful army is a matter of common sense. It is needed for both defence against surprise attacks and offence — for expansion of the state's territory. Only agriculture

²⁶ Ibid., "Ken Ling."

²⁷ Ibid., "Nong Zhan."

could provide the army with the manpower and materials necessary for war. So agriculture and war became generally accepted as two prime affairs of a state by the statesmen of those days. In support of this view, he said, "So it is natural that one who governs a state would wish to have all his people become farmers. Without agriculture, a state would be unable to preserve herself in contending with rival princes, because there would then be a shortage of manpower."²⁸ Besides, he thought, because the farmers were simpler and more honest than other people and attached to their native places, they could more easily be roused to loyalty and bravery for the ruling class.²⁹ On the basis of these considerations, agriculture and war became linked in the so-called policy of farming and war.

Why were the farmers more easily managed by such a policy? Surely the political and economic powers of the feudal government were the principal cause, but the establishment of private ownership of land was another very important cause; farmers would be attached more closely to their land and therefore would be even more obedient to the command of the authorities. It was true not only in ancient China; later in Germany Frederick II instituted property rights for the peasants, then drove them to perform army service for him. Similarly in France Napoleon induced the French peasants to wage wars for him by allotting them small plots of land. So it is no wonder that the establishment of land ownership should also have enabled Shang Yang to carry out successfully his policy of farming and war.

His principle for enforcement of the policy was to "let gains come out from one opening only."³⁰ That is to say, people could advance only by obtaining some official rank and reward and could obtain official rank and reward only by farming and war. So long as official rank and reward could be obtained only by military exploits and soldiers came only from the peasantry, taking up farm-work became the prerequisite for the attainment of any gain. His

²⁸ Ibid.

²⁹ Ibid.

³⁰ Ibid.

policy was backed up by a number of political and economic measures.

Political measures for the encouragement of agriculture may be subdivided into four groups as follows:

a) *Direct encouragement by political means* First, as we have already noted, there was the use of official rank and honour to encourage farming and war. He said, "Official rank and honour are the means a ruler can employ to encourage people."³¹ Second, there was exemption from labour service. According to him, "All those who work hard in farming and weaving and hence increase grain and silk production should be exempted from labour service."³² Because labour service was a very heavy burden on the people of those days, this measure was even more attractive than official rank and honour.

b) *Direct restriction on nonagricultural activities enforced by political means* First, "those who became poor as a result of their taking to handicrafts and commerce or because of their being slack in farmwork should be made slaves of the state."³³ Thus persons engaged in handicrafts and commerce not only were not exempted from labour service, but might also run the risk of becoming slaves. Second, no official rank and honour were to be given to persons of knowledge and eloquence, in order to prevent people from valuing learning and looking down on farmwork.

c) *Lessening the harassment of farmers by government officials so as to enable them to concentrate on farmwork* First was the promotion of efficiency of administration, to lessen the detrimental effects of bureaucracy on farmers and farmwork. Second, administrative procedures of all counties were unified so that officials could not change them at liberty and harm farming. Third, fixed charges for the transport of grain would be paid by farmers directly to the central government, so as to prevent local irregularities, thereby causing losses to farmwork. At a time when grain

³¹ Ibid.

³² *Records of the Historian*, "Biography of Lord Shang."

³³ Ibid.

levied by the government had to be sent to certain regulated places by the payers themselves, troubles of transport were always a serious burden to the farmers and could be solved only by an experienced statesman like Shang Yang.³⁴

d) *Restricting activities unfavourable to agriculture* The steps in this category were also numerous. First among them was the prohibition of carnal pleasures in the counties, so as to enable farmers to take up farmwork with a singleness of mind and purpose. Second, Shang Yang abolished country inns, giving villainous people (actually refugee peasants) no refuge. Third, farmers were forbidden to change their residence at will, so that they would be more devoted to farming. Fourth, high-ranking officials, nobles and scholars were not allowed to visit and sojourn in the counties, for fear that such action on their part might shake the farmers' will and induce them to give up farmwork and transfer to other occupations. Fifth, the military market was prohibited from harbouring itinerant prostitutes and rascals, so that the farmers could not turn to disgraceful sexual pleasure. Sixth, an adult member of a farmer's family who did not take to agriculture was required to bear the burden of labour service. Seventh, a new law for collective responsibility in crimes was promulgated forbidding a series of non-agricultural activities. Finally, no person was allowed to ask for food on behalf of criminals, so the bad characters would have nothing to rely on.

Economic measures for the encouragement of agriculture were also multifarious and may be classified under the following four headings:

a) *Increasing the agricultural population* As we have mentioned, there was a measure to encourage the immigration of foreign farmers to the state of Qin, thus directly increasing her agricultural population. Activities of nonagricultural people were restricted and interfered with to make them transfer to agriculture. Specific measures in this connection were: first, restricting the number of

³⁴ The following quotations in this section are all taken from "Ken Ling," the second of the *Works of Shang Yang*, unless noted.

persons who could practise commerce and handicrafts; second, compelling tradesmen's families to do unpaid labour service according to the number of family members and forbidding their possessing many domestic slaves; third, restricting the right of senior officials to employ labourers to build houses and so on, so that labourers would not be able to earn a living outside of agriculture; and fourth, controlling the resources of mountains and water for the same end. The political measures mentioned were also designed to increase the size of the agricultural population.

b) Raising up the price of grain On this point we are told, "Those who desire to enrich the state through agriculture must raise the price of food within the state. . . . The high price of food will benefit persons working on the farmland, and when the farmers are benefited, more people will take to farming."³⁵ Shang Yang also enforced high prices on wine and meat with the aim of limiting their consumption, but because these high prices would enhance the profits of the trades concerned, he also imposed an even heavier tax on wine and meat. Thus we can see that he comprehended the effects of high prices in stimulating production and limiting consumption and particularly the role of taxation in redistribution.

c) Controlling the food trade His way of controlling the food trade was very peculiar. Forbidding merchants to deal with food trade, he thought, would free grain prices from the effects of climatic changes. "Then there will be no extra enjoyment for the merchants in a good-harvest year and no profit for them in a bad-harvest year. When there is no profit to be gained, the merchants will feel timid and wish to turn to farmwork." At the same time he prohibited free dealing in foodstuffs among the farmers themselves. The purpose was to make it impossible for those who were unskilled in farming or lazy to get sufficient food to eat unless they put greater effort into farmwork. A farmer who made real efforts in cultivation might, after supplying his own needs, have surplus grain to sell to the government at a fixed high price. A ban on traders and farmers dealing with food among themselves was suggested by no Chinese thinker

³⁵ Ibid., "Wai Nei."

besides Shang Yang. Clearly, it was not to insure the food supply of the society but to carry out his policy of farming and war.

d) *Enacting a policy of taxation favourable to agriculture* Agriculture was directly encouraged by a light tax rate, but heavy taxes were imposed on nonagricultural occupations. Shang Yang also raised the tariff duties and the dues in the cities.

The aforementioned measures, both political and economic, reached deep into every avenue of social life. Any socioeconomic activity would be attacked if prejudicial to agriculture and encouraged if favourable to it. He did not understand, however, that economic activities in society are, to a certain extent, both externally and internally interrelated. Widely restricting or suppressing all non-agricultural activities and developing agriculture in isolation could not be a good or efficient policy for the encouragement of agriculture. Although the above measures did prove effective for quite a while, they could be only a short-lived policy rather than a theory of valid general application.

Section III

ECONOMIC THOUGHT OF HAN FEI

Han Fei (c. 280-233 B.C.), an outstanding Legalist thinker at the end of the Warring States Period, was the last of his school and benefited from the labours of his predecessors. His economic thought was similar to that of Shang Yang, although the economic problems he touched upon were relatively few and the scope rather limited. Still, the opinions he expressed on economic problems were always sharp and penetrating. The most striking thing about him is that he attached more importance to the role played by the objective conditions of living than to other factors.

According to him, the material conditions of life determine the moral character of men. So when some ancient rulers readily abdicated the throne, they were not morally superior, and when some persons in his own day were loath to give up posts as county magistrates, they were not mean. They acted differently because

the material conditions of their lives were different.³⁶ As a further argument he added, "Why were the goods readily given away by ancient people? It was not because they were benevolent in character; rather it was because there was an abundance of goods. And why do people strive for goods nowadays? It is not because they are mean, but because goods are scarce."³⁷ His conclusion that there was an abundance of goods in ancient times and a scarcity in his own days is entirely incorrect, but his opinion that the material conditions of life determine the moral character of man is both correct and significant. Because economic thought remained shackled to ethics in most parts of the ancient world, any deviating idea, like Han Fei's, certainly deserves praise.

(1) **Self-seeking** What Han Fei called the "self-seeking" was very much like the self-interest advocated by English classical economists, except that he extended it beyond the scope of economics and pushed it to an extreme. He assumed that all relations between man and man were based solely on people's self-seeking. For instance:

The relation between the ruler and the ruled masses was that "in time of emergency a ruler would require his people to die for him, while in time of peace he would require them to exert their utmost for him." The ruled masses were willing to be driven by the ruler "not because the ruler loves them, so they become subservient, but because the ruler has the power and position to make them become subservient to him."³⁸ In other words, their wish to avoid trouble and seek advantages made them adjust to their oppression.

The relation between the ruler and the officials under him, according to Han Fei, was that "the ruler sells ranks and honours to the officials, and the officials sell their wisdom and energy to the ruler."³⁹

³⁶ *Works of Han Fei*, or, as generally called, *Han Fei Zi*, "Wu Du."

³⁷ *Ibid.*, "Liu Fan."

³⁸ *Ibid.*, "Wai Chu Shuo You."

³⁹ *Ibid.*, "Nan Yi."

The relation between parents and children was also built on self-seeking, he argued: "When a baby boy is born, people mutually congratulate each other, but when a baby girl is born, they kill her. Now, both of them are born out of the parents' bodies, yet a baby boy receives congratulations while a baby girl is killed. Why? Because considerations of future expediency and thought of long-term advantages advise such courses of action."⁴⁰

About general relations between man and man, he pointed out, "Wang Liang [famous ancient horsebreeder] loves horses because he wants to ride them. Gou Jian [prince of the state of Yue] loves his people because they can be used to fight his enemies. The surgeon sucks the wound or the blood of another person not because the patient is related to him by blood, but because he can earn profit therefrom. Hence, a cartwright who makes carriages desires other people to become rich and noble, while a carpenter who makes coffins desires people to die even when young. This difference is not due to the benevolence of the former and the wickedness of the latter. It is due to the fact that carriages can never be sold if there are no rich and noble men and coffins can never have patronage if people do not die, not that it is human nature to hate other people, but men want to gain profit even through other people's death."⁴¹ In the eyes of Han Fei ethics gave way to self-interest.

He saw the relation between employer and employee as even more based upon the self-seeking of both sides. We are told, "For those who hire out their labour to do farming for others, the employer provides delicious food and ready money. Not that he loves hired labourers, but in so doing he will induce them to plough deeply and weed neatly. The hired labourers exert themselves to do hard ploughing and weeding and to straighten out the boundaries and bypaths of the farms skilfully, not because they love the employer, but because they desire the delicious soup and the money paid them."⁴²

⁴⁰ Ibid., "Liu Fan."

⁴¹ Ibid., "Bei Nei."

⁴² Ibid., "Wai Chu Suo Zuo."

Stretching the operation of self-seeking to such a preposterous extent was indeed rare in the history of ancient economic thought. But this was not all. In a further step, he declared that even "when people concert their efforts in doing a piece of work, it will still be unsound for us to think that they are thinking more of cooperative efforts than of their respective individual benefits." The root of all actions, in his view, was self-seeking.

The idea of self-seeking was far from being merely an abstract concept. It expressed itself concretely as "calculation" — i.e., the inclination to calculate beforehand the losses and gains that might occur whenever anything was going to be done. On this basis, he took all the social relations of humanity as relations of exchange. For instance, he said, "Officials under a ruler sell themselves to him by each exerting his utmost efforts, and the ruler repays his officials with titles and emoluments, which he weighs carefully."⁴³ Other relations between man and man, for example between the landed proprietor and the labourer, were still more relations of exchange.

Han Fei used self-seeking as a knife to anatomize all social relations. All prevalent social criteria were to him mere falsehoods. The overstretched self-seeking, or calculation, was really nothing other than an attempt to interpret all human motivation from the point of view of the rising feudal landlord class and to take the behaviour of that class for general human nature. Such a view played havoc with the hypocrisy of feudal-patriarchal moral institutions and ideas such as filial piety, loyalty and benevolence. It also greatly damaged the old rule based on blood relationships. In a word, it served to break up old social ideologies while affirming the rationality of the newly established exploiting system.

Starting from self-seeking, he openly raised objections against the doctrine of "well-satisfied people" maintained by many thinkers of other schools of thought and argued that this doctrine not only was unable to guide a well-governed state, but might also harm the state. His reason was both simple and plain: Since people were born self-seeking, their wants could never be satisfied. Therefore the doc-

⁴³ Ibid., "Nan

trine of well-satisfied people was merely a bookworm's opinion that "failed to grasp the real situation." He argued:

"Lao Ran once said, 'Contentment would save a man from insult, and knowing when and where to stop would save him from danger.' So in order to be saved from insult and danger, Lao Ran would not seek anything beyond the proper limit of his contentment. Now if one thinks that order can be realized through making people feel satisfied, it will amount to taking all people as Lao Ran. So that is why the tyrant Jie was not satisfied with his dignity as the son of heaven, nor satisfied with the treasures he possessed though he had the riches of the four seas. Now, a ruler may attempt to satisfy his people, but that is not sufficient to make one the son of heaven. Yet, Jie still was not satisfied with becoming the son of heaven, which he actually was. How can you secure order even though you attempt to satisfy people?"⁴⁴

Since it is impossible for a ruler to satisfy everybody's wants without limit, the doctrine of well-satisfied people would remain forever an impracticable dream.

Han Fei held that if people had "sufficient goods at their disposal, they would develop a propensity towards prodigality and idleness," both of which would make people poor. He said, "All living people will sink into idleness when they have sufficient goods at their service."⁴⁵ And again, "The affectionate son of a rich family usually has sufficient goods at his service. But having sufficient goods at his disposal may lead to careless spending, and this in turn may lead to profligacy, which in turn will make the family poor."⁴⁶ According to his logic, people must be hard up; only then will they work hard; and every family must be needy in order to avoid being ruined by profligacy. Therefore, it is impossible ever to make people well satisfied.

(2) **Population** Before Han Fei discussion of the problem of population generally centred on two points: demand for an increase in population and the interrelation of population and land. Han Fei, in addition to presenting some dissenting views on these two issues, shed new light on the problem.

⁴⁴ Ibid., "Liu Fan."

⁴⁵ Ibid.

⁴⁶ Ibid.

He assumed that the population in his time was denser than in ancient days, so the problem was not a sparse population, as many other thinkers thought. We read:

"Nowadays, a man with five children would not be counted as having too many. Now, each son begets another five children. There will be twenty-five grandsons before the death of the grandfather. Therefore, the people are too numerous, whereas the riches are too scanty."⁴⁷

Here he seems to be using Malthusian formulas of "geometric ratios" in the theory of population. Right or wrong, he was probably the first to do so.

As regards the interrelationship between population and land, which was discussed by many thinkers after the Spring and Autumn Period, he enlarged the factor of "land" by combining it with other elements to make it become "goods," thus turning this interrelationship into one between population and goods. In a way this development is quite important, for the enlarged concept expressed more accurately the complicated economic content of the interrelationship though Han Fei himself might not be conscious of it. He said:

"In antiquity the fruits of the plants being sufficient to provide the food of the people, man did not take to tilling, and the furs of the animals being sufficient to provide the clothing of the people, woman did not take to weaving. People did not need to work hard, for the supply was always sufficient; the number of people was then rather small, whereas the goods were superabundant. Therefore, no strife took place among them. . . . Now . . . people are numerous, and goods are scarce; work is laborious and supplies are bad. No wonder people fight. Even doubled rewards and repeated punishments cannot save society from chaos."⁴⁸

Han Fei was perhaps the first thinker in the world to try to interpret the causes of order and disorder of a society in the light of the interrelationship between population and goods, though his conclusion was erroneous and superficial. However, his attempt to find the cause of historical change among certain objective material

⁴⁷ Ibid., "Wu Du."

⁴⁸ Ibid.

factors is itself progress, particularly at a time when the idea of divine power was still dominant.

(3) The difference between rich and poor Han Fei thought the general poverty in the society of his day was due to conflicts issuing from the situation that "people are too numerous, while goods are too scarce." But what made some individuals rich and others poor? He offered the following explanation:

"Now, men are alike, but some get rich without being blessed by bumper crops or other subsidiary incomes. Why? Because they are either industrious or frugal. Men are alike, but some get poor without being hit by famine, sickness, calamity or offences. Why? They are either prodigal or lazy. Prodigality and laziness make one poor, whereas industry and frugality make one rich."⁴⁹

Since wealth comes from one's own industry and frugality, it follows that one's property should not be infringed upon by others, and since poverty results from one's prodigality and laziness, one alone is to blame. Therefore, Han Fei objected resolutely to the allocation of land to the poor and the government policy of poor relief. He argued, "When the ruler levies the rich in order to give relief to the poor, this is taking something away from the diligent and frugal to give to the lazy and prodigal."⁵⁰ Who would wish to work hard and practise frugality if a man becoming poor as a result of prodigality and laziness could get relief? Moreover, he saw relief for the poor as very much the same as "giving reward to a man without merit."⁵¹ On the whole, in his opinion, the policy of poor relief could do no good either to the rich or to the poor. Nor could it benefit production.

So Han Fei affirmed the existing difference between rich and poor as being rational and necessary. There was no reason to demand any change. He also opposed the adoption of any measure that might injure the property rights of the well-to-do class. His views later had many echoes among the political economists of Europe.

(4) From the doctrine of farming and war to the slogan "Agri-

⁴⁹ Ibid., "Xian Xue."

⁵⁰ Ibid.

⁵¹ Ibid., "Jian Jie Shi Chen."

culture is the fundamental, handicrafts and commerce are the peripheral" Han Fei followed Shang Yang in vigorously advocating the policy of farming and war, but he seldom dwelt upon detailed measures for the encouragement of agriculture, stressing only its theoretical significance. The ultimate aim, as he put it, was "to enrich the state in time of peace and to strengthen the army in time of emergency."⁵² His attack on nonagricultural activities was even broader in scope and fiercer in degree than Shang Yang's. To him, all walks of life other than the landlord class and the peasantry were of no importance. Ideologies of any school of thought other than the Legalist school were to be excluded. He said, "Therefore, in the state governed by a wise ruler, there are no literary books. Law alone is the teaching material, and there are no sayings of bygone kings. The government officials alone are the teachers."⁵³ This was pushing to the extreme the idea of suppressing all social activities deemed unfavourable to tilling and war. If Shang Yang is to be regarded as the statesman who actually carried out the farming and war policy, Han Fei certainly deserves to be called its political preacher.

Now we shall turn to the slogan "Agriculture is the fundamental, handicrafts and commerce are the peripheral." As we have said, changes in the general attitude of thinkers for more than two thousand years towards the relationship between agriculture and handicrafts and commerce reveal the process of economic development of the old Chinese society.

Han Fei's idea in this respect originated from that of his teacher, Xun Kuang, of "stressing farming and restricting handicrafts and commerce." But Han Fei for the first time used a pair of antonyms, *ben* and *mo*, "the fundamental" and "the peripheral," in connection with these three social occupations, taking agriculture as the fundamental and handicrafts and commerce as the peripheral. In his work *Han Fei Zi* whenever he dealt with this problem, he consistently used the word "fundamental" to indicate agriculture and

⁵² Ibid., "Wu Du."

⁵³ Ibid.

"peripheral" to indicate handicrafts and commerce.⁵⁴ Although these two Chinese characters have many literal meanings, none bears any connection to these occupations. However, from Han Fei onward, whenever the problem of these occupations was discussed, "the fundamental" always referred to agriculture and "the peripheral" to either one or both of handicrafts and commerce. Most often it referred to commerce alone. Such a slogan, including its terminologies and subject matter, was taken up, loudly preached, and stubbornly upheld by the majority of Confucians from the second century B.C. on. Since it was an important issue in the history of China until the beginning of the present century, we shall touch on it now and again in later chapters. Here readers are simply advised that, henceforth in this work, this pair of antonyms will be employed whenever this problem is touched upon.

The decisive progress made by the landlord economy at the end of the Warring States Period altered the relative strength of social classes. The demand to stress the importance of farming and to restrict handicrafts and commerce was on the political agenda. Shang Yang and Xun Kuang had initiated it earlier; Han Fei followed them and finally pushed the demand to its theoretical height. All of them advocated restriction of handicrafts and commerce, yet they differed in degree. Shang Yang mentioned little about handicrafts but put commerce on a par with agriculture and political officialdom as the three indispensable functional organs of the state. Xun Kuang affirmed that "too great a number of handicraftsmen and traders would make a state poor," yet he had a very correct comprehension of the social function of commerce. Han Fei condemned both handicraftsmen and traders as forming one of the "five kinds of silverfish" of society, all of whom were bad persons, ruining their country and destroying the royal house. It shows to what extent he went in his attack on handicraftsmen and traders. Nevertheless, he was not entirely ignorant of the social function of both of these occupations. A vigorous campaign was just what was

⁵⁴ Ibid., "Gui Shi," "Ba Shuo," etc. The English translation of these Chinese characters may be different with different translators.

needed at a time when the emerging landlord class was on the eve of seizing the political power of the whole empire.

Another point should be mentioned in connection with the economic thought of Han Fei. In the article "Liu Fan" in his work we find a phrase like this: "Equalize the rich and poor on the basis of taxation." Taken literally, the quotation may express two notions: i.e., utilizing taxation as a means for equalizing distribution of wealth and adopting a system of proportional taxation. In either case the idea sounds like a comparatively progressive idea in the financial thought of recent centuries. Han Fei's fundamental economic view on the problem of wealth distribution was to recognize inequality as rational and necessary and to reject relief for the poor. Therefore, we can doubt that a thinker with such a view could at the same time propose redistribution of wealth. There are no similar passages to be found in *Han Fei Zi*, but since the quotation cannot be interpreted otherwise, we can only take it as his idea.

Section IV

SUMMARY

Most of the Legalists of the Warring States Period participated in the political and economic reforms of their time. Their observations and understanding of the economic phenomena should therefore be penetrating and comprehensive, but as a matter of fact, they did not bequeath us much economic thought. Taking the two most outstanding Legalists, Shang Yang and Han Fei, as examples, neither impresses us as having much breadth or depth in their observations on human economic activities. What Shang Yang touched upon were generally the economic activities applicable only to a given district in a specific period, and Han Fei fundamentally inherited the point of view of Shang Yang and exaggerated it considerably. Their shortcoming lies in that they placed too much emphasis on the political power of the feudal state and did not realize sufficiently and, therefore, attach enough importance to the objective effects of the process of economic life. If the ancient jurists in Europe attached labels

supplied by feudal law to purely monetary relations, then Shang Yang and Han Fei certainly attached their own labels of feudal law to all economic phenomena.

But in the transitional period of feudal economy in ancient China, the Legalists, especially Shang Yang and Han Fei, played an unparalleled role. Under historical conditions any economic policy that proves successful must be considered the correct policy for the time, and any economic viewpoint that furthers great epochal changes must also be considered as correct and progressive. This is perhaps the best argument in defence of Legalist economic thought that we must emphatically point out.

Chapter Eight

ECONOMIC THOUGHT OF TAOISTS, AGRICULTURALISTS AND OTHERS IN THE WARRING STATES PERIOD

Section I

ECONOMIC THOUGHT OF THE TAOIST SCHOOL

The Taoist school of thought in the Warring States Period bequeathed to later generations many brilliant philosophical concepts and postulates, but they discussed economic activities little. Although the Taoists made no important contribution to the development of Chinese economic thought, for one reason or another we must mention a few of their economic ideas.

(1) **Yang Zhu on the Doctrine of Esteeming One's Ego**
Yang Zhu (c. 400 — c. 335 B.C.) was an early exponent of Taoism whose teaching was popular at the beginning of the Warring States Period, when it rivaled Confucianism. His doctrine of esteeming one's ego was fiercely attacked by the Confucian Meng Ke, who denounced taking the "self as the motive of all human actions" as absurd.

Yang Zhu's philosophical writings have been lost, so we have to turn to the ancient work *Lie Zi* to learn of his doctrines. There, in relation to the doctrine of esteeming one's ego, we read:

"People of antiquity were unwilling to lose even a single hair for the benefit of the world, and they wouldn't allow their own bodily needs to be served by the world either. When no one loses a single hair and no one tries to be benefited by the service of the world, then the whole world will be set right."¹

¹ Lie Yukou, *Lie Zi*, "Yang Zhu."

Starting from knowledge gained through intuition, Yang Zhu held that the events in one's life and even in the immediate present were beyond man's power to make clear, not to mention historical events long past. As a further step he denied the existence of a spiritual world after death and pointed out that even the famous sage kings and notorious tyrants turned into dry bones after their death."² Furthermore, no man could know what his own fate would be, high or low, honourable or dishonourable, long-lived or short-lived. With this skepticism, he came to the conclusion that the self alone was valuable, so that the wisest course was self-preservation. But this did not mean selfishness, or using the world to benefit oneself. If one neither benefited the world at the expense of oneself nor benefited oneself at the expense of the world, the world would be in perfect order.

As an advocate of this self-centred doctrine, one would expect him to uphold private property rights, yet he resolutely refused to do so. The reason was that Yang Zhu looked on life as something bestowed by nature. Therefore one's physical body and all the things one used were not one's property. Although one needed to preserve one's body and support it by material things, one could only use those things, never own them. The same argument goes for public property.

The repudiation of private property ownership is in itself a progressive thought, but instead of coming to this conclusion through consciousness of the evils of the system, he came to it only because he saw man as helpless, subject to the overwhelming power of nature. So while the conclusion is correct and good, its persuasiveness is much reduced by the tortuous mental process through which it was reached.

His negation of private property ownership also led him to oppose the system of inheritance and to advocate that no fortune be left for one's descendants. More interesting, however, is that even as an egoist he preached mutual pity and mutual help among human beings.

² Ibid.

Regarding human wants, Yang Zhu's point of view was quite different from that of other Taoist thinkers, who generally preached restraint or even suppression of human wants. Unlike them, he advocated indulgence in sensual pleasures and held that the material life of mankind was the basis for the existence of ruling and ruled classes in a society. He said, "If man were able to live without clothing and food, there would be no relation between the ruler and the officials under him to speak of."³ On the whole, his view of socioeconomic activities, like that of all other Taoists, was mainly negative.

(2) **Economic thought in the Taoist canon – *Lao Zi*** *Lao Zi* is the outstanding classic of the Taoist school and a very popular literary work, often cited by intellectuals of later generations, but who the author of this work was and when it was written are problems long unsettled among Chinese scholars. It is now generally believed that the work was not the product of a single writer, but a collection of contributions by a number of persons living from the end of the Spring and Autumn Period to the middle of the Warring States Period. The core ideas of *Lao Zi* and other Taoist works are "quietism and inaction." In a modern sense, the doctrine disapproves of governmental and personal interference in social affairs and stands for letting people and things take their natural course. As for socioeconomic matters, it preaches decrease of human wants to a minimum and their final eradication. Thus, the school is indifferent to, if not disdainful of, human economic activities. Therefore, its economic thought can only be rather scanty, simple and unimportant. Nevertheless, some of its ideas must be explained here.

(A) **Contentment** For the school of *Lao Zi*, contentment was the most important thing in human life or society. Contentment or discontent, it preached, will determine one's honour or dishonour, happiness or misfortune, and even one's very existence. For instance:

"Contentment will save one from insult. Knowing when and where to stop will save one from danger."

"Nothing is more wrong than to have a desire, nothing more woeful

³ Ibid.

than to harbour discontent, and nothing more sinful than to wish for gain. Hence, satisfaction brought about by contentment will always be a source of sufficiency."⁴

Passages like this in *Lao Zi* are too numerous to quote here. What is interesting is that it even made contentment a gauge for determining whether one were rich or poor. The logic went like this: If one is content with what one has, he will consider himself rich, although his possessions may not be very great. Conversely, in a state of discontent, one will consider himself poor, even though he may actually be quite wealthy. Hence, "one who feels contented is rich," and "no riches are greater than contentment."⁵

The emphasis on contentment in *Lao Zi* was a strong protest against the insatiable greed of the ruling noble class, but for the common people, such a point of view boded ill, for it required them to be contented with their poor and humble circumstances without striving for progress.

(B) Discarding prodigality and practising frugality "Reduction of desires" and "cherishing of contentment" would necessarily require man to discard prodigality and practise frugality in his material life. The writers of *Lao Zi* took frugality as one of the three social values (literally, treasures) under heaven, the other two being kindness and the modesty to not place oneself ahead of others. Only through frugality, they maintained, would man be able to broaden the scope of his life; without it, he would be on the road to extinction. So, "the five colours serve only to make one blind; the five notes, to make one deaf; the five flavours, to make one's appetite vicious; riding and hunting, to make one's mind wild; and precious goods, to make one go astray." In short, too much material enjoyment would confuse people. It was better for human life to have only one's "stomach filled" and "bones hardened."

The concept of discarding prodigality and practising frugality in *Lao Zi* was similar to the ideas of other schools of thought during the pre-Qin period, but its theoretical foundation was different.

⁴ Quotations all taken from *Lao Zi*, unless otherwise noted.

⁵ These passages of *Lao Zi* requoted from Ji Kang, *On Hygiene*.

It rested on the premise that man was by nature a pure, simple and unsophisticated being — “uncarved wood.”

(c) *Craftsmanship and skill opposed* The writers of *Lao Zi* firmly rejected craftsmanship and skill, because they both relied on the artificial manipulation of man, not “on the natural state of things, which interdicts human interference.” *Lao Zi* condemned both as the root cause of all social chaos. As stated there, “The better the tools people possess, the more chaotic the state. The more skilful the artisans, the more unusual the things produced.” We are even told that thievery and robbery were also due to the existence of craftsmanship and ingenuity. So the advice was, “Once skill is renounced and good tools laid aside, there will be no thief or robber,” and “When no rare goods are valued, people will not take to theft.”

This objection to artisans’ craftsmanship and skill was characteristic of the economic thought of the Taoist school. It distinguished the school from other schools, especially from the view maintained in one of the Confucian classics, *Doctrine of the Mean*, of the Warring States Period. More than one reason gave rise to such a peculiar view. From the philosophical standpoint, Taoists attached great importance to the pristine nature of all things in the universe and esteemed that as the most valuable thing of all. Therefore uncarved wood was much better than carved and primitive man more honourable than civilized man, because he was closer to the original nature of man. Of course handicrafts changed the shape of natural things for a certain purpose, destroying their original nature. From the socioeconomic point of view, certain social evils seem to have followed rather closely the tremendous development of handicrafts at that time. They showed themselves most strikingly in the manufacture of military weapons, the construction of luxurious buildings and the production of intricately worked objects for the noble class. All these were looked on by the Taoists as the cause of annexing wars and social chaos.

(d) *Property ownership* Disapproval of private property ownership by the writers of *Lao Zi* was also a result of their philosophical standpoint. They held, “Men should grow something, but not claim

ownership over it. They should do some work, but not claim merit for it." In plain economic terms, this means that man should produce, but not own the product of his labour. They added, "Therefore, the sage leaves himself behind others, yet as a result he gets ahead of them. He puts himself outside of his consideration, yet as a result he is well preserved. Is this not because he is selfless?" However, *Lao Zi* didn't absolutely condemn private property. What it attempted to do was to use the principle of "selflessness" as the means to achieve something ultimately beneficial to one's private person. In other words, "Selflessness is just to accomplish one's selfishness." This is a particularly important point in relation to the idea of property rights in *Lao Zi*. Though it did not probe the problem of property ownership directly, so long as it advocated selflessness in dealing with everything, the repudiation of private ownership could of course be taken for granted.

(e) *Equal distribution of wealth* Since private property was repudiated in *Lao Zi*, a follow-up of the equal distribution of wealth was to be expected. One of its philosophical premises was that the "heavenly way [or, in Western terms, God's way or *jus naturale*] objects to the unending preservation of fullness." According to the reasoning in *Lao Zi*, the state of being rich and honoured could never be maintained for long. "Gold and jade may fill one's hall, but they can't be kept there for long. One who is conceited when rich and honourable is sure to court disaster." Since wealth or unending seeking after wealth is a cause of trouble, the best way is to equalize the distribution of it. Here we find reasoning similar to that mentioned previously in such sayings as "The sage does not accumulate wealth. The more he does for others, the more he will possess for himself; the more he gives to others, the wealthier he will be." And again, "The sage does not demand the payment of debt, even though he may hold the loan certificate in his hand." The writers of *Lao Zi* were convinced that the supposed heavenly way was "to take from those who have more than enough so as to give to those who are in want." Therefore, even distribution of wealth was in conformity with the heavenly way and would benefit all. Moreover, doing so might result in increasing the possessions of those

from whom things have been taken away, for "things might increase in spite of their being taken away." The explanation for this exhortation lies in the fact that the writers of *Lao Zi* discovered that in their day society was taking away from those in want and giving to those who were enjoying abundance. Hence, they preached their doctrine in the hope that the noble and well-to-do classes might be persuaded to give up their riches in favour of a more even distribution of wealth. However, this was like "asking a tiger for its hide."

(f) *Ideal state* — "*a small state with few people*" The ceaseless wars between ducal states, people's suffering from hunger and cold and the increasingly acute struggles between classes during the Spring and Autumn Period and the Warring States Period were witnessed by the writers of *Lao Zi*. Against this background, it is easy to understand some of the complaints they made and the panaceas they offered. For instance, they complained that the reason people suffered from cold and starvation was because "they were burdened with too many taxes for the support of their rulers." This was plausible enough, but at the same time they claimed that the causes of the social chaos of their day were the wars of annexation, the expansionism of the big ducal states, the development of "exquisite workmanship and cunning works of art," and finally the difficulty in ruling a people with varying wits. All these disappointed the writers, so that they dreamed of "a small state with few people." We read:

"When a state is small with only a few people, they will leave tens and hundreds of their implements unused and think seriously of their death, thereby becoming reluctant to move far away from their native place. Even though there are boats and carts, people will not make use of them, and even though there are armour and weapons, people will not fight. People will be led to restore the old custom of tying knots on cords as a means of record keeping instead of writing. All people will eat with relish, be handsomely dressed, enjoy their home life and be contented with their local customs. Neighbouring states will be within sight of each other, and the crowing of cocks and barking of dogs will be heard mutually, yet the peoples of the different states will not have intercourse with one another all their lives."

How could such a small state, cut off from the outside world, exist indefinitely? Moreover, how could these few inhabitants produce for

themselves everything they needed for subsistence, not to mention the weapons, carts and what not? It was a confused ideal without much significance, entirely divorced from the realm of possibility. But between the lines one can discern the writers' hidden feelings against the wars of annexation, against the policy of "broader territory and more people," and against economic and cultural development. Therefore as a protest against the social evils of that day, the idea still deserves our attention and study.

In comparison with the idea of Great Harmony of the Confucian school, which sounds like the idea of a man seeking a future for humanity from a fantastic and distorted model of the past, the ideal of a "small state with few people" rather resembles the imagination of a man trying to take refuge in a non-existent primitive paradise. The one looks forward while the other looks back, but the ideas of both are castles in the air.

(3) Effects of the economic thought of the Taoists The Taoists, basing their beliefs on fundamental philosophical postulates, generally opposed private property but proposed an even distribution of wealth. This was a feature common to all branches of this school, although they did not find out the real root of differences between rich and poor. Another common feature of the school was their indifferent or even disapproving attitude towards productive activities in general, with the possible exception of agriculture, which, though not objected to by them, was not given active encouragement either. Such a negative attitude towards socioeconomic activities is rare among the schools of thought of the pre-Qin period, not to mention the schools of later generations.

The economic thought of the Taoist school, however, particularly the ideas embodied in *Lao Zi*, no matter how meagre and passive they were, exercised considerable influence on later ages. From the latter part of the second century B.C. onward, Confucian doctrines occupied the dominant position in China, but the doctrines of the Taoists also wielded considerable influence, if intermittently, on the whole society.

The Taoist idea of even distribution of wealth was often employed by later progressive thinkers of the landlord class as a

theoretical weapon in their attack on the ruthless exploitation of the feudal ruling group. Taoism was a religion in China. Hundreds of peasant insurrections broke out under the cloak of Taoism up to the beginning of the present century, generally using Taoist economic ideas as their banner, attacking the feudal government but not aiming at any religious reform. No doubt some credit is due to the Taoist doctrine of even distribution of wealth. The idea of "inaction" was also often employed by thinkers as the theoretical foundation for their objection to economic interventionism from time to time. These are positive effects of Taoist economic thought.

From the second century B.C. to the fifth century A.D. the Confucian and Taoist schools more or less shared ideological leadership of China. The only difference in their respective positions was that the former exerted its influence officially and the latter unofficially. The Confucian dogma of not speaking of material benefits and always subordinating economic activities to morality, reinforced by the Taoist opposition to productive activities, slowed the development of China's social economy. Later, after the rise of the Tang Dynasty (A.D. 618-906), the Buddhist school of philosophy, equally notorious, if not more so, for its passive attitude towards human economic life, gained ascendancy in China. The combination of these ideological influences upon the social economy caused the tardy development of the feudal economy in China.

The Taoist school had a conspicuously reactionary effect on Chinese economic thought. As we have seen, Chinese economic thought had made considerable advance in the pre-Qin period, but because of the prevalence of both Confucian and Taoist economic ideas, the momentum of this development was greatly slowed if not entirely arrested. The valuable contributions of Fan Li, Mo Di, the writer of *Guan Zi* and others, instead of being allowed to develop further, were forgotten, abandoned, or even abolished. Of course, some valuable economic concepts appeared, but they were derived from new economic conditions, not continuations of the previous development.

A brief examination of the important economic reforms in Chinese history will throw some light on this point. Here we shall men-

tion one example only, which may serve for the rest. The weapon used by the opponents of Sang Hongyang's famous economic reform in 81 B.C. (to which we shall come in due time) was none other than the abovementioned Taoist doctrine, along with the relevant Confucian doctrine.

Section II

ECONOMIC IDEAS OF THE AGRICULTURALIST SCHOOL

The Agriculturalist school of the Warring States Period, somehow resembling the writers on agriculture in ancient Rome, was mainly concerned with state policy on agricultural administration. Both taught the feudal landlord class the arts of farm management, including ways and means to solve technical problems. The only difference between the two is that the Roman writers' object of study was the huge estates under the slavery system while that of the Chinese Agriculturalists was the scattered farm economy under feudalism.

Few indeed were the thinkers of various schools of thought in the pre-Qin period who did not make some mention of the productive experiences of agriculture. This shows that the accumulation of agricultural experiences and improvement of agriculture were problems in the minds of almost all the ancient thinkers. But the agriculturalist school alone has a claim to be considered as specializing in these subjects.

(1) Xu Xing's ideal of "ruler and peasants tilling together"

Xu Xing, a contemporary of the famous Confucianist Meng Ke, did not leave posterity any work. His words and deeds can be found only in relevant passages in *Mencius*. Xu Xing and his tens of pupils "all wore coarse clothes and earned their living by making hemp sandals and weaving straw mats."⁶ He was the founder of a radical school of thought in the Warring States Period and represented the viewpoint of the vast masses of small independent peasantry at that time.

⁶ *Mencius*, "Teng Wen Gong," pt. I.

Xu Xing firmly believed that a ruler, while handling state affairs, should participate in farmwork with his peasant subjects. He said:

"A good and wise ruler should keep company with his people in tilling the soil and producing food, and he should cook his meals in their presence while handling public affairs. Now, the state of Teng has her granaries and treasury, which are the means to oppress the people for the ruler's own keep. How could the ruler be called good and wise?"⁷

For the ruler and peasants to till together, everybody would have to participate in productive labour and earn a living by his own efforts, the ruler of a state not excepted. This implies a negative attitude towards class exploitation. The phrase "to oppress the people for the ruler's own keep" clearly suggests resistance to exploitation by the ruling class. Moreover, the idea of the ruler tilling with the peasants also runs counter to the dignity of the upper classes and differentiation between mental and manual labour. A school of thought with such an ideal certainly has a claim to be called radical, even though the founder himself might not be conscious of the implications of his doctrine.

Owing to the economic conditions of the peasants in those days, members of this class were generally independent and separate. Therefore they could not form any kind of political organization on a national scale and build up a political power of their own. Any proposal from them could be carried out only by a ruler high above them. As a representative of the peasantry, Xu Xing, though unconsciously opposed to exploitation, class oppression and the class system, could but place hope in the ruling class above him to realize his ideal. What a tragedy and contradiction!

To imagine a wise ruler who would condescend to till land with his people was the way out of this contradiction. Xu Xing was not alone in this fantasy. In his day there were numerous ancient legends and folktales about such "good and wise" rulers. To mention a few instances, one of the ancient sage emperors, Emperor Shun (c. 2255 B.C.), was generally credited with having tilled the land personally,⁸ and the founder of the Zhou Dynasty, King Wen (c. 1130

⁷ Ibid.

⁸ Liu Xie, *Wen Xin Diao Long*.

B.C.), and the prince of the state of Yue, Gou Jian (reigned 496-473 B.C.), as we have already mentioned, are also believed to have tilled the land personally.⁹ Whether or not these legends are true, and regardless of the motives for their concoction, we can be sure that they built up in people's minds an image of the "good and wise king" and also some standard according to which one could tell a good ruler from a bad one. Some rulers were even influenced by the tales, like Prince Zi Kuai of the state of Yan, who undertook to perform some farmwork personally.¹⁰

The ideal of ruler and peasants tilling together necessarily meant the elimination of class oppression, the abolition of class exploitation, refutation of the dignity of the ruling group, and eradication of any differentiation between mental and manual labour, though Xu Xing did not point these out explicitly. Certainly his idea was more farsighted than the utopian ideas of *Mencius*, but none of the above-mentioned tasks could be achieved by the peasantry alone and realized in his time.

The idea of Xu Xing did not gain much ground, because such absolute egalitarianism was against the ever-growing feudal landlord economy with its class distinctions. The school itself, after a brief appearance, sank out of sight.

Another point of Xu Xing's deserving our attention was his rather simple idea about market prices. He said:

"If every type of goods had a uniform price, there would be no cheating in the city market. Even if a small boy should be sent to the market, he would not be deceived. For cotton and silk textiles of the same length, there should be a uniform price. For ramie fibre or silk wadding of the same weight, the price should also be uniform. For the same quantity of the five kinds of grain the price should be uniform, and for shoes of the same size, the price should also be uniform."¹¹

It is clear from the above passage that Xu Xing omitted a very important factor for the determination of the commodity price, i.e.,

⁹ *Book of Documents*, "Document of Zhou," "On Abstinence from Comfort," and *Discourses of the States*, "Discourse of the State of Yue."

¹⁰ *Han Fei Zi*, "Shou Yi."

¹¹ *Mencius*, "Teng Wen Gong," pt. I.

its quality. For this reason, his contemporary, the Confucian Meng Ke, fiercely attacked him. As a leader of a school preaching the doctrine of the ruler taking part personally in manual labour with the people it is hard to understand how Xu Xing would be so ignorant and naive about the importance of the quality of commodities produced. Perhaps he took the problem of quality for granted. In those days most handmade products reached nearly the same technical level. Because of similarity in natural conditions, the agricultural products within not too big a district wouldn't differ widely in quality either. Therefore, to demand a uniform price for a certain commodity should not be regarded as entirely unreasonable.

What then was the problem Xu Xing attempted to solve here? It was the problem of mercantile fraud in precapitalistic society. In this society, to buy cheap and sell dear was the rule of trade, so cheating and fraud were common practices of the market. But who were the chief victims of this form of exploitation? Undoubtedly the small producers, especially small peasants, were the chief victims. Wherever this practice of mercantile fraud prevailed, the price of similar commodities might differ greatly with different buyers and sellers. From the standpoint of the small peasantry, Xu Xing therefore decided to oppose the fraudulent practices and plunder of commercial capital by teaching or even insisting on the uniformity of price for the same kind of commodity. His action is quite comprehensible and reasonable, but the question is how his proposal was to be carried out. He left the question unanswered. As we can see now, uniformity of price is possible only under a highly developed and integrated monopolistic economy, which by nature is unfavourable and even harmful to independent petty producers. Consequently, the proposal of uniform market prices is no less a fantasy of the small peasantry than his ideal of ruler and peasants tilling together.

(2) Ideas of other writers on agriculture The economic ideas of these writers are embodied in four articles of *Lü's Historical Records*,¹² a collective work by many anonymous writers of different

¹² The titles of the four articles are "Shang Nong," "Ren Di," "Bian Tu" and "Shen Shi."

schools of thought on miscellaneous subjects written around 240 B.C. Its main points were as follows:

(A) They thought there were advantages to a state if its people took to agriculture. In the first place, because agricultural people were more honest, simple and unaffected, they were more amenable to being used to pacify the border areas and dignify the crown. In the second place, agricultural people would have fewer private misgivings, so the laws and orders could more easily be put into force and national strength more easily be concentrated. In the third place, farming would localize the property of the peasants and make them reluctant to migrate from their native land, which they would defend with all their might in case of emergency. In contrast, if people gave up farmwork and changed to other occupations, there would be three disadvantages: First, they would be unwilling to obey the orders of the ruler and this would be detrimental to the state's offence and defence; second, their riches being movable and convenient for migration, they would not remain in their native land but would run away when the state was in danger; third, they would be much too clever and tricky, skilful in evading laws and orders.

(B) They registered their opposition to marriage of farmers and their children with people of outer districts, so as to avoid depletion of agricultural labour power in a locality.

(C) They were committed to putting into effect the following five prohibitions in the countryside: "No hemp is to be planted and no manure to be put on the soil if the land has not been well cultivated; persons not of advanced age are not allowed to go into gardening; watery land is not to be cultivated if one does not command sufficient manpower; farmers are not allowed to migrate to other places and traders are not allowed to do things other than their own occupations."¹³ In addition, certain activities such as wood-cutting, waste clearing, hunting, and fishing could be done only at the proper season. Otherwise they were prohibited.

(D) The required minimum yield of different grades of land

¹³ *Lü's Historical Records*, "Shang Nong."

should be stipulated. "One man's produce on upper-grade land should be enough to feed nine persons and that on lower-grade land enough to feed five persons."¹⁴ One could increase but not decrease the stipulated figure. The productivity of land would be reckoned as being fully met only if a man succeeded in producing enough food for ten persons and fodder for domestic animals besides. During the peak season of farming, no construction work was to be permitted and no military activities undertaken. People were prohibited from wearing deerskin hats so as to avoid time being wasted in deer hunting. Extravagance and wastefulness in wedding ceremonies and sacrifices were forbidden. Individuals were not allowed to employ farmers to do other lines of work.

(E) On agricultural techniques the Agriculturalists summed up much valuable experience, and this was really their most outstanding contribution. They paid attention, in the first place, to the combination of favourable climatic conditions and advantageous geographical situation. For instance, they said, "Fifty-seven days after the winter solstice, the sweet flag will grow. It is the first to grow among all kinds of grass, so then is the time to begin ploughing."¹⁵ This is one example of taking climate and the botanical nature of wild plants as a sign in directing productive activities in the field of agriculture, and it agrees with our scientific knowledge of agricultural production.

Next, in regard to some technical problems of farming such as the relationship between tilling and the soil, the size of the fields and ditches, the column formations of sowing, and the skill of weeding, the Agriculturalists also had much to offer. Their advice on sowing has been considered exceptionally mature and excellent. They pointed out that the rows of seedlings must be "horizontally parallel and vertically straight. The rows must be so arranged as to let the air get through.... The seedlings tend to be isolated when they are thriving and then will tend to support one another when they are maturing. Hence, three stems of seedlings in

¹⁴ Ibid.

¹⁵ Lü's *Historical Records*, "Ren Di."

a bundle will grow more grain.”¹⁶ The aforementioned principles have been accepted by recent agriculturalists as conformable with modern theories on the system of bundle sowing in agriculture.

Finally, they mentioned the relationship between climatic conditions and harvest. They said, “Now as regards crops, it is man who acts, the earth that grows and the climate that nourishes.”¹⁷ So, whether a harvest will be good or bad will be decided by whether the farmwork is carried out at the proper time. Regarding the conditions for growth of various kinds of crops, such as rice, wheat, millet, beans, and hemp, they kept exceedingly detailed records for each. But those do not concern us here.

Section III

THE COMMERCIAL THOUGHT OF BAI GUI

Before we conclude our study of economic thought in the pre-Qin period, we have to deal with another thinker, Bai Gui.

Bai Gui, contemporaneous with the Confucian Meng Ke and the Agriculturalist Xu Xing, was a preacher of the art of money-making through commerce. He was adored by traders in the past as the legendary founder of commerce. As a famous ancient historian stated, “Under heaven those who speak of making a livelihood follow Bai Gui.”¹⁸

Like Fan Li, he was a thinker of the newly rising merchant class, but while the former stressed the importance of the operation of a state’s commercial policy, the latter merely specialized in the art of moneymaking with commercial capital. He was thus a more open advocate of the ideology of this class.

He was the only thinker besides Fan Li in the pre-Qin period who touched upon the theory of trade cycles, which was the core of all his economic ideas. The essential elements of his trade-cycle theory were not much different from those Fan Li had expounded before him; only the literal expressions in which the ideas were

¹⁶ Ibid., “Shen Shi.”

¹⁷ Ibid.

¹⁸ Sima Qian, *Records of the Historian*, “Biographies of Men of Enterprise.”

couched were rather different.¹⁹ Bai Gui did not say whether his theory was founded entirely by himself or inherited from others. Of course, it might be just coincidence that each of them, working independently, developed the same theory, but in view of the close similarity of the two, it is certainly hard to believe. Therefore, a more reasonable inference may be that Bai Gui took the theory of trade cycles from Fan Li. There is some evidence to support this view. First, Fan Li lived decades earlier than Bai Gui. In his old age he migrated to and finally settled down in the city of Tao, which was popularly recognized as "the centre of the world" by people of the time. It was very near the capital of the state of Wei, the native land of Bai Gui. Moreover, Fan Li was a man distinguished for his political and commercial successes. His experience in amassing fortunes became legendary in his own time. So it seems reasonable to infer that Bai Gui, as a statesman as well as a representative of the merchant class, was much inspired by the economic thought of Fan Li, especially the latter's theory of trade cycles, which he accepted and propagated himself.

(1) **Commerce** Bai Gui's fundamental view of commerce was also somewhat similar to that of Fan Li, but expressed in a different way. For instance, his principle on business dealing was "to observe the climatic changes with optimism, and on the basis of the prediction of the yearly harvest to exercise the policy of "take what others wish to give away and part with what others wish to take."²⁰ The concrete way of doing this was as follows: In a good-harvest year one should buy grain and sell silk and lacquerware. When the yield of the silkworm cocoon fails, one should buy silk wadding and sell grain. It can be seen from the above that this principle agrees with Fan Li's principle of "biding for shortage."²¹ If there is any difference between them, it is that Fan Li advised the adoption of

¹⁹ Ibid.

²⁰ The following quotations in this section are all taken from "Record of Trade and Commerce" in *Records of the Historian* unless otherwise indicated.

²¹ See Chapter Two, Section III (3) of the present work.

this commercial policy more as a means to replenish the feudal state finance, whereas Bai Gui was interested in the art of commercial management as a means for individual advancement and was even more unscrupulous in wicked trickery. In the middle of the Warring States Period the production and circulation of commodities had advanced considerably beyond the level achieved at the end of the Spring and Autumn Period. As an undesirable concomitant effect, the deceitful skill of commercial capital also advanced.

On mastering the opportune moment and manipulating clever strategies in commercial affairs, his elaboration was indeed thrilling and exhaustive. He said, "To seize the opportune moment in business, one has to act like a beast or bird of prey on the alert to attack." He added, "In business management I behave just like Yi Yin and Lü Shang in their use of strategems, Sun Wu and Wu Qi in their military manoeuvres, and Shang Yang in his enforcement of the law. So if there is anyone here who is without wisdom to meet changing situations, without mettle to make a firm decision, without charity to practise give and take, and without stubbornness to hold fast, I shall indeed refuse to teach him anything, even though he is in earnest to learn my art."²² Here the true colours of ancient commercial capital are revealed.

However, there are some economic problems that Bai Gui approached but Fan Li did not. For instance, he taught, "One should deal with grain of lower grade if one wants to gain more money." Grain of lower grade was a necessity for the vast masses. Demand for it was very great and its turnover was considerable. It was plain that dealing in such a commodity would bring great profit to the dealer even at a normal price, but he went a step further. In order to obtain huge commercial profit, it was not enough to rely solely on purely commercial activities, but also necessary to improve production. As he said, "One should use the best seeds if he wants to increase the quantity of produce." Nowadays one method to in-

²² Shang Yang was dealt with in the second section of the previous chapter; Yi Yin and Lü Shang were two popularly known statesmen before the twelfth century B.C.; Sun Wu and Wu Qi were two famous military theorists in the Spring and Autumn Period.

crease the output of agricultural produce is to select good strains. Bai Gui pointed it out long ago. Certainly some credit is due him on this point.

(2) **Light taxation** The one-tenth rate of taxation was accepted by most thinkers in the pre-Qin period. Bai Gui was the first to propose openly a tax rate of one twentieth.²³ His suggestion was cursed by the Confucian Meng Ke as a barbaric method of taxation. During the Warring States Period several big ducal states had already achieved centralization of authority one way or the other, but powerful government and heavy taxation were often interchangeable concepts. The tax burden of the people at that time was already heavy enough, even if we leave incessant interstate wars out of our consideration. So Bai Gui's idea of light taxation neatly reflected the objection of the rising merchant class to the heavy taxes imposed by feudal governments.

With the sole exception of Shang Yang, thinkers in the pre-Qin period all agreed that "the levy on the people should be lightened." Yet they always made taxation the main source of government revenue. Only a few thinkers, such as the writer of *Guan Zi*, took the economic revenue of a state as a more important source of government finance than the tax revenue. Although Bai Gui did not tell us which of the two methods he preferred in the matter of public revenue, it is certain that his motive for advocating light taxation was unlike the Confucianists', who proposed the measure in the name of so-called benevolent rule. This being so, there were two possible choices left for him. Either he reduced the tax rate to stimulate production and then collect more revenue at a decreased tax rate as a result of the increase of products, or he increased the economic revenue instead of tax revenue, as the writer of *Guan Zi* had advocated. In either case the idea is equally progressive and brilliant in the history of financial thought, for not until quite recent centuries did the Western world begin to develop such financial theories.

²³ *Mencius*, "Gao Zi," pt. II.