

China's Free Market Past; A Blueprint For Its Future

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Abstract

It was during the free market Sung dynasty 960-1279 that China experienced the greatest period of invention, economic growth and prosperity that it has not had before or since in its history. A relatively non-statist free market society, characterized by private real and personal property, rule of law, representative government, and encouragement of commerce, resulted in the most prosperous period in China's long history. Numerous inventions were made and/or exploited. All other periods tended to be marked by government intervention, high taxation, central planning, and economic stagnation during which creativity was stifled. Present-day China does not have to adopt the "Western" way of doing things, but need only to look to the Sung dynasty period in its own history for a blueprint of its future development.

Introduction

China's history, with the notable exception of the Sung dynasty, is characterized by a series of statist authoritarian dictatorships that rose and fell, bringing about their own demise through oppressive governmental and economic policies. China presents the paradox of a major culture in the world that contributed so many significant innovations in numerous fields, but also failed to capitalize on them. The result has been a history of poverty and substantial periods of decline.

This paper will briefly survey the history of Chinese innovation beginning with an overview of the dynasties, a chronology of innovations, and an analysis of how the Sung Dynasty differed from the rest of China's history and offers a free market model for the direction of China's future development.

Chinese Dynasties Chronologically

What follows is a breakdown of the various dynasties in order to orient the reader to the historical sequence of events in China (See Needham 1981). By scanning the various periods it is apparent that China has experienced alternative periods of unification and partition. Periods of unification are typically characterized by political harmony and prosperity while partition results in disunity and political disintegration.

First Unification (Empire is formed)

221-207 B.C. Chin Dynasty

202-220 A.D. Han Dynasty

First Partition (disunity)

221-265 A.D. San Kuo (Three Kingdoms period)

Second Unification

265-420 Chin Dynasty

420-479 Liu Sung Dynasty

Second Partition (disunity)

479-581 Northern and Southern Dynasties (Nan Pei chao)

Third Unification

581-618 Sui Dynasty

618-906 Tang Dynasty

Third Partition (disunity)

907-960 Wu Tai (Five Dynasties period: Wu Tai becomes successively Liang, Tang, Chin, Han and Chou)

Fourth Unification

960-1126 Northern Sung Dynasty
1127-1279 Southern Sung Dynasty
1260-1368 Yuan (Mongol) Dynasty
1368-1644 Ming Dynasty
1644-1911 Ching (Manchu) Dynasty
1912- Republic

Chinese Inventions Chronologically

The history of Chinese innovation is impressive primarily during the Sung Dynasty, after which innovation drops off dramatically.

- *6th century B.C. iron plow
- *250 B.C. Horse collar (1000 later in Europe), (Needham 1965, pp. 311-12)
- *200 B.C. Cast iron, draw looms
- *100 B.C. invention of paper
- *232 A.D. Wheelbarrow

Tang Dynasty 618-906

- *Tang 618-906 porcelain appeared
- 7th Century, printing
- *8th-9th century iron plow used in wet-field rice cultivation
- *9th century gunpowder

Sung Dynasty 960-1279

- *960-1126 Seed drills, weeding rakes, deep-tooth harrow introduced.
- *960 invention of the Compass
- *9th Century Gunpowder appeared and from 1000 on there was vigorous development of explosive weapons (three centuries before the West) (Needham 1981, p 12).
- *10th & 15th A.D. water control projects increased 7 times while population only doubled
- *10th & 11th A.D. highly accurate mechanical water clock
- *10th century A.D. Chinese used gunpowder in rockets and bombs. 14th century had to learn to make cannon from Europeans, but stayed continually behind Europeans.
- *1045 A.D. moveable type made of porcelain, but fails to catch on as wooden block printing continues to dominate.
- *1200 Ocean-going junks much larger and more seaworthy than the best European ships
- *1240 A.D. metal moveable type in Korea but not used in China.
- *1300 A.D. "the invention rate in [Chinese agriculture] declined sharply after 1300 and finally came to a complete halt after 1700." (Chao 1986, p. 195)
- *1300 A.D. "China came within a hair's breath of industrializing in the fourteenth century," Jones (1981, p. 160). By 1600 China was technologically backward, which continues to today.

Yuan (Mongol) dynasty 1260-1368

Ming dynasty 1368-1644

- *1405 First of large fleets of ocean-going junks (some 400 feet long as compared to Columbus' 85 foot Santa Maria) in massive amount of shipbuilding.
- *In 1430 the anti-naval clique at the Imperial Court brought about the decline of ocean shipping. (Mokyr, p. 224) By 1500 "Chinese shipyards were closed and seagoing junks with more than two masts were forbidden. The technology of building large, seaworthy junks capable of long-distance journeys disappeared from china." (Mokyr, p. 220).
- *"From the rise of the Ming dynasty in 1368 until the end of the nineteenth century, the Chinese economy expanded primarily through population growth, deforestation, commercial expansion, and ever growing intensification of agriculture, in an environment of increasingly stagnant technology." (Mokyr, p. 219)

Causes of China's failure to capitalize on technological creativity

China fell behind Europe, but also behind its own development as it failed to exploit its innovations after 1400. The causes of this are somewhat complex and subject to debate, but a look at some perspectives reveals a pattern. The following is a breakdown of various perspectives.

1. "The content of [Chinese] wisdom was not intellectual knowledge, and its function was not to increase external goods," wrote Feng Yu Lan (Needham, 1969, p. 115). However, before 1400 China had science that was sophisticated and superior to that of Europe, and it was put to use in such projects as irrigation, shipbuilding, armament manufacture, etc.
2. Another possible cause is the rise of a "sterile conventionalized version of neo-Confucianism" that brought about an introspective culture that did not promote science and technology (Ronan and Needham, 1986 p. 147, in Mokyr). However, it is questionable that metaphysics dominated all segments of Chinese culture.
3. Needham, Jones and others (Needham 1969, pp.120-22, in Mokyr) conclude that the absence of political competition did not mean technological innovation could not occur, but that in a monopolistic centrally controlled government, the leadership could completely stifle it. From 1400 on, Chinese leadership has consistently preferred a consistent and controllable bureaucratic environment to one of innovation. New or foreign ideas were viewed as a threat to the stability of government. Even the Confucian meritocracy principle embodied in advancement in the massive "Mandarin" bureaucracy resulted in drawing the best and brightest away from innovative free market activities and into the huge government civil service bureaucracy. Moreover, the examination system was based entirely on mastery of a few neo-Confucian classics, which did not encourage intellectual curiosity or new ideas.(Wen-yuan Qian, p.30).
4. Historian David Landes offers the following reason: "The absence of a free market and institutionalized property rights. The Chinese state was always interfering with private enterprise—taking over lucrative activities, prohibiting others, manipulating prices, exacting bribes curtailing private enrichment" (Landes, p. 56) He goes on to cite the sinologist, Etienne Balazs, "The ingenuity and inventiveness of the Chinese, which have given so much to mankind—silk, tea, porcelain, paper, printing, and more—would no doubt have enriched China further and probably brought it to the threshold of modern industry, had it not been for this stifling state control.... It is a regime of paper work and harassment." (Landes, p. 57)
5. Robert Elegant, who spent his life as a correspondent and analyst in Asia, concludes that the prime motivator of Chinese in general and Chinese governments in particular is the avoidance of "Luan" or chaos. "Civil violence has been endemic in China for millennia, largely because the Confucian system did not provide effectively for the orderly transfer of power.... Luan recalls the primeval chaos that existed before humanity organized to restrain its destructive passions. Luan also recalls the hundreds of millions of Chinese who have died during recurrent periods of near anarchy over some four millennia" (Elegant, p. 289-90).

Because of this overriding preference for stability, China has always been a one party state. The reason China's innovative development was stultified and Europe's was not is that China has been dominated by stability seeking monopoly power governments, while in Europe no single political entity or social group ever had control. While China was monopolistically controlled, Europe had competing countries, religious authorities, and social classes. While the Emperor could and did cease all large Chinese shipbuilding in the 15th century, if any European ruler did so, other European competitors would be happy to take over, as Spain did from Portugal during the same period.

In conclusion, it was the absolutist leadership of China that chose to limit innovation, in order to promote political and social stability, which discouraged innovation. In Europe, technological change took place because it was driven by private interests in a decentralized, and politically competitive environment. By opting for stability over the chaos of a free market, China condemned itself to centuries of minimization of its abilities.

The Sung Dynasty; a dynamic era of freedom that was a break in China's history of bureaucratic absolutism

Nature of Sung Leadership

The following incident characterizes the wisdom and policies of an enlightened emperor that characterized the Sung Dynasty. When the Sung empire was first established in 960 the new emperor, Sung Thai Tsu, called together his army commanders and invited them to a banquet. When the festivities were in full swing he announced "Which of you does not covet my throne?" The generals protested that they did not but Sung proceeded. "I do not doubt your loyalty, but if one day one of you is roused at dawn and forced to don a yellow robe, even if unwilling, how should he avoid being obliged to overthrow the Sung (just as I against my will was forced to overthrow the Chou?" "If you, my officers will renounce your military authority, retire to the provinces, and choose there the best lands and most delightful dwelling-places, there to pass the rest of your lives in pleasure and peace until you die of old age, would this not be better than to live a life of peril and uncertainty: So that no shadow of suspicion shall remain between prince and ministers, we will ally our families with marriages, and thus, ruler and subject linked in friendship and amity, we will enjoy tranquillity." The following day, the army commanders all offered their resignations reporting (imaginary) maladies, and withdrew to the country districts, where the emperor, giving them splendid gifts, appointed them to high official positions (Hsu Thyung Chien Kang Mu, Ch. I, p. 24b in Needham, 1954, p. 132).

Sung Thai Tsu, who took the reins of power with some reluctance, was not a typical dynastic founder. With buying off his generals and warlords through diplomacy, he avoided the mass slaughter of the kind that typically came with a new dynastic takeover. He mitigated the possibility of coups that are part of the Confucian system which fails to provide for orderly governmental succession. For example, in 976 Thai Tsu was succeeded without incident by his equally capable brother Sung Thai Zong.

The Sung enlightened and reduced centrally-controlled governmental approach translated to a number of policies that fostered the most successful period in Chinese history in terms of innovation, wealth creation, science, philosophy and art. The Sung period also put into practical use what had been conceived during the Tang Dynasty.

Characteristics of the Sung

Key characteristics of the Sung Dynasty were reduced absolutism of political power, rule of law, freedom of speech, property rights in which peasants could own land, encouragement of trade and free markets, avoiding excessive taxation, and creation of a monetary system replacing barter.

The government included a council of ministers headed by a Prime Minister that was both deliberative and executive. The Emperor could cast a vote but took a back seat (Davies). The rule of law was enforced without arbitrary decisions that characterized other regimes and minimal corruption existed. There were no secret police. Even freedom of speech and the press was encouraged.

Private property was encouraged and this was especially important in agriculture where peasants came to own their own farms. The ability to transfer ownership allowed small farmers to sell to larger more efficient operations, thereby improving the efficiency of the entire economy. Free market commerce was enhanced by the free movement of goods and labor throughout China and abroad through the development of ocean-going ships. The result was tremendous economic growth in manufacturing and trade that resulted in the most prosperous period in China's history.

This prosperity was enhanced by avoidance of excessive taxation and the monetization of taxation and the general economy. "In 1073 4% of all taxes were paid in money. By 1065 50% of taxes were paid in cash. By the end of the Sung period, almost all tax is paid in cash. In the reign of Sung Renzong, in 1024, there is the start of the widespread use of paper money"(Davies). After 1069 the ancient system of transporting tax grain to the capital was abolished and government warehouses were set up in all large cities. From there the produce could be sold on the spot and the taxes remitted to the central government in money (Needham 1954, p138). Monetization of an economy overcomes the inefficiencies of barter and promotes the flow of commerce.

The Sung period saw the greatest number of technological innovations of any period in all of China's history. Some examples include: moveable type printing, accurate water clocks, the magnetic compass, large ocean-going ships, and discoveries in biology, chemistry, and medicine.

The Sung era came to a close because the state did not develop an effective military system and was ultimately conquered by the Mongols, who systematically depopulated the Northern Empire and turned the land into pasture. The result was that the economy of most of China collapsed.

After the Sung

After the Sung era, China was rebuilt along absolutist bureaucratic lines. In order to assure stability, the Ming Emperors intentionally prohibited the dynamic and innovative reforms of the Sung. Power was again centralized in an arbitrary Emperor and the office of Prime Minister and Council of Ministers were abolished. Buying and selling land was prohibited to promote a large class of peasant small agrarian landowners who would be less efficient but controllable. All foreign trade and all trade by sea was banned. Numerous technologies developed during the Sung were abandoned or banned. In 1477 all records of ocean expeditions were destroyed and everyone who had knowledge of shipbuilding were either killed or had their tongues cut out. Circulating money was banned requiring a return to inefficient barter. The formation of large mercantile cartels loyal to the state was encouraged through tax incentives and monopoly power, undermining the more innovative smaller merchant class. In sum, the innovations of the Sung were destroyed in order to achieve social stability of a powerful state that could resist external threats.

Conclusion

Present-day China, which prides itself in historically being the cultural center of Asia, need not feel it is forsaking Asian values for Western ones, in moving toward free-market reforms. If it were to adapt the social, political and economic policies of the Sung Dynasty from its own past whole-heartedly it could enhance its role in the world dramatically. The result could be that China becomes a true cultural world leader optimizing its potential in a way that adds to the stability, wealth and well-being of the entire world. If it falls back on its statist authoritarian ways it can only add to the instability of a world of conflicting global powers in a zero sum game.

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