

14. GOVERNMENT AND THE ECONOMY IN PREINDUSTRIAL CHINA

The basic regime of government in China—a universal empire in the form of a tribute state—was not conducive to economic progress. Only when the grip of the tribute state was loosened did economic progress become possible. As we saw in Chapter 13, there were two extended periods during which this happened—the First and Second Transformations. These two periods of economic progress were separated by a long period of crisis.

We will examine the impact of government on the economy in each of these three periods in turn. This provide us with a basis for comparing the interaction of government and economic progress in Europe and China. We will conclude with an assessment of how well our understanding of this interaction holds up in light of the Chinese evidence.

THE FIRST TRANSFORMATION

The tribute state, first established in 221 BC, endured for nearly a millennium.¹ But in the eighth century, during the Tang dynasty, it started to break down. The Tang had faced increasing challenges from the northern nomads, and to improve their military effectiveness they had replaced their conscript army with a standing army of professionals. In 755, the commander of this strengthened army, An Lushan, attempted a coup.²

During the civil war that ensued, the central government was forced to delegate power to the provincial military governors, and even when the war was over these governors retained some degree of independence. In particular, under a new system of exaction, they negotiated the total tribute they were obliged to deliver to the central government and were then free to raise this as they pleased; they were also allowed to keep a part of what they raised for their own use.³ Under this new system, provincial capitals grew in wealth and importance and local elites became more powerful.

¹There was a cycle of feudalization, fragmentation, and consolidation between 220 and 581—a period known as the Six Dynasties—but this did not result in any significant change in the nature of the regime. (Elvin 1973)

²(Twitchett 1968), (Elvin 1973)

³(Twitchett 1965)

Eventually, the more independent provinces south of the Yangzi River split off to become separate kingdoms. These soon became political and military rivals of one another, and competition among them exerted considerable pressure for military and—in particular—fiscal efficiency. In the tenth century, one of these kingdoms succeeded in subduing the others, reuniting the empire under a new dynasty—the Song.

The First Transformation began with the An Lushan rebellion and continued through the first century of the Song Dynasty. During this period, there was a significant shift of population southwards. There had been a steady migration from the north for centuries, motivated by the push of war and exaction in the north and by the pull of new and fertile land in the south. This southward migration accelerated after 755, so that by the end of the First Transformation the majority of the population and the bulk of the economy were located south of the Yangzi River.⁴

Commercialization

Under the tribute state, there was considerable local exchange, but very little long-distance commerce. High transportation costs and a lack of market infrastructure were significant obstacles, but the greatest impediment was the system of restrictions and controls imposed by the government. Because of the resulting high trading costs, only goods for which demand was relatively insensitive to price could be traded at a profit. Such goods included salt, tea, and imported spices and drugs.

As the government weakened after 755 and then fragmented, it found it increasingly difficult to enforce its restrictions on commerce. In the cities, the system of separated wards and regulated markets eroded. By the time the Song established their new capital at Kaifeng, its residents were largely free to produce whatever they wished and to trade wherever they pleased.⁵

In the countryside, with a limited number of administrators and a rapidly growing population—especially in the south—effective control was completely impossible.⁶ As a result, unregulated markets popped up at crossroads, along rivers and canals, and near

⁴(Clark 1991) Ch. 3, (Gernet 1996) Ch. 12.

⁵(Sit 2010) Ch. 13; (Ma 1971) Ch. 4.

⁶(Skinner and Baker 1977) Introduction.

major temples and army camps. Markets for foreign trade developed at natural harbors along the coast and at the endpoints of overland caravan routes.⁷ As trading costs fell, the opportunities for profitable commerce multiplied.

With the expansion of commerce, governments came increasingly to recognize its potential as a source of revenue.⁸ As a result, governments and ruling elites began to see commerce as not so abhorrent after all. The social standing of merchants improved, and laws to depress their status were relaxed and ultimately abandoned.⁹

When the empire was reunified under the Song, the process of commercialization continued and even accelerated; the relative importance of the market economy continued to grow and that of the command economy to decline.¹⁰ There was a merging of the commercial and bureaucratic elites, and social status was increasingly determined by wealth rather than birth.¹¹

Indeed, officials themselves began to engage in economic activity.¹² Since this was prohibited, they had to employ front men to manage their business interests for them.¹³ In this way, officials became the owners of inns, wineries, rental housing, and pawnshops and became involved in commerce—particularly in tea and salt.

Officials could exploit their positions to benefit their business interests. They employed government funds to finance their enterprises, used government workers and soldiers as uncompensated labor, and transported goods free of charge on government boats. However, the greatest economic advantage of an official position was the immunity it provided against exaction—both official and private.

⁷(Twitchett 1966)

⁸(Twitchett 1966)

⁹(Twitchett 1966). Perhaps most important, the sons of the merchant class were now allowed to enter the ranks of the state bureaucracy ((McKnight 1975)).

¹⁰(Golas 1990)

¹¹(Gates 1996) Ch. 10; (Ma 1971) Ch. 5

¹²(Deng 1999), (Ma 1971) Ch. 5

¹³We will look at this again as a form of business organization, the ‘capital-labor partnership’, in Chapter 15.

Government finance

Taxes on commerce steadily grew in importance. This was partly because revenue from these taxes increased as the economy became more commercialized. But it was also because the amount of tribute—the traditional source of government revenue—was steadily shrinking.

As we saw in Chapter 13, land became increasingly concentrated in the hands of those exempt from tribute. In addition, many peasants were migrating to regions where they were able to pay less tribute or none at all. And, with growing political fragmentation, much of the tribute that was collected was failing to reach the central government.

Taxing commerce

The central government, therefore, had little choice but to rely increasingly on taxes on commerce.¹⁴ However, because its control over commerce was weakening, it could no longer tax commerce in the traditional way by levying taxes in regulated markets. So, instead, it began to tax goods in transit. The government had long ago set up checkpoints along major roads and waterways to monitor and control commerce; these now became toll stations, collecting levies both on goods and on travelers.¹⁵

Of the various taxes on commerce, by far the most lucrative for the government was the tax on salt.¹⁶ The government boosted the yield of this tax by creating a salt monopoly. Producers were required to sell all their output to the monopoly, which then resold it to merchants at a markup that included a heavy tax—as much as ten times the original price. Since salt was produced in only a few areas, the monopoly was relatively easy to enforce.¹⁷ The salt monopoly was soon providing the central government with a

¹⁴(Twitchett 1966)

¹⁵The central government was not, however, alone in collecting tolls: with increasing fragmentation, provincial governors and, later, independent rulers, did so too. The result, as we saw in the case of Europe in Chapter 12, was overtaxation. ((Twitchett 1968); (Elvin 1973) Ch. 12)

¹⁶(Twitchett 1970) Ch. 3

¹⁷Subsequent attempts to create monopolies in other goods, notably liquor and tea, failed because production was not concentrated in the same way.

significant part of its revenue, and it remained a mainstay of government finance for centuries.¹⁸

One reason the salt monopoly was such an important source of revenue was that it enabled the central government to tax regions over which it no longer had direct control and from which it could therefore no longer collect tribute. These regions had to import their salt from the areas in which it was produced, most of which, fortuitously, remained under central government control.¹⁹

Taxing foreign trade

Foreign trade, too, was increasingly important as a source of revenue. Foreign trade had been of little interest to the tribute state—either as a source of revenue or as a source of goods. As a result, it had largely been free of government interference, except for some private exaction by local officials.²⁰ Now, however, with growing commercialization of the economy, foreign trade expanded rapidly.

To tax foreign trade, the government had to control it. It did so by establishing Offices of Maritime Trade (OMTs) in several major ports. Foreign merchants were required to bring their goods ashore exclusively at one of these ports; and Chinese merchants leaving for foreign destinations were required to register first at one of them.²¹ The OMTs collected customs on all imported goods. The system, however, was less than effective, and evasion and smuggling were widespread.

Even so, the revenue from foreign trade became increasingly important.²² To boost it further, the government actively promoted foreign trade.²³ It invested in infrastructure—

¹⁸(Finer 1997) Part 2 Ch. 3, (Worthy 1975)

¹⁹Presumably, the salt monopoly in France played a similar role. And we saw in Chapter 10 that, in a similar fashion, the wool export monopoly in England and the wheat export monopoly of Sicily enabled the rulers of those territories effectively to tax the land of their vassals, something they could not do directly.

²⁰(Deng 1999) Ch. 3, (Wong 1999)

²¹The first OMT was established at Guangzhou in 714, and others were added later ((Deng 1999)). There were parallel arrangements to control and tax overland trade ((Twitchett 1968), (Balazs 1964)).

²²(Clark 1991) Ch. 6

²³(Lo 1969),(Ma 1971) Ch. 3,

building new harbors (including the first one at Shanghai) and improving existing ones. The government also provided protection to visiting foreign merchants, and it made attempts to defend coastal cities and ships at sea from pirates. The government even sent missions abroad to promote Chinese trade. When China fragmented into independent kingdoms, their rulers were even more dependent on revenue from foreign trade and so even more active in promoting it.²⁴

Money

Under the tribute state, money had been of little importance. Most production was either for subsistence or for tribute in kind, and there was therefore little need for money. For example, in 749, only 4% of the government's revenue was in cash.²⁵ Market transactions that did make use of money were of limited scale and importance.

The government was not much concerned, therefore, with providing an adequate currency—although it did guard jealously its monopoly of minting. There was, as a result, a chronic shortage of coin.²⁶ Because coin was scarce, people often made small payments in shells or in salt rather than in coin.

Moreover, even when available, the bronze coinage was of too low a value to be suitable for large payments.²⁷ The unit of account for large payments was therefore the 'string' of 1,000 coins.²⁸ In the early years of the tribute state, transactions were actually settled in gold by weight, and later, in lengths of silk cloth.²⁹

The increasing use of money

As the economy became more commercialized after 755, the use of money grew. And as taxes on commerce increased in importance, the government collected a growing share of its revenue in cash. Following a major tax reform in 780, tribute began to be set partly

²⁴(Deng 1997),(So 2000),(Clark 1991) Ch. 3

²⁵(Yang 1952) Ch. 2.

²⁶(Elvin 1973) Ch. 11.

²⁷The coinage had been of bronze since at least the period of the Warring States. (Wu 1952) dates the first (copper) coins to 534BC.

²⁸(von Glahn 2005)

²⁹(Twitchett 1968)

in coin.³⁰ But because of the continuing shortage of coin, it still had to be collected entirely in kind; only from the tenth century was any part of it actually collected in cash.

While the government still obtained most of what it needed directly as tribute and as taxes in kind, it began to use its growing cash revenue to fill some of its needs through market purchases.³¹ It also kept much of its cash revenue as a 'war chest' upon which to draw in times of emergency. Reserves of cash were thus added to reserves of goods as a source of liquidity. Wealthy merchants and officials also accumulated hoards of cash and bullion as liquid reserves.³²

The growing shortage of coin

Although the government began to mint more coin, little of it found its way into circulation. Much went into government reserves and private hoards. And some was melted down for its copper content, as economic expansion steadily drove up the price of copper.³³ An increasing amount was shipped abroad to meet a growing foreign demand for Chinese coin, which was being used as money in much of Asia.³⁴ So, despite the increase in minting, the shortage actually worsened.

The increasing scarcity of coin caused money to rise in value, producing a prolonged and deepening deflation. As a result, the real burden of taxes that had been set in money rose by a factor of five in only a few decades.³⁵ The rising value of money also encouraged further hoarding and stimulated widespread counterfeiting.

In the face of the continuing shortage of coin, payment practices adapted, and people found substitutes. Some of the independent kingdoms minted coin from lead (Fujian was the first) or from iron (Sichuan).³⁶ And, with much of the government's stock of silk

³⁰(Elvin 1973) Ch. 11

³¹(Ma 1971) Ch. 5

³²(Yang 1952) Ch. 1

³³(Twitchett 1970) Ch. 4.

³⁴(Deng 2011), (von Glahn 1996) Ch. 2

³⁵(Twitchett 1970) Ch. 2. This accelerated the flight of peasants and the corresponding decline of tribute revenue.

³⁶(Elvin 1973) Ch. 11

destroyed during the An Lushan rebellion, it was increasingly replaced as the means of settlement for large transactions by silver.³⁷

In the late tenth century, the Song re-established central control of the currency and greatly increased the scale of minting.³⁸ While most of the new coin was added to its reserves, enough entered circulation to alleviate the shortage—at least for a while.³⁹ However, continuing commercialization and rapid economic growth kept increasing the demand, so that shortages soon reappeared and rapidly became acute. In response to this renewed shortage, banks in Sichuan began to issue the first paper money.⁴⁰

Commercial cities and associations

Two of the greatest obstacles to economic progress under the tribute state had been the total absence of commercial cities and the very limited possibilities of association. During the First Transformation, a number of commercial cities emerged, and there was a modest development of association.

The emergence of commercial cities

Some commercial cities came into being through the commercialization of existing government cities. We have seen that, as government fragmented and a growing share of revenue was spent in provincial capitals, those cities became increasingly important. The increased spending stimulated local commercial activity. Indeed, some provincial capitals developed beyond being mere centers of local exchange to become entrepôts of long-distance commerce.⁴¹ These cities also developed as financial centers, with facilities for banking and remittance.⁴² And some of them grew quite large, with populations rising into the hundreds of thousand.

³⁷(Twitchett 1968)

³⁸(von Glahn 1996) Ch. 2

³⁹(von Glahn 2004) As much as two thirds of total mint output went into the government's treasuries.

⁴⁰(Yang 1952) Ch. 6. More on this in Chapter 15.

⁴¹(Twitchett 1966).

⁴²(Twitchett 1966), (Twitchett 1968). For more, see Chapter 15.

Other commercial cities developed from scratch. Towns grew up around many of the new unregulated markets, and some of these grew into cities.⁴³ The largest were those engaged in foreign trade.

Some of the new commercial cities subsequently became centers of government. In particular, when the Song chose Kaifeng as their capital, it was already a substantial commercial city. And when the Song lost Kaifeng, they chose as their new capital in the south another important commercial city, Hangzhou.⁴⁴

The overall rate of urbanization increased, and the urban population became less concentrated in the imperial capital. Indeed, by the end of the eleventh century, there were four urban areas with populations greater than that of the capital.⁴⁵

This urban growth was fueled by migration from the country. Peasants were free to move and to change their occupations, and they were drawn to the cities by the multitude of new employment opportunities.⁴⁶

New forms of association

The tribute state had permitted only one type of association—a limited form of associational government in the villages. This was created by the government, top-down, as an instrument of indirect administration.⁴⁷

As commercialization progressed and as the direct control of commerce became increasingly difficult, the government applied the same concept to the administration of commerce. It did so by creating a new form of association, the *hang*, through which it could control urban economic activity.

In every major city, the government established a *hang* for each category of artisan and merchant and required each urban household to join the appropriate one. The primary

⁴³(Twitchett 1966),(Clark 1991)

⁴⁴(Kracke 1969)

⁴⁵(Rozman 1974), (Kracke 1969).

⁴⁶(Gernet 1996) Ch. 14

⁴⁷We saw in Chapter 13 that there was also illegal secret societies.

functions of the *hang* initially were to collect taxes and to allocate government requisitions among its members.⁴⁸

THE CRISIS

Increasing reliance on commerce for revenue, together with the growing commercialization of the economy, provided the Song with ample resources. But despite this, their armies were weak. This was, however, by design. The Song had learned the danger of a strong army from the experience of their Tang predecessors. And indeed the Song did suffer fewer internal challenges than any other dynasty.⁴⁹ However, increased internal security came at a price, since military weakness invited attack, particularly from the nomadic tribes to the north. In the three centuries of Song rule, China suffered over two hundred major incursions by foreign invaders.⁵⁰

The incessant military pressure gave rise to a series of worsening fiscal crises; and the consequent sharp increases in exaction provoked frequent peasant rebellions. The overall result was an extended period of instability and crisis from the middle of the eleventh century to the middle of the fifteenth. It is useful to divide the Crisis into two parts—the first, 1040-1368, during the Late Song and Yuan; and the second, 1368-1450s, during the Early Ming.

In the first part of the Crisis, the Song defended their empire with diminishing success against a series of challenges from the north. In 1127, they lost the whole of northern China—the entire territory north of the Yangzi River—to Jurchen invaders, who later styled themselves the Jin dynasty. The Song withdrew south of the river to establish a new capital at Hangzhou.⁵¹

In the thirteenth century, in an attempt to recover their lost territories, the Song formed an alliance with the Mongols. The alliance succeeded in defeating the Jin in 1234, but the allies fell out over division of the spoils. This resulted in a war with the Mongols,

⁴⁸(von Glahn 2004)

⁴⁹(Deng 1999),(McKnight 1972)

⁵⁰(Deng 1999)

⁵¹The period during which the Song controlled only the south of China, is known as the southern Song; the period before the loss of northern China to the Jurchen is known as the northern Song.

which ended in 1279 with the whole of China in their hands. The new Mongol rulers of China styled themselves the Yuan dynasty.

After a brief period of peace, dynastic rivalries among the Mongols led to fragmentation and civil war, and the Chinese seized the opportunity to rebel.⁵² One of the rebel leaders, Zhu Yuanzhang, succeeded in expelling the Mongols and in reuniting China under his own rule—founding the Ming dynasty. Zhu re-established a tribute state—with great brutality—and largely erased what little remained of the economic progress of the preceding centuries. This constituted the second, more severe, part of the crisis.

The Crisis had a far greater economic impact than the contemporaneous crisis of the Long Fourteenth Century in Europe. War was much more destructive in China.⁵³ Armies were far larger, and they routinely followed a deliberate policy of ‘scorched earth’—laying waste to entire regions to deprive their adversaries of resources.⁵⁴ As always, the greatest economic damage came not from war itself, but from the way in which governments financed it. And the famine and epidemics that were the normal consequences of war and its financing greatly amplified their impact.⁵⁵

Government finance during the first part of the Crisis

The Song tried to compensate for the weakness of their armies by increasing their size and by improving their armament.⁵⁶ The number of men under arms grew steadily—from 120,000 in 960 to 1.4 million in 1049. Government armories churned out the enormous quantities of armaments that this expansion required, and they also developed sophisticated new weapons. Simultaneously, the Song also tried to reduce the need to test their armies by buying off their enemies—paying huge sums in tribute to several of the more dangerous nomad tribes.

⁵²(Gernet 1996) Ch. 17

⁵³(Chao 1986) Ch. 2

⁵⁴In Europe, it was not until the seventeenth century that wars did anything like the same damage.

⁵⁵Contributing to the devastation in northern China were natural and man-made ecological disasters—in particular, the wandering of the Yellow River and deliberate flooding to slow the Jurchen invasion ((Liu 2005) Appendix E).

⁵⁶(McKnight 1972)

Cost was no object—at least to begin with. However, by the middle of the eleventh century, the ever-increasing expenditure on defense, together with other extravagances, was beginning to exhaust the government's resources. Most government expenditure was now in money: the Song maintained a standing army, paid in cash, and they purchased most of the army's supplies for cash.⁵⁷ So the government needed to come up with more money.

Squeezing more from commerce

Each successive government tried to squeeze more from commerce, the principal source of its cash revenue. Governments added new toll stations and set quotas for each to collect. They also increased the taxes on the existing monopolies and established new ones.⁵⁸ By 1077, commerce was already providing two thirds of total revenue—up from one third in 997.⁵⁹

Revenue from maritime commerce grew increasingly important—especially after the loss of northern China. To ease collection, Offices of Maritime Trade were opened in additional ports.⁶⁰ The Song also created a standing navy—primarily to defend their new border along the Yangzi River—but they also used it to protect maritime commerce.⁶¹

Under the tribute state, the government had derived most of its revenue from production, and it had taken over and controlled a large part of it. Now that the government depended on commerce for most of its revenue, its instinct, not surprisingly, was to take over and control commerce.

The government did this largely through its many monopolies. But in the late eleventh century it also took over other areas of commerce as part of a package of fiscal reforms known as the New Policies. The minister responsible, Wang Anshi, considered commerce far too important to be left to the merchants. Government officials, motivated

⁵⁷(Yang 1952) Ch. 2; (Shiba 1970) Ch. III

⁵⁸(Liu 2005) Appendix D

⁵⁹(Liu 2005) Ch. 3. With the loss of northern China to the Jin and the consequent reduction in the base for the land tax, taxes on commerce became even more dominant. (Deng 1999)

⁶⁰(So 2000) Ch. 3

⁶¹(Lo 1969)

purely by public interest, would do a far better job, while simultaneously increasing government revenue.

Wang set up an agency to take over the wholesale commerce of the capital and another to provide small farmers with working-capital loans. But his most ambitious project was an agency in Sichuan set up to trade the locally produced tea for Tibetan horses; this agency soon expanded its activities to encompass all of the commerce in tea and in much else in Sichuan and in the neighboring provinces.⁶² Control soon degenerated into unrestrained exaction, and in only a few decades, the vibrant regional economy, which had developed over the preceding two centuries, was completely devastated.⁶³

The Yuan government continued the pattern of direct involvement in commerce by greatly expanding its role in foreign trade. It not only controlled much of the domestic commerce in imported goods, as had the Song, but it also became active in the foreign trade that brought those goods to China.⁶⁴ The Offices of Maritime Trade now commissioned vessels, selected cargoes for export, and recruited traveling representatives to accompany the cargoes to foreign ports and to trade them there for imports.

Money as a source of liquidity

When, in times of acute fiscal pressure, the cash revenue from commerce proved insufficient, governments could spend more money than they were taking in only if they could tap other, non-revenue, sources of liquidity. We have seen that the Song had expanded greatly the minting of coin and that they had retained most of it as a reserve. Now, they drew heavily on this reserve to finance their rapidly growing defense budget. This increased the amount of coin in circulation enormously—causing a relatively rapid

⁶²(Smith 1991)

⁶³Sichuan, largely isolated then from the rest of China, had developed a highly commercialized agriculture, specializing in the cultivation of tea, mainly for the Central Asian market.

⁶⁴(So 2000), (Deng 1999) Ch. 3

inflation. Grain prices, for example, tripled between 1030 and 1050.⁶⁵ However, much of the cash reserve was lost when Kaifeng, the capital, fell to the Jurchen.⁶⁶

From then on, rather than drawing on reserves of cash, governments obtained the extra money they needed by creating it. Debasement was one way, and indeed as soon as the Song government reestablished itself in Hangzhou, it began to mint debased coin.⁶⁷ However, there was a much more promising way to create money—printing it.

As we have seen, private banks in tenth-century Sichuan had invented paper money as a solution to the province's acute shortage of coin; the paper they issued was convertible—redeemable in coin. The provincial government found the idea attractive, and it soon took over the issuing of paper money as a government monopoly.⁶⁸ At first, the government's paper money was convertible too. However, the government was soon printing more money than it could redeem, and it was forced to suspend convertibility. The result, of course, was rapid inflation, with paper money eventually depreciating to perhaps 10% of its face value.⁶⁹

The greatest harm from this inflation was the worsening of an already grave shortage of coin.⁷⁰ Since the value of coin was unaffected by paper money inflation, coin became even more attractive as an asset: the consequent increase in hoarding removed large

⁶⁵This was about ten times their level in 960 ((Liu 2005) Appendix D). Increased minting and some debasement contributed to the rise in prices ((Yang 1952) Ch. 4, (von Glahn 2004)).

⁶⁶(von Glahn 2005)

⁶⁷(von Glahn 2005)

⁶⁸In 1023 ((Yang 1952) Ch. 6).

⁶⁹(von Glahn 2004)

⁷⁰We have seen that in Europe, the principal effect of inflation was to erode land rents at the expense of landowners; in China, leases were generally for a share of the crop so landowners were unaffected ((Deng 1999) Ch. 4). The only important payments fixed in money were various taxes: so the government itself lost from inflation part of what it gained by printing the money that caused it.

amounts of it from circulation.⁷¹ The resulting scarcity of coin was a serious obstacle, in particular, to local exchange in villages and market towns.⁷²

After the Song's retreat to southern China, its central government began to issue paper money there to ease a shortage of coin that hindered the payment of taxes.⁷³ This paper too was convertible initially, although into silver rather than coin. The government also supported its value by accepting it at par in the payment of taxes.⁷⁴

When the war with the Jin resumed at the end of the twelfth century, the government financed its rapidly rising expenditure by printing paper money in ever greater amounts; this forced a suspension of convertibility.⁷⁵ The consequence was rapid inflation. However, to the north, under the Jin, inflation was even worse; the Jin responded by printing their notes in ever increasing denominations. Both governments tried to control prices to contain the inflations they themselves were creating.

The same pattern—initial convertibility followed by over-issue and suspension—was repeated under the Yuan. When the Mongols first gained control of the whole of China, they issued a new paper currency, convertible initially into silver.⁷⁶ To encourage its circulation, they prohibited the use of silver, gold or coin in payment.⁷⁷ For some twenty years, the value of this paper money remained stable and it circulated widely—not only in China but more broadly throughout the Mongol empire.⁷⁸ But during the acute military and fiscal crisis that marked the final years of the Yuan, the usual pattern reasserted itself,

⁷¹(Liu 2005) Ch. II; (von Glahn 1996) Ch. 2. Contributing to the shortage, once the Song began printing paper money, they more or less stopped minting coin ((Yang 1952) Ch. 3).

⁷²(Elvin 1973) cites the shortage of acceptable money as one of the major causes of the economic collapse of the fourteenth century. (Ch. 14)

⁷³(von Glahn 1996).

⁷⁴(Yang 1952) Ch. 2

⁷⁵(von Glahn 1996) Ch. 2, (Yang 1952) Ch. 6.

⁷⁶They had earlier issued paper money in northern China. ((Yang 1952) Ch. 7)

⁷⁷(Yang 1952) Ch. 1

⁷⁸(Yang 1952) Ch. 7; (von Glahn 1996) Ch. 2

with the government printing huge amounts of inconvertible paper money. By the 1350s, its value had fallen almost to zero.⁷⁹

Arbitrary seizure

When the money ran out, or when paper money no longer bought very much, governments simply took what they needed by force. During the Song and Yuan dynasties, governments did so frequently, especially at times of acute fiscal pressure.

Merchants' stocks of goods and their cash reserves were always an attractive target. Governments simply helped themselves to whatever goods they wanted, paying merchants, if at all, a fraction of their value. The victims were often bankrupted, and commercial activity in general was paralyzed by the heightened risk.

There was also a return to conscription. The New Policies of the 1080s replaced a part of the enormous—and enormously expensive—standing army with peasant conscripts.⁸⁰ Similarly, when the Song later created a navy to protect their maritime trade and to defend their new border along the Yangzi, they did so largely by conscripting merchant ships and crews.⁸¹

And, of course, as a last resort, governments could increase the tribute in kind they collected from peasants. When the Song government withdrew south of the Yangzi, having lost its revenue from the north, along with its liquid reserves, it increased tribute from its remaining territory seven-fold.⁸² Peasants either rose up in rebellion or fled. As a result, the previous flow of refugees from the north reversed direction and became a flow *to* the north: by 1200 the population of the north, under the Jin, had trebled and that of the south, under the Song, had halved.

The Song sharply increased tribute again in the final decades of their life-and-death struggle with the Mongols—with similar effects. And the Mongols, in turn, did the same in their final decades of rule.

⁷⁹(Yang 1952) Ch. 7

⁸⁰(Liu 1959); (McKnight 1972).

⁸¹(Lo 1969)

⁸²(Deng 1999)

The overall economic impact of the first part of the Crisis

The overall impact of the first part of the Crisis was not unlike that of the Crisis of the Long Fourteenth Century in Europe. Chinese governments resorted to many of the same fiscal expedients. The effects were also much the same: they differed only in their greater intensity and duration.

We have seen that in Europe, despite the interruption of long-distance trade, regional trade continued to thrive and many regions not directly affected by war prospered. The same was true in China. North China suffered the brunt of the death and destruction of war—first from the Jurchen invasion and then from that of the Mongols.⁸³ However, the lower Yangzi delta, the economic heartland of China, was largely unaffected and—except for the late Song period—continued to prosper.⁸⁴ The regions of the southern coast, Fujian in particular, were not only largely unharmed, but the opening up of foreign trade meant that this was a period of increasing prosperity.⁸⁵

A positive political consequence

We have seen that the crisis in Europe gave rise to some positive political developments: this happened in China too. In particular, the crisis led to the emergence of a new class—the gentry—that was to play a central role in economic development during the Second Transformation.

The gentry class emerged as a result of the decline in the size and power of the bureaucracy. The bureaucracy reached its peak in the 1080s—the period of the New Policies. By then, the number of officials had grown from some 10,000 in the early eleventh century to over 34,000.⁸⁶ Salaries had risen too, to quite lavish levels.⁸⁷ However, in the late Song and Yuan, as fiscal pressure increased, the bureaucracy suffered a long decline both in size and in pay.

⁸³(Deng 1999) Ch. 3. Population in the north fell by as much as 85%.

⁸⁴See (von Glahn 2003) for evidence that the region continued to prosper under the Mongols.

⁸⁵Beginning with the New Policies in the late eleventh century ((Clark 1991) Ch. 6, (So 2000) Ch. 2).

⁸⁶(Smith 1991) Introduction

⁸⁷(Gernet 1996) Ch. 14

Despite shrinking opportunities for employment, the number of candidates passing the degree examination for entry into the bureaucracy continued to grow. This created an educated elite far larger than the bureaucracy itself.⁸⁸ It included not only the many degree-holders without a position but also the even larger number of those who had taken the degree examinations but had not passed.⁸⁹ Since many members of this educated elite were landowners, they came to be known as ‘the gentry’.⁹⁰

With the prospects of employment as officials increasingly dim, members of the gentry turned their efforts instead to commerce and to production. Gentry families diversified: a few of their sons succeeded in entering the bureaucracy, while the rest managed the family estates or engaged in commerce.⁹¹

As the livelihood of the educated elite shifted from government to the local economy, their interests shifted accordingly.⁹² To establish a leading position in their local communities and to further their own economic interests, members of the gentry financed investment in local infrastructure—in bridges, temples, and schools.⁹³ They did so on their own initiative, without government planning, direction, or funding.⁹⁴

The change in the economic and political interests of the educated elite led to a change in its ideology.⁹⁵ When it had derived its power and wealth principally from the state, the educated elite had naturally favored the expansion of state activity and increasing state intervention in the economy.⁹⁶ Intellectuals of the Tang and early Song had justified the absolute supremacy of the state—guided, of course, by a wise

⁸⁸(Miller 2001) Introduction

⁸⁹(Feuerwerker 1984)

⁹⁰(Yang 1987) Ch. 5

⁹¹(Wong 1997) Part II Ch. 5.

⁹²(Miller 2001) Introduction; (Smith 1991) Conclusion.

⁹³(Liu 2005) Appendix G.

⁹⁴This funding of public works by the gentry is often described as a system of ‘liturgies’ by analogy with similar practices in ancient Greece and Rome.

⁹⁵(Miller 2001) Introduction

⁹⁶(Smith 1991) Conclusion. We saw in Chapter 11 that the bureaucracies of European predatory states held similar views for similar reasons.

bureaucracy. In contrast, the ‘Neo-Confucians’ of the late Song argued for the supremacy of society—wisely led, of course, by the gentry. They saw the role of the state as merely to support, or at least not to interfere.⁹⁷

Government during the second part of the Crisis

In the second part of the crisis, under the early Ming, government finance reverted to the model of the tribute state.⁹⁸ The motivation was primarily fiscal: the fiscal model of the Song and Yuan had collapsed, and so the founder of the Ming dynasty, Zhu Yuanzhang, returned to the traditional model.

But Zhu was also motivated by ideology. Zhu was of peasant origin and detested landowners, merchants, and officials. He wished to recreate a fiscal system based on tribute in kind from peasants rather than one that depended on taxes from commerce; and he wanted a system that required a minimum number of government officials to administer it.⁹⁹

The Ming tribute state

To re-create the tribute state, all households were registered and each was assigned to one of three hereditary castes—peasant, military, or artisan.¹⁰⁰ Peasant households were the backbone of the system. The military households, some two million in number (perhaps 20% of the population), were settled in colonies, mainly along the frontiers. There, they were expected to grow most of their own food—making the military largely self-sufficient and reducing significantly the principal item of government expenditure.¹⁰¹ The artisan households were settled near the capital, where they could be easily

⁹⁷This philosophical conversion of the Chinese elite parallels the Church’s discovery of the rule of law during its conflict with the Holy Roman Emperor: see Chapter 10.

⁹⁸Reversion to the Tang system of tribute had already begun in northern China under the Jin and the Yuan. Zhu extended the system to the economically more important south. (Gernet 1996) Ch. 17

⁹⁹(Liu 2005) Ch. 4. This was also a fiscal model that made it extremely difficult to sustain a coup ((Huang 1998)).

¹⁰⁰(Gernet 1996) Chs. 18 & 19

¹⁰¹(Finer 1997) Part 2 Ch. 4

conscripted for construction projects and for labor in the imperial workshops.¹⁰²

Migration or change of occupation was forbidden.¹⁰³

Zhu regarded the commercial and landowner elites of the south as his enemies: during his struggle for power, they had collaborated with the Mongols and supported his rivals. So, once victorious, he seized their land and resettled them elsewhere. In all, he removed from the lower Yangzi delta some eleven million people—largely depopulating its commercial cities.¹⁰⁴ Most of the deportees were sent to the north and to the southwest to work the new lands there being opened up through massive projects of reclamation.¹⁰⁵

As in the traditional tribute state, commerce was, at best, tolerated. The government no longer engaged in commerce itself.¹⁰⁶ Private commerce was carefully controlled, with markets once again closely regulated.¹⁰⁷ Travel was restricted: a merchant wishing to journey more than thirty miles from his home had to obtain a government permit.

Private maritime trade was prohibited altogether. This was part of the general suppression of commerce and re-establishment of a command economy, but it also served strategic ends—punishing the coastal regions that had resisted the Ming, and also weakening foreign powers.¹⁰⁸ To facilitate enforcement, even coastal trade was banned: the slogan was, “no plank of wood on the sea”.

Initially, the only foreign ships allowed into Chinese ports were those engaged in ‘tribute trade’—trade with foreign rulers on terms dictated by the Chinese emperor.¹⁰⁹

¹⁰²(Liu 2005) Ch. 2. The building of each of the three capitals of the Ming required the labor of over one million workers.

¹⁰³(Liu 2005) Chs. 2 & 4

¹⁰⁴(Liu 2005) Ch. 4

¹⁰⁵(Gernet 1996) Ch. 18. The remainder were settled in military colonies or as artisans and laborers near the capital.

¹⁰⁶(Huang 1998)

¹⁰⁷(Brook 1998)

¹⁰⁸(Li 2010), (Mo 2004)

¹⁰⁹(Andornino 2006)

Later, licensed trading missions were permitted, especially from Japan, and the Chinese government sent its own official trading missions overseas.¹¹⁰

While the Ming obtained most of their revenue from tribute, they did not forsake entirely the taxation of commerce. The salt and tea monopolies continued to provide considerable revenue, as did the government import monopoly, and the government continued to collect transit taxes. In addition, it requisitioned whatever it needed from merchants—from office supplies for local officials to armaments and uniforms for the army; payment was typically at far below market prices.¹¹¹

Like previous governments, the Ming introduced a new paper currency to address the shortage of means of payment. Their paper was the first, however, to be inconvertible from the outset—its value supported only by the government’s readiness to accept it in payment of taxes. The value of the new paper money remained stable initially. But to finance money expenditures that soon exceeded its money income, the government began to issue it in excess, and its value declined accordingly.¹¹² In an attempt to control inflation, local officials set ‘fair’ prices for key commodities.¹¹³

Collapse of the Ming fiscal system

The fiscal system of the Ming tribute state limped along after a fashion until the ascent to the throne of the third Ming emperor, Yongle, in 1402. Yongle rejected the key element of Zhu’s fiscal plan—restraint—and his excesses soon led to complete fiscal collapse.

While Zhu had avoided foreign adventures and refrained from grandiose construction projects, Yongle went on a spending spree. He invaded Annam (Vietnam) and sent military expeditions against the Mongols and Koreans; he built a new Grand Canal and a

¹¹⁰(Elvin 1973). These included the famous voyages of Zheng He, for which the development of maritime trade was a major motivation((Atwell 2002)).

¹¹¹(Huang 1998)

¹¹²(Liu 2005) Ch. 2.

¹¹³(Brook 1998)

sumptuous palace complex in his new capital at Beijing; he sent forth the magnificent fleets of Zheng He on their voyages across the oceans.¹¹⁴

This extravagance was encouraged by a fortuitous increase in revenue: A warming of climate in the early fifteenth century produced bumper harvests, and there was simultaneously a major increase in output from the government's silver mines.¹¹⁵

Revenue could not keep up, however, with the emperor's ever-growing expenditure. The gap was filled by the massive printing of paper money and by a huge increase in requisitions.¹¹⁶ Neither of these expedients was particularly effective in mobilizing resources in an economy that had been largely decommercialized. Conversely, because the remaining commercial economy was so small, the impact on it was magnified and consequently devastating.

The overall impact of the reimposition of the tribute state

The only episode of European history remotely like the Ming reimposition of the tribute state in China was the creation of a tribute state in the Roman Empire by Diocletian following the fiscal and monetary collapse of the third century.¹¹⁷ The result in China was similar—the complete destruction of the economy.

This time, no region escaped. As we have seen, Zhu deliberately destroyed the commercial economy of the lower Yangzi delta—seizing much of the land and removing much of the population. The ban on maritime trade finished off what little was left. Cities shrank to a fraction of their former size, and market towns disappeared. Commerce was so reduced that in 1380 some 360 tax stations had to be closed, because the revenue they collected no longer justified their continued existence.¹¹⁸

The ban on maritime trade had an even greater impact on the export-dependent provinces of the southeast coast. Fujian in particular had developed a thriving

¹¹⁴(Huang 1998), (Atwell 2002)

¹¹⁵(Atwell 2002)

¹¹⁶(von Glahn 1996) Ch. 2; Huang, 1998 #3754}

¹¹⁷See Chapters 1 and 10.

¹¹⁸(Liu 2005) Appendix D. Closures continued until by 1585 only 111 remained in total.

commercial economy based on maritime trade.¹¹⁹ Merchants there were bankrupted, and its formerly bustling cities withered. Deprived of an outlet, commercial production in the hinterland collapsed, and agriculture reverted to subsistence. Much of the population migrated to other provinces.

In northern China, Zhu did reclaim and resettle large areas, but what he created there was more a giant forced labor camp than an economy. Moreover, the region suffered terribly from the sharp increase in exaction during the Yongle crisis. As one indication, between 1403 and 1434, the output of the military colonies fell by over 90%.

Over the whole of the crisis, war and decommercialization—together with the accompanying famine and disease—cut the population of China from over 120 million at the end of the twelfth century to as little as 65 million by the end of the fourteenth.¹²⁰ It is illuminating to compare the economic effect of this decline in population with that of a similar decline in fourteenth-century Europe.

In Europe, as we saw in Chapter 2, the result was an increasing scarcity of labor that raised the incomes of ordinary people, making possible the development of an active trade in mass-market goods. In China, in contrast, so thorough was the destruction of the economy in the early Ming that the demand for labor fell even faster than the supply. Far from rising, the real wages of laborers and artisans fell in this period by some 75%.¹²¹

THE SECOND TRANSFORMATION

The fiscal collapse under the Yongle emperor was the final act of the Crisis, and from the middle of the fifteenth century the economy began to recover.¹²² This opened a second major period of transformation of the Chinese economy that was to continue for over four centuries.

The reason for renewed economic progress was the withdrawal of the state. The command economy of the first Ming emperor gradually gave way to *de facto* laissez-

¹¹⁹(Skinner 1985). See Chapter 16 for more details.

¹²⁰(Durand).

¹²¹(Liu 2010) Appendix B.

¹²²(Liu 2005) Ch. II

faire. The result of this loosening of control was a steady recommercialization of the economy.

The withdrawal of the state

The Yongle collapse made clear that government in China had run out of fiscal alternatives. Zhu's fiscal system could not provide the liquidity needed in a crisis. In particular, in a largely demonetized economy the printing of paper money—the last resort of governments since the late Song—was no longer effective in mobilizing resources. However, Zhu had so tied the hands of his successors that changing the system was almost impossible.¹²³

This severe fiscal constraint changed the nature of government. From the late fifteenth century, the Ming emperors seemed to lose interest in governing and withdrew to their palaces, where their diminished resources were sufficient to keep them in considerable style.¹²⁴ By default, the task of governing fell to the bureaucracy. However, with no direction or monitoring from an active ruler, the bureaucracy was left free to pursue its individual and collective interests.¹²⁵

The lack of resources and the indifference of the bureaucracy resulted in a chronically weak military. The navy was scrapped altogether, and after a disastrous campaign against the Mongols in 1449, the army adopted a defensive posture behind a newly rebuilt Great Wall.¹²⁶ The only reason the Ming dynasty survived as long as it did was that it had the good fortune to face few military challenges.¹²⁷

By the 1580s, however, the lessons of the Yongle crisis had been forgotten, and a new emperor began once again to indulge in extravagant expenditure. The harsh fiscal expedients that this made necessary led inevitably to widespread insurrection. The Manchus—descendants of the Jurchen—took advantage of the resulting civil war to seize

¹²³(Huang 1998), (Finer 1997) Part 2 Ch. 4.

¹²⁴(Huang 1998)

¹²⁵“From the mid-fifteenth century the Chinese Empire was not run under the ‘constitution’, and it was not run against it either. It was simply not run at all.” (Finer 1997) p831

¹²⁶(Lo 1958);(Brook 1998).

¹²⁷(Huang 1998), (Finer 1997) Part 2 Ch. 4

control.¹²⁸ In 1644, they installed themselves as the Qing dynasty, and by the 1680s they had overcome all remaining resistance.¹²⁹ The hundred-year transition from Ming to Qing caused considerable economic dislocation, but it was far less damaging than the Crisis.¹³⁰

The Qing regime soon came to resemble the Ming in all important respects, and we will therefore treat them as one.¹³¹ The economic impact of this regime was determined by its two most important characteristics—massive private exaction by the bureaucracy and the decentralization of government. Both were unintended consequences of the administrative structure established by the first Ming emperor.

Growing private exaction

Motivated both by frugality and by his hatred of officials, Zhu had set officials' salaries at a very low level, and there they had largely remained. In the sixteenth century, for example, the pay of a county magistrate was little more than double that of a day laborer.¹³² In stark contrast, the investment in education and in the extensive lobbying needed to gain a position was enormous.¹³³

The only way for office to be worthwhile or even feasible, therefore, was for an official to exploit his position, once he had it, for maximum personal gain. Moreover, time was short, since officials were appointed for a nonrenewable term of three years.¹³⁴ Hardly surprising, then, that officials focused their efforts on extracting all they could from their positions to the neglect of their duties and in total disregard of the long-term consequences for their districts.¹³⁵

¹²⁸(Gernet 1996) Ch. 20, (Wong 2005)

¹²⁹(Myers and Wang 2002), (Finer 1997) Part 2 Ch. 4

¹³⁰Its lesser impact parallels that of the contemporaneous crisis of the seventeenth century in Europe relative to that of the fourteenth century.

¹³¹(Finer 1997) Book 3 Ch. 2. The Qing administration was initially more efficient than the Ming, with the emperors exercising more control, but it deteriorated over time.

¹³²(Huang 1998), (Deng 1999) Ch. 4

¹³³(Watt 1977), (Deng 1999) Ch. 4

¹³⁴Worse, the appointment could be cut short at any time for disciplinary reasons or at the caprice of a superior.

¹³⁵The same problem of over-exaction that we encountered in Europe in Chapter 12.

The same considerations applied to the numerous subordinate sub-officials who did most of the actual work and came into day-to-day contact with the public: a county magistrate might employ thousands of such clerks, runners, and constables. They too were paid only nominal salaries and many of them faced similarly limited fixed terms of employment.¹³⁶

Not only did officials and sub-officials have strong motives to engage in private exaction, they also had ample opportunity. Each district was assigned a tax quota that the magistrate was expected to fill. However, the tax system set up by Zhu had crumbled into chaos. Officials, therefore, had no choice but to make up the required amount through arbitrary levies and requisitions. This degree of discretion and disorder made extortion and embezzlement particularly easy.¹³⁷

Private exaction was rampant in other parts of the bureaucracy too. For example, officials supervising public works or administering state monopolies had ample opportunity to enrich themselves.¹³⁸

The decentralization of government and the re-emergence of the gentry

The second unintended consequence of the structure Zhu created was the development of a highly decentralized system of administration. Since Zhu had cut the size of the bureaucracy to under 5,000, local officials were very thin on the ground.¹³⁹ He therefore revived the practice of the early tribute state of appointing village leaders and making them responsible for the assessment and collection of tribute as well as for other

¹³⁶(Watt 1977), (Finer 1997) Book 3 Ch. 2, (Yang 1987) Ch. 5.

¹³⁷Moreover, there was almost no monitoring from above. While earlier dynasties had created separate supervisory agencies to check up on local officials, Zhu's drastic pruning of the bureaucracy had left little room for this. (Huang 1998)

¹³⁸(Ni and Van 2006), (Yang 1987), (Finer 1997) Book 3 Ch. 2. The Qing did make a serious attempt in the eighteenth century to check corruption, with some temporary success ((Deng 2012) Ch. 2).

¹³⁹Zhu's central administration was largely staffed by the military and by palace eunuchs.

duties.¹⁴⁰ During the chaotic reign of the Yongle emperor, however, this system largely fell apart.¹⁴¹

Over the centuries, the administrative capacity of the state only eroded further. The number of local officials remained constant, while the population doubled and doubled again. By the late Qing, some 1,500 county magistrates were responsible for the administration of a population of almost 400 million.¹⁴²

The resulting administrative vacuum was filled by a reinvigorated gentry. As we have seen, Zhu had expropriated and banished much of the gentry of the lower Yangzi delta. But during the confusion of the Yongle reign, the gentry began to re-emerge and to regain control of local affairs.¹⁴³

The gentry helped local magistrates fulfill their responsibilities. Given the very modest resources at a magistrate's disposal and his limited local knowledge, he could not even attempt to do this on his own.¹⁴⁴ His principal responsibility was to collect taxes and to maintain law and order; the gentry helped him meet his tax quota and organized and financed a local militia to suppress crime and banditry.¹⁴⁵

The gentry also invested in local infrastructure. While the state initiated the grand regional projects, particularly those aimed at controlling the flooding of the great rivers, it was the local gentry who saw to the maintenance of these projects.¹⁴⁶ And it was the gentry alone that invested in purely local projects such as granaries and irrigation schemes.

¹⁴⁰They served as part of their corvée labor, which greatly reduced the cost of administration. ((Liu 2005) Ch. 2)

¹⁴¹(Watt 1977), (Liu 2005) Chs. 2

¹⁴²(Finer 1997) Book 3 Ch. 2

¹⁴³(Huang 1998)

¹⁴⁴(Gernet 1996) Ch. 18, (Wong 2005)

¹⁴⁵(Finer 1997) Book 3 Ch. 2.

¹⁴⁶(Feuerwerker 1984)

The regime of government that developed from the mid-Ming through the Qing was therefore highly decentralized. The gentry were firmly in control at the local level. The central government lacked the capacity to interfere and had no interest in doing so.¹⁴⁷

Gentry power and a limited rule of law

The dependence of local officials on the assistance of the gentry gave the gentry considerable power over them. Officials ensured the gentry's goodwill by reducing their taxes, by exempting them from their own private exaction, by awarding them lucrative government contracts whenever they could, and by tilting the scales of justice in their favor in litigation that came before them.¹⁴⁸

The gentry, as a class, also had considerable power over the central government.¹⁴⁹ The central government could manage with such limited fiscal resources only because the gentry bore so much of the burden.¹⁵⁰ And it was only with the gentry's support that even those limited resources could be raised. Indeed, the withdrawal of gentry support during the final crisis of the Ming played a major role in toppling the dynasty.¹⁵¹ So the central government was sensitive to the interests of the gentry, and it avoided any action that might arouse its hostility.

The result was a sort of informal and limited rule of law. In these circumstances, it was now in the government's interest to honor its commitments—at least those it made to the gentry. A sign of this was the government's new ability to borrow and to sell offices and titles: a government that did not honor its commitments would not have been able to

¹⁴⁷(Finer 1997) Book 3 Ch. 2. Finer describes the system as one of “*de jure* centralization, *de facto* decentralization”. (Miller 2001) describes the system as a “Neo-Confucian dream”.

¹⁴⁸(Watt 1977),(Yang 1987) Ch. 5

¹⁴⁹(Finer 1997) Part 2 Ch. 4

¹⁵⁰(Wong 1997) Part II Ch. 4, (Mann 1987) Ch. 2

¹⁵¹In response to the government's attempts to increase exaction. There were also, of course, peasant rebellions, and the two together brought down the dynasty.

do either.¹⁵² By the nineteenth century, over half of all officials had purchased their positions.¹⁵³

Under this informal rule of law, the members of the gentry—and they alone—were safe from arbitrary exaction, both official and private.¹⁵⁴ This gave them a very significant advantage over others in undertaking production and engaging in commerce. We have seen that officials enjoyed a similar advantage during the First Transformation. Now, it was not just officials but the much broader class of the gentry.

However, all this was very informal and quite limited. In particular, the gentry were not allowed to organize as a group.¹⁵⁵ And they had nothing like a representative assembly through which they would have been able to bargain with the emperor to reach mutually beneficial agreements.¹⁵⁶

Recommercialization

With the breakdown of the command economy in the early fifteenth century, a market economy slowly re-emerged—at first alongside the command economy, and then gradually replacing it.¹⁵⁷ This was the beginning of a long period of economic progress; progress slowed during the Ming-Qing transition, from the 1580s to the 1680s, but then resumed with renewed vigor.

A changing relationship with commerce and the market

The restrictions Zhu had imposed on commerce remained on the books, but they were no longer enforced.¹⁵⁸ Markets were gradually freed from regulation, and merchants could once again travel as they wished. The ban on officials participating in commerce

¹⁵²The Ming government did ultimately default on its debt, but only in its final days when its credit no longer mattered. (Faure 2006) Ch. 1

¹⁵³[Ho, 1959 #3744]. The sale of official ranks became an important source of revenue ((Deng 1999)).

¹⁵⁴(Yang 1987) Ch. 5

¹⁵⁵(Mann 1987) Ch. 2

¹⁵⁶(Wong 1997) Part II Ch. 4

¹⁵⁷(Brook 1998), (Myers and Wang 2002).

¹⁵⁸(Brook 2004)

became a dead letter. In general, while the government of the late Ming did nothing to promote commerce, neither did it do anything to stand in its way.¹⁵⁹

As the bureaucracy and the gentry regained power, the attitude to commerce once again became more favorable and the social standing of merchants improved.¹⁶⁰ The bureaucracy and the gentry were themselves extensively engaged in commerce. Conversely, merchants and their sons frequently joined the ranks of the bureaucracy or the gentry—either by passing the examination or by purchasing a degree.¹⁶¹ By the late Qing, the educated elite and the commercial elite had effectively merged.

When the Qing took over, they favored commerce deliberately and followed a more conscious policy of *laissez-faire*.¹⁶² And since the bureaucracy and gentry earned much of their income from commerce, they naturally opposed any government interference.¹⁶³ Taxes on commerce became once more an important source of government revenue. In the 1750s, taxes on land still made up over 70% of total revenue; by 1908, their share had fallen to 35%, with the rest mostly coming from commerce.¹⁶⁴

The general commercialization of the economy is illustrated by the growing reliance of the Qing on the commercial grain market to provision their armies and to provide famine relief.¹⁶⁵ As the system of military colonies crumbled, the government had increasingly purchased the grain it needed for its armies. Government granaries, another part of the command economy, were largely replaced by local granaries established by the gentry. In times of dearth, the gentry simply purchased grain for the poor, providing it to them at subsidized prices. The system worked well, and there were no significant famines until 1850.¹⁶⁶

¹⁵⁹(Brook 1998), (Zelin 2004)

¹⁶⁰(Xu and Chengming 2000), (Feuerwerker 1984),(Rowe 1984)

¹⁶¹(Rowe 1984) Ch. 6.

¹⁶²(Rowe 1984) Ch. 6.

¹⁶³(Smith 1991) Conclusion

¹⁶⁴(Rowe 1984) Ch. 6. In the eighteenth century, the Qing lowered tax rates on land considerably and other tax rates too ((Deng 2012) Ch. 2).

¹⁶⁵(Brook 1998); (Deng 2012) Ch. 2

¹⁶⁶(Deng 2012) Ch. 2

The privatization of money

We have seen that over the centuries China had experienced a chronic shortage of coin. From the late Song, successive governments had addressed the shortage by printing paper money; then, under fiscal pressure, each had destroyed its paper currency through over-issue.

The unsatisfactory state of government money had led to the increasing use of silver in payment.¹⁶⁷ During the First Transformation, silver had come to be used for large transactions. During the Crisis, as the value of coin and paper became ever more unstable, prices were increasingly denominated in silver; but, since unminted silver was unsuitable for small transactions, actual payment was generally made in some other medium.

The Yongle inflation of the early fifteenth century had finally discredited paper money beyond all redemption. At the same time, coin was particularly scarce, since the government had not minted any for decades.¹⁶⁸ And silver too was growing scarce—probably due to increased hoarding and to its export in response to high world prices.¹⁶⁹

This monetary vacuum was filled increasingly with private money.¹⁷⁰ The principal issuers were ‘money shops’—establishments not unlike the deposit banks of medieval Europe.¹⁷¹ These began minting their own coin in the early fifteenth century, and by the early sixteenth, privately-minted coin made up the bulk of the circulation. Money shops began issuing banknotes in the seventeenth century, and by the nineteenth they were in common use in many provinces. Other provinces, particularly those along the coast, relied instead on imported silver currency.¹⁷²

¹⁶⁷(von Glahn 1996) Ch. 2

¹⁶⁸In the hope of forcing people to use paper money. (Liu 2005) Ch. II; (Huang 1998).

¹⁶⁹There was at the time a worldwide ‘bullion famine’ ((Atwell 2002)).

¹⁷⁰(von Glahn 1996) Ch. 3

¹⁷¹For more on money shops, see Chapter 15.

¹⁷²(Elvin 1973) Ch. 17

The scarcity of silver and the revival of maritime trade

The shortage of silver in China worsened sharply in the early fifteenth century when the government began to commute tribute in kind to payment in silver.¹⁷³ As silver became increasingly scarce its price correspondingly rose: the value of silver in terms of gold increased from 1/9 in 1500 to 1/6 in 1550. The high value of silver in China relative to its value abroad provided a powerful stimulus to maritime trade.

In particular, the discovery of large deposits of silver in Japan in the 1530s made silver there comparatively cheap.¹⁷⁴ As a result, Chinese goods fetched prices in Japan in terms of silver far higher than their cost in terms of silver in China. Chinese silks, for example, sold in Japan at five or six times their cost.¹⁷⁵ Not surprisingly, this caused a surge in trade with Japan: Chinese goods flowed to Japan and Japanese silver flowed back to China. Following the Spanish conquest of the Philippines in the 1570s, the inflow of silver from Japan was joined by an inflow of American silver via Manila.

The enormous profitability of exporting Chinese goods gave rise to an export-led economic boom in the coastal regions.¹⁷⁶ At the same time, the inflow of silver into China caused a decline in its value there: between 1600 and 1650, its value fell by 50% (the value of silver in terms of gold fell from 1/7 to 1/14).¹⁷⁷

The ban on maritime trade

This great expansion in maritime trade took place despite the continuing ban. Of course, the ban had never been particularly effective: the coast was long, with many offshore islands, and the resources available for enforcement were meager: the navy had been scrapped by the mid-fifteenth century. At the same time, the profits to be had from violating the ban were huge. Smuggling was therefore extensive— involving not only Chinese traders but Japanese, Vietnamese, and Portuguese as well.

¹⁷³(Brook 1998).

¹⁷⁴(von Glahn 1996) Ch. 4

¹⁷⁵(Gernet 1996) Ch. 20

¹⁷⁶We will discuss this at greater length in Chapter 16.

¹⁷⁷(Broadberry and Gupta 2006). This greatly diminished government revenue, since taxes on land had now been fixed in terms of silver; this was a major factor in the fiscal crisis that brought down the Ming dynasty ((Goldstone 1991)).

For ordinary merchants, whether Chinese or foreign, smuggling involved significant additional cost compared to legal trade. It required either the deployment of armed force sufficient to prevent government enforcement or huge payoffs to the relevant officials.¹⁷⁸ Smuggling networks that chose the first option were generally large: one in the sixteenth century included several hundred thousand members, and it eventually took a Ming army of 200,000 to suppress it. Smaller smuggling operations had to rely instead on bribery.

Two groups, however, could engage in smuggling without incurring these significant extra costs—officials themselves and the gentry. Consequently, many officials were deeply involved in smuggling.¹⁷⁹ For example, the family of one official—sufficiently distinguished to be appointed in 1530 as chief judge of China—owned a large fleet of smuggling ships and a network of agencies in Southeast Asia. The gentry too were heavily involved: their status and connections enabled them to defy the ban with relative impunity.¹⁸⁰

So the ban persisted largely because it was in the interest of the bureaucracy and of the gentry that it do so.¹⁸¹ By raising the costs for potential competitors, it provided the many officials and gentry engaged in illicit maritime trade with substantial monopoly profits. While some enforcement was necessary to preserve those profits, excessive zeal could be a nuisance: one official responsible for the suppression of smuggling in the late 1540s was jailed, essentially, for doing his job too well.¹⁸²

The monopoly profits from smuggling were a form of private exaction. In 1567, the Ming government attempted to recover some of the lost revenue by replacing the ban with a system of licensing and duties.¹⁸³ A significant expansion of trade followed—suggesting that the new duties were much lower than the cost of smuggling.

¹⁷⁸(Deng 1997) Ch. 4. For a suitable sum, officials were more than willing to turn a blind eye or even to provide smugglers with false papers.

¹⁷⁹(Deng 1997) Ch. 4

¹⁸⁰(Elvin 1973) Ch. 14

¹⁸¹(Elvin 1973) Ch. 14

¹⁸²(Deng 1997) Ch. 4

¹⁸³(So 2000)

The Qing were very much aware of the importance of both coastal and foreign trade for economic prosperity—especially in the politically sensitive coastal regions.¹⁸⁴ Consequently, once their hold on power was secure, they gradually lifted the ban on maritime trade.¹⁸⁵

The revival of commercial cities

As internal and external commerce expanded, commercial cities began to reappear.¹⁸⁶ Existing cities, reduced in the early Ming to little more than administrative centers, regained their commercial role and expanded rapidly in size. New markets began to appear once again in the country; as before, many developed into market towns. By 1800, there were over 20,000—double the number that had existed in the fifteenth century.¹⁸⁷ As had happened during the First Transformation, some of these new market towns grew into commercial cities.

Most of the new commercial cities were coastal ports—such as Ningbo and Shanghai in the lower Yangzi delta and Amoy (Xiamen) in Fujian. However, Hankou developed as a major transportation hub in the interior, at the junction of the Han and Yangzi rivers.

These cities, old and new, became home to a new ‘bourgeoisie’ composed of a revitalized gentry and a rapidly growing merchant class. And far more than during the First Transformation, commercial cities became centers of manufacturing as well as of commerce.¹⁸⁸ Rates of urbanization increased, rising to as high as 20% in the Lower Yangzi.¹⁸⁹

Urban development was facilitated by a less intrusive government. Urban land, which during the First Transformation had been owned and managed by the government, was

¹⁸⁴(Myers and Wang 2002), (Ng 1983) Ch. V

¹⁸⁵They did, however, impose temporary and partial bans at various times for strategic reasons—to deprive their enemies of supplies and revenue.

¹⁸⁶(Bray 2000)

¹⁸⁷(Myers and Wang 2002)

¹⁸⁸(Rozman 1974). More on this in Chapter 16.

¹⁸⁹(Brandt, Ma et al. 2014) quoting work by Li Bozhong, in Chinese, in 2000.

now largely in private hands.¹⁹⁰ Taxes on the urban population were simplified and made more predictable and less onerous.¹⁹¹

The emergence of lineage associations

The less intrusive government was also more tolerant of voluntary associations. Under Zhu, the state had permitted no form of association that it did not itself create and control. In particular, it suppressed religious associations and closed thousands of temples and monasteries. However, from the mid-Ming, as the state withdrew, there was a revival of voluntary association—in particular, in the form of the lineage and the merchant association.¹⁹²

The lineage was an extended kinship group, the members of which traced their ancestry to a common male ancestor.¹⁹³ Its initial function was purely religious—to establish and maintain an ancestral hall and to observe the rituals of ancestor worship. It was hard for the state to object to this, given the importance accorded to filial piety in Confucian culture. But, like any form of association—for whatever purpose it is created initially—the lineage could readily be adapted to other forms of joint action.

The lineage first took on non-religious functions in the late Song—at about the same time the gentry first emerged and for much the same reason.¹⁹⁴ As it became increasingly difficult to pass the degree examination and to obtain a position in the bureaucracy, lineage associations began to pool their resources to invest in the training of a number of promising potential candidates. When one succeeded, the entire membership profited from the connection—a kind of diversification. In this way, lineage membership served as a way to extend the benefits of gentry status to a larger group.

A large lineage association might number a thousand families or more, including several thousand adult men. As was to be expected from any form of association, it

¹⁹⁰(Shiba 1977)

¹⁹¹(Rozman 1974) “Urban residents, now less fearful of taxes, unearthed their caches of money and enjoyed more ostentatious consumption” p44

¹⁹²Other types of association emerged too—artisan guilds, clubs of officials and candidates from the same place, mariners’ clubs in domestic and foreign ports ((Liu 1988), (Deng 1997) Ch. 4).

¹⁹³(Wong 1997) part II Ch. 4.

¹⁹⁴(Gates 1996) Ch. 6

provided an internal order among its members, as well as protection against private predation and against state and private exaction.¹⁹⁵ It also provided mutual aid. Indeed, so great were the benefits of lineage membership, that a common ancestor was often invented to justify the creation of a new lineage association or the expansion or merger of existing associations.¹⁹⁶

Lineages, like the gentry, were suppressed during the early Ming, but they reemerged in the late Ming and early Qing. The need for joint action in protecting against Chinese and Japanese pirates, and later against Ming loyalists, was a major reason for their reemergence.¹⁹⁷ Lineages were most developed where such protection was most necessary—the lower Yangzi delta and the southern coastal provinces of Fujian and Guangdong. These also happened to be the regions that were economically most advanced, and where therefore association was most useful.

Indeed, during the Qing, lineages were increasingly adapted to perform economic functions.¹⁹⁸ For example, it was lineages that established many of the new markets that appeared at that time. And later, as we will see in Chapters 15 and 16, the lineage provided a framework for organizing large enterprises in commerce and production.

The emergence of merchant colonies and of municipal self-government

The same period saw the re-emergence of merchant colonies. These were much like the merchant colonies of preindustrial Europe—associations formed by traveling merchants in distant markets, with the members generally originating in the same city or region.¹⁹⁹

Merchant colonies first appeared in China in the late Song, established by Fujianese maritime merchants along the coast and overseas. They reappeared in the sixteenth century, and by the mid-eighteenth they were ubiquitous. In the late seventeenth century,

¹⁹⁵(Wong 1997) Part II Ch. 4; (Faure 2006); (Gates 1996) Ch. 6; (Freedman 1958) Chs. 13 & 14.

¹⁹⁶(Ng 1983) Ch. 1

¹⁹⁷(Ng 1983) Ch. 1

¹⁹⁸(Ng 1983) Ch. 1

¹⁹⁹(Moll-Murata 2008)

a different type of merchant association began to appear—established in a city by all the merchants in a particular trade, say the grain trade, irrespective of place of origin.²⁰⁰

Initially, merchant colonies were fairly informal—really more groups than associations. However, their structure grew more formalized over the years, with written regulations and procedures of internal order.²⁰¹ Merchant colonies were recognized by the state, and, indeed, employed by it as instruments of indirect administration—particularly in the assessment and collection of commercial taxes.²⁰²

Merchant colonies also began to play a role in city government. As we saw in Chapter 13, cities in China were not distinct administrative entities but merely a part of the county or sub-prefecture in which they were located.²⁰³ Larger cities were usually organized into neighborhoods, with neighborhood associations taking on the same sorts of local responsibilities as village associations in the country.²⁰⁴ But there was no city-wide structure of administration.

By the early Qing, merchant colonies in some cities came together to form confederations.²⁰⁵ These began as informal frameworks for the resolution of disputes, principally commercial, between members of different colonies.²⁰⁶ However, by the nineteenth century, such confederations were increasingly taking it upon themselves to act for the city as a whole.²⁰⁷

These merchant confederations saw to the provision of public goods—maintaining the city's wharves and streets, writing and enforcing regulations for banking and commerce, and providing a fire-fighting service and a militia to maintain order. They also joined with the local gentry in providing relief for the poor. Local officials were more

²⁰⁰(Golas 1977)

²⁰¹(Moll-Murata 2008)

²⁰²(Mann 1987)

²⁰³(Faure 1990)

²⁰⁴(Skinner 1977)

²⁰⁵This too had a European equivalent—the medieval *domus mercatorum* or *Mercanzia* ((Mazzaoui 1981) Ch. 6).

²⁰⁶(Skinner 1977)

²⁰⁷(Moll-Murata 2008), (Rowe 1984) Ch. 10, (Shiba 1977).

than happy to see the confederations perform these functions—all of which had been performed in earlier times by the government. They even allowed them to levy local taxes to finance their efforts.²⁰⁸

Many cities, therefore, achieved some degree of self-government *de facto*.²⁰⁹ Confederations of merchants acted, in effect, as a sort of associational government. Since the local officials to whom they answered and who represented state authority were themselves members of the gentry-merchant class—“merchants who masqueraded as scholar-officials”—they were quite sensitive to the concerns and economic interests of the city’s merchants.²¹⁰ So the cities were very much a part of the informal decentralization that facilitated the Second Transformation. There was never, however, any formal recognition of municipal self-government by the state—any more than there was of the position of the gentry.

GOVERNMENT AND THE ECONOMY: CHINA VS. EUROPE

How does the impact of government on the economy of China compare with its impact on the economy of Europe? In both places, of course, the nature of government and its effect on the economy changed over time and varied from place to place. Here, we will make a general comparison, leaving for Chapter 16 a more detailed comparison of Second Transformation China with the associational and predatory states of late preindustrial Europe.

Exaction

Government has its most direct impact on the economy through exaction. We will first look at its impact in relatively normal times—during the two transformations—and then at its impact during the Crisis.

²⁰⁸(Mann 1987) Ch. 2; (Skinner 1977)

²⁰⁹(Rowe 1984) Ch. 10.

²¹⁰(Faure 1990)

Exaction during the two transformations

Government net revenue in the early Song was about 8% of national income; in the late Ming it was 4-7%, and during the Qing as little as 1-3%.²¹¹ By this measure, exaction during the First Transformation was comparable to that in non-crisis Europe; and during the Second Transformation it was low by European standards.

However, as we saw in Chapter 12, government net revenue can be a very misleading measure of the total burden of exaction. First, it does not include forms of exaction other than explicit taxes, such as the arbitrary seizure of goods, the conscription of labor, and inflationary finance. These other forms of exaction were always particularly heavy in China.

In addition, government net revenue leaves out the private exaction of the government's agents. This too was particularly heavy in China. One estimate of the extent of private exaction in the nineteenth century suggests that it may have amounted to as much as 8-16% of national income—several times the level of government net revenue at the time.²¹²

Moreover, the weight of private exaction fell very unequally. As we have seen, the gentry and those protected by the gentry were largely exempt. But this made the burden all the greater for those who lacked protection—peasant smallholders in particular.²¹³ The supplementary amounts peasants had to pay sub-officials and magistrates were often a large multiple of the actual tax they owed—adding up in total to as much as 45% of their income.²¹⁴

A more realistic assessment of the burden of exaction needs to take into account, too, the costs of collection and of non-collection—the cost of avoiding and evading exaction and the cost of resisting it. In China, the costs of collection were especially high, because exaction was often largely or wholly in the form of tribute in kind: in this case, the

²¹¹(Liu 2005) Ch. 3; (Deng 2003)

²¹²(Chang 1962)

²¹³(Ni and Van 2006)

²¹⁴(Ni and Van 2006)

collection costs often exceed the value of the exaction itself.²¹⁵ The cost of non-collection was high in China too: peasant rebellions, triggered by excessive exaction, were endemic.

Indeed, we have seen that the sole constraint on exaction was the propensity of peasants to rise up whenever they were driven below the level of subsistence. As a result, exaction tended to approach this limit, leaving peasants with barely enough to survive. Low official exaction merely left room for greater private exaction.

Because of the heavy weight of concurrent private exaction, whenever the state did attempt to increase what seemed like a modest level of official exaction, it would drive peasants below the level of subsistence, and they would rebel. Similarly, particularly rapacious local officials, whose private exaction may not even have been that heavy in absolute terms, could drive peasants over the edge.

Obtaining a better estimate of the level of exaction is still not enough to assess its true burden. We saw in Chapter 12 that this depends not only on the level of exaction but also on its form. In this respect too, exaction in China was particularly bad. Exaction was in general arbitrary and unpredictable. This was especially true during the Second Transformation when most exaction was private, at the whim of officials.²¹⁶

Arbitrary, unpredictable exaction was especially harmful to commerce. Merchants were attractive targets of private exaction, and goods en route were particularly vulnerable.²¹⁷ Internal customs duties, together with the private exaction of those collecting them, raised trading costs significantly, thereby hindering the development of internal trade.

As we have seen, private exaction from foreign trade, supported by the official ban, added greatly to trading costs there too. For example, in the trade with Southeast Asia, merchants expected ‘squeeze’ by port officials to account for 20-40% of the total cost of imported goods.²¹⁸ High exaction from foreign trade was particularly unfortunate given

²¹⁵(Gates 1996) Ch. 4

²¹⁶(Huang 1998) p 170.

²¹⁷(Huang 1998)

²¹⁸(Viraphol 1977) Ch. VI

the potential importance of foreign trade as an extrinsic source of demand with major multiplier effects.²¹⁹

In general, exaction from commerce hindered the market expansion that was at the core of the process of economic progress. The damage was exacerbated by the tendency of exaction from commerce to rise during periods of commercialization. This negative feedback worked against continued economic progress.

Exaction during the Crisis

In the first part of the Crisis, government net revenue as a share of national income rose from about 8% in the early Song to perhaps double that in the late Song and Yuan; in the early Ming, it was in the range of 16-19%.²²⁰ These levels are comparable to those in Europe during periods of crisis. But of course, as we have seen, government net revenue is much more of an underestimate of the real burden in the case of China.

Despite the growing burden of exaction, however, economic activity continued most of the time under both Song and Yuan; in some regions it even thrived. However, as we have seen, the emergency fiscal expedients to which governments resorted in times of acute fiscal crisis frequently brought economic activity to a halt.

Why was exaction so much more harmful in China's crisis than in Europe's? The answer seems to be the difference in the nature of government—a single, universal predatory government in China instead of the overlapping patchwork of predatory and associational governments in Europe. The general lack of competitive pressure left the Chinese government fiscally inefficient and fragile.

Important manifestations of this fiscal inefficiency were the absence of any mechanism of consultation with the governed and the absence of rule of law. The lack of a mechanism of consultation precluded any negotiation over the level and form of exaction that might have mitigated its harm to the economy. The absence of rule of law made government borrowing next to impossible, because repayment was highly unlikely. The Song, the most successful at borrowing during this period, were able to finance no

²¹⁹See Chapter 16 for details.

²²⁰(Liu 2005) Ch. 3; (Deng 2003)

more than 2.5% of their expenditure in this way.²²¹ Because of their poor liquidity, governments facing a fiscal emergency had little choice but to ramp up exaction as much as they could.

The system of exaction

We saw in Chapter 12 that beyond the immediate impact of different types of exaction on the economy, there was also the long-term effect of the *system* of exaction. The system of exaction had an impact, in particular, on entrepreneurship, on association, and on commercial cities—all essential to the process of economic progress.

The impact on entrepreneurship

In China, the heavy burden of exaction, both official and private, together with the host of government regulations and interventions made entrepreneurship in production and commerce much more difficult and much less rewarding. At the same time, the system of exaction offered abundant opportunities for entrepreneurship in predation in the service of the state. This brought about a reallocation of entrepreneurial talent and effort away from activities that furthered economic progress and towards those that obstructed it.²²²

This happened too under the European predatory state, but the problem was much greater in China because of the absence of the rule of law. Any visible economic success attracted increased exaction by the state and its agents, and it frequently prompted a government takeover of the successful activity. As we will see in Chapter 15, the absence of the rule of law also contributed to the underdevelopment of finance, making it far harder for would-be entrepreneurs to mobilize the resources they needed.

China also differed in the extent of entrepreneurship in production and commerce by those not subject to exaction. The state itself was an entrepreneur of production and commerce much more than in Europe. And in China the agents of the state also acted as entrepreneurs of production and commerce on their own account. In this, they benefited

²²¹(Wong 1975) The most important example was the use of vouchers to pay for supplies delivered to the armies on the border: the vouchers were redeemable for salt at the offices of the government monopoly in the salt-producing regions ((Worthy 1975)).

²²²(Huang 1998), (Ni and Van 2006)

not only from protection from state and private exaction, but also from the use of state funds to finance their private ventures.

During the Second Transformation, as we have seen, there developed a much broader class—the gentry—that enjoyed protection from the state and its agents comparable to that enjoyed by officials; members of lineages too enjoyed a measure of protection through their connections with officials or gentry. At the same time, with a shrunken state bureaucracy, there were fewer entrepreneurial opportunities in predation. The result was a surge in entrepreneurship in commerce and production by the gentry and by lineage members who enjoyed their protection.

The impact on association

European governments did not generally interfere with the formation and functioning of associations. Indeed, they frequently found associations to be useful as political intermediaries and as administrative agents. Consequently, voluntary associations were able to play a vital role in the organization of production and commerce in Europe—especially in the earlier stages of development.

In China, for most of its history, the picture was very different. Governments saw voluntary association as potentially seditious, and they therefore suppressed it in all its forms.²²³ Moreover, since Chinese governments had no interest in consulting with their subjects, they had no need for political intermediaries. They did sometimes use associations as administrative agents but, until quite late, only associations that they themselves created and controlled.

The withdrawal of the state during the Second Transformation finally allowed some forms of voluntary association to emerge—most notably the lineage and the merchant colony. In Chapters 15 and 16, we will see that these were able to play roles in the organization of production and commerce similar to those played by their European counterparts centuries earlier.

The impact on cities

We have seen that commercial cities in Europe played a vital role in all the sub-processes that combined to generate self-perpetuating economic progress. In China, under

²²³(Mo 2004) pp. 57-8

the tribute state (including that of the early Ming), they were unable to play this role, because there were no commercial cities. Cities were purely centers of administration and consumption.

During the two transformations, commercial cities did emerge and did play the same sort of role they played in Europe as catalysts in the development of production. However, as we will see in Chapter 15, they never achieved the autonomy they needed to be able to play fully a parallel role in the development of commerce.²²⁴

Contract enforcement and protection against private predation

We saw in Chapter 12 that territorial governments in preindustrial Europe varied widely in the quality of the formal order they provided for the enforcement of contracts. We saw too that this was of little consequence for economic progress, because commerce was more than capable of organizing a formal order on its own. It did so either in the framework of an organized market or through the associational government of commercial cities.

In China, as we will see in Chapter 15, the government did not in general provide a system of formal order that met the needs of commerce (there was one important exception in the case of Fujian). Even worse, until quite late, the government made it impossible for commerce itself to develop a formal order.²²⁵ Only late in the Second Transformation did merchant associations and confederations of associations emerge to provide a framework for the resolution of commercial disputes. Even then, the absence of self-governing commercial cities meant that organized markets—along with their systems of courts—failed to develop.

When it came to protection against private predation, government in China was not very different from that in Europe. On land, it provided some protection against bandits and raiders, although it largely relied on villagers to organize their own protection; traveling merchants similarly had to see to their own protection. At sea, in periods in

²²⁴(Balazs 1969) Ch. 6.

²²⁵(Barzel 2002) argues that dictators will see collective-action mechanisms as a threat and so suppress them. As a result, in such regimes, there will be little in the way of non-state third-party enforcement of contracts.

which the government was trying to encourage foreign trade, it was quite active in suppressing piracy and even developed a navy to protect its sea lanes. Of course, given the absence of self-governing maritime cities, merchants in China were much less able to organize their own protection at sea. However, some protection was organized, by lineages and merchant associations.

Economic intervention

Government in China was much more extensively involved in the economy than any government in Europe. There was nothing in Europe, of course, to compare with the command economy of the Chinese tribute state. However, even when the tribute state receded, the government continued to be involved directly in production and in commerce.

One reason for this greater government involvement was that the ruler ‘owned’ the economy in a way no ruler did in Europe.²²⁶ The interest of the emperor in developing China’s economy was much like that of a feudal lord in developing his personal domain.

When the government obtained most of its revenue from agriculture, it sought to increase agricultural productivity by investing in agricultural infrastructure—for example, in irrigation projects. It also invested in agricultural extension—introducing and promoting new crops and new techniques of cultivation.²²⁷ When the government’s principal source of revenue became commerce, it similarly invested in transportation infrastructure—for example, by building harbors and by creating a navy to protect the sea lanes.

Another reason why government was more directly involved was because of the limited capacity of private organization—itself the result of government repression. For example, when a European government created a monopoly, it generally sold it to a large merchant enterprise or merchant association. However, during much of China’s history, there were no large enterprises or merchant associations to which a monopoly could have

²²⁶In the terminology of (Olson 2000), the Chinese emperor had a greater ‘encompassing interest’.

²²⁷(Wong 1997) Part II Ch. 5

been sold.²²⁸ So Chinese governments generally operated directly themselves the monopolies they created.

Moreover, because the ruler owned the economy, he was considered to be personally responsible for economic prosperity. A failure to meet this responsibility undermined his legitimacy and was seen as evidence that he had lost the ‘mandate of heaven’. This is a principal reason, together with a fear of civil unrest, for a more active policy of provision in China.²²⁹

Government involvement in the economy reflected not only the interests of the ruler, but also those of the bureaucracy. Because the bureaucracy derived its power and wealth from the state, it naturally favored the expansion of state activity and increasing state intervention.²³⁰ And increased government activity and intervention multiplied the opportunities for private exaction.²³¹

Officials, for example, pushed public works projects that had no virtue other than that they provided opportunities for corruption, just as they encouraged punitive military campaigns because of the opportunities for embezzlement. Officials opposed the carriage of tribute grain by sea because this would have threatened the ‘morass of vested interests’ in the Grand Canal.²³² Most harmfully of all, they opposed lifting the ban on foreign trade, as we have seen, because of the massive corruption the ban supported.

CONCLUSION

Overall, government in preindustrial China appears to have been considerably less favorable to economic progress than at least some regimes of government in preindustrial Europe. The tribute state—in the early Ming no less than earlier—seems to have been an insurmountable obstacle to economic progress. But even when the tribute state broke down, during the First Transformation and the early part of the Crisis, or when it faded,

²²⁸The absence of the rule of law would also have made such a sale problematic.

²²⁹In this area, the unity of China as a single territory worked to its advantage, since it eliminated the beggar-thy-neighbor protectionism and hoarding of grain that exacerbated food crises in Europe.

²³⁰(Smith 1991) Conclusion. We saw in Chapter 11 that the bureaucracies of European predatory states held similar views for similar reasons.

²³¹(Gates 1996) Ch. 4, (Fairbank 1974)

²³²(Gates 1996) Ch. 4; (Elvin 1973) Ch. 17

in the Second Transformation, the government environment does not appear to have been conducive to economic progress.

There were, however, some developments that mitigated this rather bleak picture. During the First Transformation, government fragmented, and even after reunification under the Song, it never regained the same degree of centralized control. There was also a significant class that was largely exempt from exaction—government officials. Government officials took advantage of their protected status to engage in commerce and production—as did the government itself.

During the Second Transformation, the central government largely withdrew, and this allowed a kind of informal local government to develop under the leadership of the gentry—particularly in the country. The gentry, largely protected from exaction, channeled much of their energy into commerce and production. In addition, the government now tolerated association in the form of lineages and merchant colonies, and this made possible various forms of joint action.

These mitigating developments do seem to have made economic progress possible in both periods. In the next two chapters, we will see how and how much.

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