

The Chinese Economy with Dr. Michael Kulma (Introduction)

Today we are going to be talking about the economy of China. A little bit later in the hour, I will be joined by Dr. Michael Kulma for a conversation on China's modern economy. Before we get to that I would like to sketch in some of the outlines of China's economy in the pre-modern period.

The Early Chinese Agrarian Economy

As we have seen, China has always been an agricultural country. From the very beginning, every significant Chinese political philosopher has agreed that land is the basis of wealth and agriculture is the means of producing wealth. The agrarian sector was the main concern of government. In early times, before the unification of China in 221 BCE, most peasants were not free. They were nearly serfs, as a matter of fact, bound to the land. They were forced to live where they lived and were not allowed to leave. They were responsible for producing crops on behalf of an aristocrat who owned the land. The farmers were living at the bare subsistence level and the entire surplus that they produced went to the land owner. But after the unification of China and the institution of the imperial system, we begin gradually to see signs of individual land ownership in China, which became more and more the norm. So, while many peasants still lived as tenants on the estates of large land owners and paid rent instead of taxes, more and more you found that peasant families owned their own land and paid taxes directly to the government.

Now, whether it was either rent or taxes, the obligations of a peasant tended to be grain, silk, and service. A typical farm in China would include grain fields, whether wheat in the north or rice in the south, and a stand of mulberry trees, because silk worms eat mulberry leaves. The farm women would be expected to raise silk worms and weave silk. Taxes were payable in some percentage of the harvested crop of grain and a certain amount of standard woven silk, and also labor service to work on public work projects and military conscription. In the early period of Chinese history, the Han dynasty, for example, a farmer would expect to raise grain and pay taxes; the farm wife would weave silk and pay some of that as tax to the government. The farmers would have to work for part of the year on public work projects and spend some time, perhaps a period of years, in the national army as a conscript soldier.

Economic Schemes

Farmers, of course, have a strong interest in raising enough money year in and year out to feed themselves and their families and to have a degree of economic security and stability. Governments have an interest in having a steady stream of tax revenue. And so there were various schemes tried over the course of time to satisfy both the desire of the farm population for stability and the desire of the government for a budgetable revenue stream. One of the most interesting schemes came in the Tang Dynasty (618-907), when there was what was called the equal fields system. The government said all land belonged to the state, and land was graded into what we might call A, B, and C productive capacity. Each farm family was given a certain amount of mulberry grove. So, theoretically, every family could produce an equivalent amount of grain and silk, some of which was collected as tax revenue. Every few years, the land would be redistributed according to whether the family had grown or gotten fewer in number. The system didn't work perfectly: It was very cumbersome to administer and after the Tang dynasty it was largely abandoned. But it is illustrative of the concern that the Chinese government had with the maintenance of agriculture as the basis of the wealth of the state.

Taxes

As we get into the early modern period with the Song Dynasty, there is an interesting tendency that you see throughout the rest of Chinese history for taxes more and more to be monetized – that is, payable in money form rather than payable in kind. In the Song, more and more taxes were paid in copper coinage. The farmers would raise grain, raise other crops, and sell some of those crops for cash. The farm women would produce silk and sell that for cash. The taxes were paid in money. That reached a high point in the Ming Dynasty, with what was called the Single Whip

taxation system, where all the obligations of a peasant family were converted to a single tax, payable in silver. The land tax, the silk tax, labor service, and military service were all converted to a monetary tax. From that point on, the government bought the grain it needed on the national market, it hired people to do labor service, and it hired people to be soldiers. So you had a gradual modernization and monetization of the agrarian sector, coming into the modern period of Chinese history.

The Breakdown of the Agrarian Economy

In the first section of this series, we saw that there was a succession of dynasties throughout Chinese history. One dynastic family would claim the Mandate of Heaven, establish its rule, rule for some number of generations and then finally decline and be overthrown by another dynasty; and the cycle would begin again. One contributor to that was a breakdown in the security of the agrarian economy. What often happened was this: as dynasties went on, expenditures would increase, the bureaucracy would grow larger, palace expenditures would be more and more lavish and luxurious, and the government would need more and more money. On the other hand, corruption also increased; what that meant was that large landowners could fiddle the tax roles. Say a rich landowner owned 100 acres of land. He might arrange with the local magistrate for that to be registered as 70 acres of land; he wouldn't pay taxes on 30 acres. The government wanted more and more tax revenue and the tax base was shrinking because of this type of corruption. What happened? The government raised the tax rate. Who paid those taxes: poor peasants, who were not rich enough to participate in the kind of government corruption that gave you a tax exemption. So their taxes went up and sooner or later peasant uprisings broke out. These eventually got so serious that a new military commander would arise, the old dynasty would be overthrown, a new dynasty would take its place and a new cycle would begin again. This kind of disaffection in the agrarian sector is a constant feature of Chinese history and a harbinger of governments in deep trouble.

Government Control of Craft, Artisanal, and Industrial Production

There was more than just an agrarian sector, of course, in China; there was also a lot of craft production, artisanal production, and what even one might call industrial production. An interesting phenomenon of the imperial system is that this kind of production was very much under the control of government. As far back as the Han Dynasty, there were intense debates within the ranks of government about such commodities as salt and iron. The general tendency of the Chinese government was for basic commodities to be regulated or even monopolized by the government. Salt is a good example of that – for most of Chinese history the right to produce and market salt was granted to particular merchants who paid very dearly for the privilege of having a salt monopoly. So it was a kind of regulated monopoly on behalf of the government. Other sectors, too, were regulated, so that cotton production and silk production (not on a household basis but on a quasi-industrial basis) were all licensed, regulated, taxed and, one might say in a comprehensive way, interfered with by government; there was very little unfettered free enterprise in traditional China. Bureaucrats, of course, like to manage things, and China was the quintessential pre-modern bureaucracy, so that even in the non-agrarian sector there was a great deal of involvement on the part of government.

Impact of the West in the 18th Century

Now, in the 18th century something very new begins to happen in China and that is the impact of the West, small-scale at first, but for a while very much to China's advantage. China was selling silk, porcelain, and tea to foreigners who came to trade on the South China coast. For a while silver was flowing into the Chinese economy and that led in part and was one contributing factor to the great prosperity of China in the 18th century. But the foreigners were worried about the silver drain from the West into China and found a commodity that would balance that. That commodity, of course, was opium. Beginning in the late 18th century and into the early 19th century, the demand for opium increased steadily until, by the 1830's, some 40,000 chests of opium a year (each chest weighs 140 pounds, so that's a huge amount of opium) were being imported into China. The silver flow reversed so that silver was flowing out of China. This had a very profound impact on the Chinese economy because, remember, those peasants were paying their taxes in

silver. As silver drained from the Chinese economy, the price of silver went up relative to grain or to copper cash so that the farmers had to sell more of their grain to get more cash to buy the silver to pay their taxes. The tax rate, in other words, had gone up without any change in the nominal tax rate, and it was the agrarian distress that was caused by this that led to the great rebellions of the 19th century that helped to bring down the Qing Dynasty. One other consequence of the Opium War was the insistence on the part of the Western powers to have larger and larger trading rights in China. So beginning with the end of the Opium War¹ you get the first of what are called the unequal treaties between China and the West. These gave the Western powers the right to establish trading zones in Chinese cities and eventually the right to certain commodities in China, for example, the right to mine all of the coal in Shandong Province or the right to mine all of the iron in southern Manchuria, or some other concession. So the impact of the West led to a certain amount of industrialization, but it was industrialization of an extractive kind where commodities and light manufactured goods were leaving China in the hands of the West and very little economic benefit of this industrial activity flowed into China itself.

China's Economy in the Beginning of the 20th Century

This is the situation we find, then, as we go into the 20th century: the Chinese economy showing severe strains in the agrarian sector, the industrial and commercial sector more and more in the hands of the Western powers, and many Chinese people blaming the Qing Dynasty government, blaming the weaknesses of China's old imperial system, and looking desperately for some way to get China back on its feet economically, modernize the Chinese economy, and bring China into the modern world as a strong and stable power.

¹ First Opium War 1834-1843: War between Great Britain and China over China's attempt to end British opium smuggling. It ended with China's defeat and the signing of the Treaty of Nanjing in 1842. China ceded Hong Kong Island to Great Britain, set up treaty port system, and began system of unequal treaties.