A Western Perspective on the Yantie lun

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Prof. Dr. Dres. h.c. Bertram Schefold

Department of Economics, Goethe-University

Frankfurt am Main, Germany

schefold@wiwi.uni-frankfurt.de

1. Introduction

The *Yantie lun* is a great testimony of Chinese intellectual life as a text of the Han period (early first century BC), because, recording a debate which actually took place in 81 BC, it mirrors the antagonism between high ranking legalist officials of the empire and, in the main Confucian, literati and scholars about primarily economic matters, in particular the state monopolies of Salt and Iron production, and, in a broader historical and philosophical context, a political dissent about whether the borders of the realm should be pushed outward to keep off "barbarian" tribes or whether all governmental efforts should be concentrated on autarchic development in the homeland. Both sides argue relentlessly by buttressing their positions with historical precedents, affirming or criticising the deeds and beliefs of earlier statesmen and philosophers – to this extent one is carried backwards in historical time through the first millennium BC when the Chinese identity took shape in the Warring States period and further back to the mythological origins (Mende 2002). Occupation with this book carries the reader also forward in that the text has been an object of discussion for 2000 years and has been reprinted and used to buttress contemporary positions for and against Confucianism, against and for legalism down to the late imperial, republican and communist periods. Vogel (2002) summarises interpretations of the *Yantie lun* in the People's Republic of China. Exponents of the Cultural Revolution saw the legalists in the *Yantie lun* as progressive representatives of the centralised State and the Confucians as adherents of a reactionary clique of slave holders, while a more differentiated picture emerged in the reformist period; discussions continue. Our focus here will be on the understanding of economic matters. We do not know how accurately the author Huan Kuan reported the real debate, but the impression made on the reader is one of authenticity. One is deeply impressed by the seriousness and intensity with which both sides defend their policies and views; their speeches evoke the political drama which plays on the vast stage of much of East and Central Asia. There are the gardens and palaces of the Court, nobles, the rich (including some merchants), there are wild forests where fortunes are made in mining in a wilderness which invites to arrogate local power and to defy the central authority, there are vast plains and deserts of the nomadic tribes, the mountains of Tibet and, most importantly, innumerable fields of small farmers, sometimes congregated in villages of moderate affluence, but mostly poor and often hungry, subject to taxation and conscription.

How to keep this world together and to make it prosper? Both sides are convinced that there is a cosmological order into which human institutions ought to fit, and that the imperial power is at the centre and must rule to maintain security and the forms of decent conduct. How this is to be achieved is at the root of the debate. Insofar, it starts from common concerns. It also seems to be a matter of course that what we call economic institutions are a central factor for the safeguarding of the political order, in which there is a correspondence between the rule of the realm as a whole and the individual family. Individual happiness is not so much regarded as a primary and independent goal but as the likely result of the realisation of this order. But shall it be oriented towards development, acquisition of riches, permitting luxury, by means of forceful intervention of the state through redistribution and strong legal constraints on individual action? Or is the ordered intercourse between well educated people who know their station and are happy to pursue the tasks associated with it itself the main aim? Both positions have in common that they ascribe not only the will but also the power to people to shape their destinies through the appropriate formation of the imperial state. We are therefore far from the modern recognition of the economy as an autonomous force. The positive role of the spontaneous self-organisation of markets is recognised by both sides, but this force is seen as an instrument of politics which can be and must be controlled, and its results must be corrected by legal means or by stabilising the rules of behaviour, when the Confucians insist on philanthropy and obedience within both the upper and the lower ranks of society.

The author of the Yantie lun, Huan Kuan, is known to us as an official from the province of Henan, who lived under the emperors Zhaodi (87-74) and Xuandi (73-49) and who was last an assistant of the prefect Lujiang in what is today Anhui (Mende 2002, 52). The book is subdivided into 60 sections; it seems only later to have been subdivided moreover into ten chapters. Not knowing Chinese, I have worked with three translations. There is the translation of Esson M. Gale of the first 28 sections into English, of 1931 and 1934 (Gale 1931, 1934). This translation emphasises philological rigour with an extensive apparatus. There is a French translation, edited by Georges Walter, translated from the Chinese by Delphine Baudry-Weulersse, Jean Lévi, Pierre Baudry, of 1978 (Walter 1991 [1978]). This is a very free translation, dramatic and readable, but not complete and with a rearrangement of some sections, such that it is on occasions difficult to find out to which section the translated text belongs. Finally, I have used a translation of selected sections made by my former student of economics Sabine Ludwig, who was, as a sinologist, also a student of Erling von Mende, and this was edited (Ludwig 2002), with comments added by Erling von Mende, in a book *Huan Kuan: Yantie Lun*, together with essays by Erling von Mende (Mende 2002) and Hans Ulrich Vogel (Vogel 2002), and with an introduction by myself (Schefold 2002a), as a companion volume to a facsimile reprint of the *Yantie lun*, based on a print of 1501 in the series *Klassiker der Nationalökonomie* (Schefold 2002). The translations differ considerably, for instance, the Confucians (who presumably were not all Confucians, Mende 2002) are designated in the text as “Worthies” and “Literati” (Gale 1931,1), as “sages et lettrés” (Walter 1978, 44) and as “fähige und aufrechte Männer”, and, as a group, as “Gelehrte“ in the translation by Ludwig (Ludwig 2002, 109). Needless to say, I try to concentrate on conclusions which are invariant to the translation chosen.

We know little of the sixty scholars (or Literati). Mende (2002, 61) mentions two who could be identified. They were invited by the government to discuss with officials, as had been done on other occasions in the Han period, in momentous debates which did not necessarily concern primarily political matters; preserved is one other dialogue of the year 79 AD on classical texts (Mende 2002, 60).

Only a small number of people speak on the government side. The Emperor (who is only thirteen) remains silent. There are a chancellor, a secretary and other personalities, but the most important by far is Sang Hongyang, one of the most eminent economic politicians of the time and a personality that has remained controversial down to the present day (Vogel 2002, 101). His speeches betray that he commands respect. He may be seen as pompous but Huan Kuan’s readers knew that this minister was executed a year later because of an alleged participation in a coup. He originated from a merchant family, which was untypical for the time (later, merchants were banned from becoming officials). His knowledge of practical affairs does not prevent him from also extensively making reference to classical writings and historical precedents in order to argue his position.

The debate centres around the following institutions: the monopoly of Salt and Iron, introduced in 117, the system of equitable distribution, instituted in 115, the system of price controls, instituted in 110, the monopoly of alcohol, instituted in 98, and the monopoly of minting, which existed since 113 (Vogel 2002, p. 82). Sang Hongyang had been involved in particular in the establishment of the system of price equalisation. It is worth quoting extensively from the economic chapter of the history of the Han dynasty (Han Shu) in order to illustrate by way of an example how the state created institutions and how the mechanism of price equalisation was reflected by its main inventor. The declared aim was to stabilize prices. The government thus was able to appropriate profits, which would otherwise have gone to traders. And the reform helped to move from deliveries in kind to payments in cash:

> "Sang Hongyang, [at that time] … (a subordinate of the ministry of agriculture) became acting chief of the ministry [in 110 BC] … in control of salt and iron throughout the empire. [Sang] Hongyang considered that government offices … wrangled in competition, and that merchandise for this reason [rose] by leaps and bounds, and that [furthermore], when imperial poll taxes … were transported, at times they did not compensate for the cost of cartage. Then he proposed [the following:] that >there be established in the ministry of agriculture as assistants several tens of men. [Let] them be divided into sections to have charge in provinces and fiefs, where from time to time in each [according to the need] there would be set up … (offices for equalization of prices through transportation); and offices for salt and/or iron. [Let] orders be given that in places far distant [from the capital], each in lieu of poll taxes deliver [for sale by local authorities] in other places load after load of its native products which in the past have been carted out of the locality for sale by travelling traders and resident merchants. In the imperial capital [as central office] establish the … (office for standardization of prices) to receive [paid up taxes from sale of goods, or merchandise in lieu thereof], transported cartload after cartload from all over the empire. Call upon the office of labour [subordinate to the ministry of agriculture] to manufacture carts and the several [kinds of] equipment. [Let] all [the above agencies] look for sustenance to the ministry of agriculture. [Allow] the several offices of the ministry to corner completely the money and merchandise of the empire. When prices are high, then they will sell; when prices are low, then they will buy. In this manner will rich traders and great merchants lose that by which they gained excessive profits. Then will [the people] return to the fundamental (that is, agricultural pursuits); and [prices of] merchandise of all sorts will have no chance [to rise] by leaps and bounds. By these means [prices of] all the merchandise of every kind throughout the empire will be restrained. [Let] the name [of the system] be the … (standardization of prices)'. The Son of Heaven looked upon [the plan] as right, and gave his approval." (Swann 1950, pp. 314-6)

Sang Hongyang explains in the debate that he had had the honour of serving the imperial family for more than sixty years – he had entered service at thirteen –, that he had risen through various positions and had now become minister. He declares to have received favours from the monarch, but that he also had to spend much for chariots and horses, for the support of the family, for servants, and that he, nevertheless, had been able to build up a fortune. The scholars, challenged by this self-representation, refer to the old times in which one did not cumulate offices and did not make private business with the income from the state. Sang Hongyang combines Confucian and legalist arguments and is the prime representative of the idea of the strong extended empire based on the military defence of a fixed border.

I am used to distinguish between a positivistic, a relativistic and a political approach to the history of economic thought (Schefold 2016a). The *Yantie lun* does not contain much that might count as analytical economics in the sense of the positivistic approach, and a mere contextualisation in the sense of a relativistic interpretation would miss the most important element, the political, for the entire discourse of this Chinese classic revolves around the contribution of the state to the organisation of social life. Western histories of economic thought mostly seek to reconstruct the history of the discovery of economic insights and, for the more recent period, of contributions to economic theory. Hu, Jichuang, in his history of Chinese economic thought (Hu 1988) tries to construct a Chinese parallel to a Western history of economics, giving special emphasis to analytical insights, but not without explaining the specific philosophical background. He establishes parallels with Aristotelian economics, with regard to the distinction of value in use and value in exchange and, in monetary theory, the parallel between the ideas of "light" and "heavy" coins and the explanation of price level changes via the quantity theory of money. Of special importance in Hu's book are the ideas of the *Guan Zi* and of the legalist school, for instance with regard to the employment. We shall discover that these conceptions also show up in the *Yantie lun*, but they are difficult to identify without prior knowledge of the contributions of the earlier

authors. More visible are the philosophical positions of the legalists (Fu 1996) and the Confucians, whose economic ideas have been discussed much earlier (Chen 1911, Böhme 1926). The *Yantie lun* is also a source for historians. For the general history of the period under consideration see Loewe (1974). Here, the *Yantie lun* plays an important role to explain the contrasting tendencies in China to conquer or to appease the peoples invading from the north, and the text is used to understand the changing understanding of cosmic principles and the corresponding cults at the imperial court. However, Loewe also explains how the modernists and their "critics" dealt with the central issues of monopoly and came to a conclusion with regard to these economic questions in section 41, which is translated as follows: "The critics do not understand the issues facing the central government and mistakenly believe that the State's control of salt and iron is not expedient. We ask for the abolition of the State's monopoly for the production of spirits in the provinces and for the withdrawal of the agencies of State that were established for the production of iron within the metropolitan area." (Loewe 1974, 92). The approval of this compromise vindicated the representatives of the government, in that the monopoly of salt was kept as a source for public revenue, which has often been used in many other countries, and the compromise largely left the control of iron production with its strategic importance for war and its economic significance for peaceful industry; it would essentially come to an end only when the centralised power of the realm fell apart.

2. Economic matters in the *Yantie lun*.

There are rich discussions on economic matters in Chinese historical sources and there were a number of terms, which could be translated by "economic" or "economics", but what people meant by these terms did not fully coincide with how we interpret them (Zhao 2014, 67). The choice we make of what we regard an "economic" in a text such as *Yantie lun* is a matter of discretion. The more we adopt the modernist conception of seeing the economy as an autonomous force as the classical economists did in the late 18th and early 19th century, the less we shall find in the form of explicit treatments; there are no models, no theory of value, no growth paths etc. If we take the belief of the actors seriously that the state and its officials shape the political order by cohesion or moral conviction, all aspects of economic life are touched and we arrive at a more fruitful interpretation. To make a choice, we look to what we regard ourselves as economically relevant, we therefore begin with (1) conceptions of development and the structure of production. We then discuss (2) market forms, (3) employment, (4) money, (5) public finance and (6) general and international policy and ask, in each case, how the parties involved in the debate formulate their views.

1) *Conceptions of development and the structure of production*
Mende (2002) points out that the economic chapters in the economic histories of Chinese dynasties typically deal with the following sequence of subjects: demography, agriculture, land tenure, silk production, state granaries, forms of taxation, transport by the state, the monopoly of salt and other forms of taxation, controls of markets and prices, monetary matters. This build-up of the concrete forms of production, state organisation and monetary exchange is represented in a similar manner in cameralist treatises in the West and emerges there out of the monographs on agriculture inherited from Greek and Roman Antiquity (Schefold 1998, 2009). The *Yantie lun* is not so systematic, but there is awareness on both sides that recent delopment meant an extension of the monetary economy and that the personal services and the barter of old times have been replaced by a transition from feudal arrangements (labour services) to payments in kind and in money. In the historical reminiscences, the transformation is associated in particular with the legalist Shang Yang (4th cent. BC; Fu 1996, 17-19). The literati argue in the first chapter of the *Yantie lun* that the

monopolies were introduced in the preceding decades (see above) and helped to increase profit seeking on the part both of the government and the people. Honesty dwindled, agriculture decayed and commerce and artisan production increased. As it turns out later, they ascribe these deplorable tendencies to a lack of virtue on the part of the Court and the officials and more specifically to increased difficulties in agricultural production due to the monopolies, which will be explained later, and to an attraction of commerce due to the increased predilection for luxuries which also encourage "useless" professions. The ruling elite should return to the path of virtue, and the monopolies, as part of the causes of decay, should be abolished. It seems that they favour forms of production in which professions are inherited from father to son and from mother to daughter, be it in agriculture or in handicraft. It is a known way of thinking in archaic societies that one believes that good production is best served if the knowhow is transmitted within the family, possibly supported by guild organisations. Only if these ties are loosened, the path is open to pre-capitalist forms of production, which are clearly not in view here.

2) *Market forms*

Sang Hongyang as the spokesman of the modernists in the early part of the dialogue argues for the monopolies with fiscal reasons, which in turn are based on the problem of power: He believes that it is necessary to push out the borders of the empire in order to be secure from barbarian invasions and that this necessitates to colonise the border regions which are admittedly inhospitable so that large expenses for the military and the semi-military forms of colonisation become necessary. But this is justified because the military extension also facilitates imports from more distant regions, and colourful descriptions of the imported luxury items are spread in the text. He refers to the *Guan Zi***:** if there is fertile land and people go hungry, it must be due to a lack of agricultural equipment, and if the land is rich in resources, but not the people, there must be a lack of merchants and artisans. The Confucian response is to revert these arguments: If there is fertile land and people do not have enough to eat, commerce and industry have been developed excessively. If there are resources, but people do not have enough capital, production is not oriented towards the needs and luxuries have needlessly been augmented. Sang Hongyang accordingly sees the problem of development, following *Guan Zi*, somewhat like we interpret the problem of a poor county in Africa: If the second sector and the third are encouraged, the first can be modernised. The critics simply see the inequality, which they feel is rising in the rich empire of the Han. Both agree that the farmers need the iron tools – we shall come back to the problem. Sang Hongyang insists that agriculture was not the only occupation even in the old times (section 3). This secondary sector is necessary not only to supplement the first, but also to facilitate exchanges with the countries beyond the borders: to get horses from the nomads in the north for silk, for instance. The critics judge that the goods so imported are expensive because of the costs of transportation and not more useful than what one has at home.

According to Wagner (2001), the monopolies were instruments of power. Vogel (2002, 83) explains that Sang Hongyang was not only concerned about the fiscal power of the state but also the political control. Before the monopolies existed, there was a local concentration of the might of the "lords of the mountains and swamps", i.e. of the entrepreneurs in iron production who had to concentrate capital and people somewhere in the wilderness to mine and process the iron (which required charcoal), and there, far from the centres of the administration, they established a local dominance which threatened local legal governments. Sang Hongyang was not against commerce and industry, but they had to be integrated into the system. This involved measures of redistribution. Conditions of production were far from uniform. Vogel (2002, 88) mentions that the workers were in part free wage labourers, in part subject to feudal ties, in part conscripted by the state and there was also military production. Planning of production probably was neither sophisticated nor detailed. The critics therefore

pointed out that the instruments created were of bad quality and not adapted to the needs of the farmers, in particular not adapted to the different qualities of the soil and of the agricultural employments. The peasants therefore refused to buy or could not afford them. Many, apparently, returned to wooden implements. As it is expressed visually by the *Yantie lun*, they weeded by hand. The critics thus argued that the monopoly should be abandoned and repeated that the local power concentration of the entrepreneurs would not result, if the rites were followed. There would be an upswing of production in the countryside (chapters 5 and 31). We may here follow Zhong (2014) and distinguish "harmony of diversity" and great "uniformity": The Confucians want a harmonious society in which one is born and educated to perform a certain function and pursue a course of life in accordance with the mores and one's potential, whereas Sang Hongyang believes in a celestial order that required the state to strengthen the bonds, to allocate goods by a combination of market and planning and to integrate people by using their economic interest, command and fear of punishment. Some redistribution is necessary, granaries are needed to provide for emergencies and to maintain the poor, but there must be freedom and opportunities for the strong to get some measure of riches. There are therefore elements of liberalism in both conceptions, constrained in different manners.

3) *Employment*

We start our consideration of employment policies with quotations from Guanzi (1989):

> "Rulers always desire to have their people employed. To bring this about, they must have laws established and their orders carried out. Therefore, for ruling a country and utilizing the masses, nothing is better than law: for preventing licentiousness and stopping violence, nothing is better than having criminal sanctions." (p. 159)

> "Have the rich build grandiose tombs to employ the poor, construct highly elaborate grave sites to employ engravers and sculptors, use large coffins to provide work for carpenters, and prepare numerous sets of funerary clothing and coverlets to provide work for seamstresses … Doing this provides a source of living from which … all people benefit." (p. 319)

> "If one were to limit the Son of Heaven's burial clothes to three hundred items, it would be too little. However, it would be fine to set this as a standard for the various great officers. What about it? … It is not something that an expert … would find acceptable." (p. 415)

> "When great officers build their grave mounds high and their tombs elegant, they rob both farm and market place of labor. This is not a way to benefit a country. People should not be allowed to use silk coverings to drape over coffins and bury them in the ground. Those who are good at ruling a state simply depend upon the situation to relax or intensify their demands. This is to make use of financial calculations." (p. 415)

The first quote expresses the responsibility of the legalist for employment. It clearly is something that the market will not bring about spontaneously, in the view of the speaker. The law must prevent people from employing themselves by becoming robbers or by other illegal activities.

The second quote seems to indicate that the large funerals known from excavations of the remains of ancient China were consciously seen in the perspective of keeping up employment by providing, as it were, not for the infrastructure of the living, but for the dead. It was one of Keynes's great intuitions to realise this with respect to another despotic state:

> "Ancient Egypt was doubly fortunate, and doubtless owed to this its favoured wealth, in that it possessed *two* activities, namely, pyramid-building as well as the search for the precious metals, the fruits of which, since they could not serve the needs of man by being consumed, did not

> stale with abundance. The Middle Ages built cathedrals and sang dirges. Two pyramids, two masses for the dead, are twice as good as one; but not so two railways from London to York." (Keynes 1967 [1936], p. 31)

Keynes understood that investment must be useful and that it is not possible to propose investment projects for employment, in a capitalist society, if they are not efficient. The legalist despot seems not to be bound by such a consideration. I remember how cynical Keynes's words seemed to me, when I first read them as a student almost half a century ago. Could religion be associated with such mundane goals? Later I learnt that Pericles seemed to express similar ideas when he proposed to have the Parthenon built on the Acropolis. Plutarch (Schefold 2016b) mentions that Pericles pointed out the favourable effects on employment. Yet he did not build the Parthenon with the primary aim of creating employment.

But this seems to be precisely the content of the third quote: the funerary rites shall not be determined so as to create a ceremony which is dignified, but one that has the desirable effect of maintaining employment. The fourth quote reveals that the legalist nevertheless sees a limit to such creation of employment: It shall not draw away labour from occupations which are more directly useful. We might say that the legalist anticipates the danger of crowding-out – a consideration that seems so important in present-day discussions about Keynesianism.

In a sense, this precautionary remark underlines the pragmatism of the approach. It reveals an extreme form of employment policy that is probably not open to democratic states. The dilemma of the state in employment creation is that something should be done for the sake of the unemployed which is not really very useful, for otherwise, it would already have been decided to do it for the sake of the direct utility of the project and not for the indirect benefit of creating employment. The essence of Keynesian employment policy is to push towards the creation of something nearly useless – Keynes himself plays with the idea of filling bottles with dollar notes and burying them, in order to give others the opportunity to dig them up again (Keynes 1967 [1936], 129). Keynes adds: "It would, indeed, be more sensible to build houses and the like; but… the above would be better than nothing." Employment policies on the borderline between the useful and the redundant have been discussed from times immemorial. The merit of Keynes did not consist in the invention of this idea. The General Theory is not new because of such policy proposals, but because it criticised the neoclassical idea that full employment is restored automatically, if wages are flexible. The lowering of the wage will lead to changes of methods of production in many industries, in such a way that more labour-intensive methods will come into use. Keynes showed that lowering the wage in this manner, if it were possible, would have countervailing macroeconomic effects: Lowering money wages would also mean to lower money prices, and, with a lower price level, the deflation would reduce the inducement to invest and make a crisis worse. The critique of capital theory in recent decades has shown that lowering the real wage may not even necessarily lead to the introduction of more labour-intensive methods of production because of capital reversing. I have been able to show that, if the technology has certain random properties, reverse capital deepening will be excluded and lowering the wage does lead to the introduction of more labour-intensive techniques, but their number will be much smaller than expected. It is therefore questionable whether the neoclassical hope of restoring unemployment in this manner by means of efficient techniques will be feasible within reasonable ranges of a flexible real wage rate. Of course, one could always return to old techniques that employ more labour, like by replacing the plough by the spade, but such extreme measures would be inefficient even at very low wage rates (Schefold 2013, 2013a).

This digression into modern economics may help to underline both the importance and the problematic of the suggestions made in the Guanzi. Shall the state order specific forms of

behaviour for creating employment? If the state orders everyone to be tattooed, much employment will be created in the corresponding shops. The advantage over state projects to create employment would consist in the fact that the privates would have to dissave and to pay for their tattooing directly. The state therefore would not only save the cost for financing such investment into human "beauty" by means of incurring a debt or raising taxes, but the state's finances would actually benefit from the taxes paid out of the increased activity – of course, at the expense of individual freedom. Our question now is whether this extreme form of legalist pragmatism also exists in the *Yantie lun*.

In fact, these ideas are also in the *Yantie lun*, though less visible. Sang Hongyang quotes from Confucius (the citation is not in the writings of Confucius though, which have come down to us according to Gale,1931, 22): "One should not be too thrifty so as to be hard on one's inferiors." What he means is: "Without the embroidered ceremonial robes the seamstresses will have no occupation." Here, the sumptuous dress of the officials is defended with the argument that it creates employment. The employment means an enhanced expenditure of the state if it pays for the robes, but imitation may lead to more expenditure by others.

Sang Hongyang also defends his system of redistribution by the argument that the granaries require an administration so that people get employment or are "safeguarded from unemployment" (Ludwig 2002, 116; Gale 1931,10). When the critics say that people abandon agriculture and are without employment, Sang Hongyang responds that they do not work because they prefer to receive the support for the poor from the granaries. The critics reply that absenteeism increases not because people are lazy, but because the impositions on work in the fields are too large. To this we shall return.

Here, we must consider the rites from the point of view of the Confucians. According to Richard Wilhelm (1930, 48): "These rites are uneconomical in the highest degree. They are a weight on the time and the means of the living for the benefit of the past. But they are very much alive sociologically … they represent a triumph of the sociological perspective over the economic" (my translation). Wilhelm wants to say that the rites are there, because a value is attached to them in the sociological sense: to pursue them is virtuous, and that is seen as the opposite of the utilitarian point of view. Is it an exaggeration to say that the Confucians and traditionalists want the rites to be preserved for the good and the beautiful, while the legalists let that pass and are prepared even to increase the luxuriousness of the activity, because that is useful by keeping power in place and maintaining employment?

4) *Money*

The *Yantie lun* contains more on the philosophy of money than on the practice of coinage or the mechanism of monetary exchange. The Mohists had said: "Shoes made to buy are shoes no more" (Schefold 2002a, 26). This is similar to the Aristotelian idea that the art of acquisition consists in production for use, and that production for exchange and the seeking of wealth for its own sake (the seeking of profits) is a different activity, the one involving value in use, the other value in exchange (Schefold 2016b). The Confucians seem to prefer the clarity of value in use (see no. 5 below), while Sang Hongyang pushes for monetisation, hence value in exchange (see his statement on the scheme for price equalisation in section 1).

Early Chinese monetary thought is famous for the distinction between light and heavy coins, the former not counting much and associated with an inflationary tendency, the latter being of strong value and hence deflationary. This distinction, associated with Shan Qi, was used more to recommend policy than to analyse processes. For instance, if prices fall after a good harvest, wheat is "light" and money heavy. So more money should be issued in order to facilitate the selling of the grain (Schefold 2002a, 22). This form of monetary policy also

serves to lessen fluctuations in the Guanzi (Schefold 2002a, 27). Trust in the spontaneous self-regulation of the market develops only much later. When banknotes begin to get issued around the year 1000 AD, metallism is formulated in response and the great experiment with a vast economy based on Fiat money is undertaken and becomes known in the West through Marco Polo (Schefold 2002a, 39). The conversation in the *Yantie lun* remains tied to the principles. Sang Hongyang quotes from the *Book of Changes* that exchange should be facilitated so that the people will be unflagging in industry (Ludwig 2002, 113). He is aware of stages in monetary history. He mentions cowry-shells as money and turns to knife-money as a form of coins. He insists that the coins be issued by the State. It is counterfeiting, if privates issue coins. While the Confucians display a preference for older forms of barter and indicate that money primarily circulates in the second sector, Sang Hongyang observes that it is necessary everywhere, also in agriculture, but this is for him also an occasion to return of his ideas of redistribution, for there is the danger that money corrupts the rich and that these are imitated by the poor; his system is meant to ensure that all get provisions (Yantie lun, chapter 4). To dispel "doubts and suspicions", Sang Hongyang wishes to keep the production of coins under imperial control. He recalls that coinage was free under the government of Emperor Wen (179 – 157 BC), but this led to local concentrations of power, to rebellions and illegal activities. He feels that the present arrangement is a return to the fundamental activities, e.g. the people is concerned with production. To this the critics reply that there had been different kinds of money, that commodities were traded, and that the people were happy in earlier times. A new coinage makes it difficult for the peasants to distinguish good coins and bad coins. Traders exchange bad coins for good ones and "get the double" (Yantie lun, chapter 4). Apparently, the government was not able to maintain a strict standard for the coins and the farmers had difficulty distinguishing them, not because there were too many sorts in circulation, but because the coins of each sort were not of equal quality. Hence the critics preferred private coinage, but it is not clear why the problem should be lessened thereby.

5) *Public finance*

In a restricted technical sense, the *Yantie lun* is about public finance, and the debates are fought by quoting precedents. For instance, the modernists argue that Shang Yang had been very successful as a minister in Qin, who controlled the people, who was able to extend taxation widely, while keeping taxes low, with monopolies, which functioned well, and he made important conquests without putting to much strain on the people. In this same chapter 7, the critics respond that there were no monopolies at the time of Emperor Wen and that the people felt rich all the same. Now, since the monopolies have been introduced, the people are exhausted. And the critics deplore the harshness of Shang Yang. They admit that Shang Yang was successful in pushing back the barbarians and in subduing the vassals, but his conduct weakened the state and they ultimately regard him as guilty of the decay of Qin.

The officials, exasperated, challenge the Literati as incompetent. These, to defend themselves from the reproaches of being dogmatic, of mixing in on every issue, of never being informed about the facts, stand up and declare that they rushed to get to the assembly at the imperial command in order to make clear that the wars have weakened the people and that they, narrow-minded Confucians who have come from the countryside, are very worried (Yantie lun, chapter 6). "This is the grievance of the people and the concern of your "bigoted Confucianists" (Gale 1931, 39). They return the challenge of the officials with ostentatious modesty. They complain that the people formerly paid taxes for what they knew and that they now have to pay for what they do not know. By this they mean that, earlier, the taxes were paid in kind, whereas now the peasants have to make payments in cash, hence they have to go to the market. Formerly, the men paid in wheat and the women by delivering textiles. The Secretary, representing the officials, responds that the defunct Emperor had lowered the tax from one tenth to one thirtieth (chapter 15). The critics admit this but point out that the tax

now is in proportion to the area cultivated, and not a fraction of the harvest actually made, so that the tribute is too low in good years, and too high in bad ones. And there are moreover taxes per capita and forced labour. They conclude (chapter 15) that the rich families do not pay their due because they are strong and the tax officials do not dare to demand the full tax, while poor people abandon their land because it does not pay to work on it, given the impositions. As a result, the burden is concentrated on the middle class, which gets impoverished.

6) *General and international policy*
We return to the general situation. One of the Secretaries, in chapter 14, asserts that the introduction of the salt and iron monopolies let production in general grow and helped to improve not only the second sector, but also the first (chapter 14). Sang Hongyang, in chapter 16, assures: "… A wise man will not undertake a purposeless expedition and a sage King will not covet a useless land" (Gale 1931, 101). He adds that the defunct Emperor did not keep all the conquered lands, but returned some to the Xiongnu and restricted the lands retained to the strategically important. He also says: "La dynastie des Han a dépensé, depuis son avènement, des sommes exorbitantes en cadeaux offerts aux Khans barbares, afin d'acheter leur tranquillité e de nouer avec eux des relations pacifiques. Mais, oubliant nos largesses, ils reprenaient bientôt leurs exactions avec une ardeur renouvelée" (Walter 1991 [1978], 215). The modernists here defend themselves against the possible objection of the critics that not everything was tried to keep the nomads away by peaceful means, i.e. by giving them presents. Taken together, the officials maintain the position that their policies led to general prosperity and that the wars were inevitable. The critics argue that one should concentrate on the core regions of the country: "Is it not probably true that there are vast areas lying uncultivated, much sowing without harrowing and much labour without fruit? Well may the odes say: Do not try to cultivate fields too large; – the weeds will only grow luxuriantly" (Gale 1931, 101). The quote could be read to mean that the farmer should seek the optimal land-labour ratio; if the amount of labour is given, the optimum area of land will be that where output per head is a maximum. Hence, if land is divisible, not the entire area should be cultivated, if the amount of labour does not warrant it. This technical point, stressed by Sraffa in his famous article about *Returns to Scale* in 1925 (Sraffa 1925), must here be interpreted as an intuition which can also be applied to the empire as a whole: There are ample opportunities to cultivate lands in the centre, avoiding the conflict with the barbarians.

Both sides share the conviction that the state should provide for the people; the question only is how. We might here speak of provisionism as the policy of a paternal head of state who sees to it that the necessary sources are available; if necessary, imports have to be organised. The Confucians believe that imports actually are scarcely necessary, the empire being autarchic, while Sang Hongyang opts for the import of luxury items made possible through the extension of the borders and the consequent contact with other countries. Neither side is mercantilist in that it would rely on the autonomous forces of the market, which would bring about the growth of an export sector capable of securing an income adequate to buy the imports without specific measures of protection. The attitude of provisionism is characteristic also of other despotic states. It has been shown by Fatih Ermis that it was part of the ideology of the Ottomans down to the 18th century, at a time when their Western rivals had become mercantilist (Ermis 2013). Provisionism was not exclusively an attitude of benevolent despots however. We shall see that it also prevailed at Athens.

3. Comparisons

As we saw, Jichuang Hu liked to compare the positions taken by early Chinese authors on economic matters with those of the classical Greek philosophers, in particular Aristotle. We here provide only the main references; the details are to be found in Schefold (2016b). We first compare the *Yantie lun* with the conceptions of the Greek historians and orators. The grand theme of Herodotus is the contrast between the Greek City States and the oriental empire of Persia, with their respective strengths and weaknesses. How were the City States, Athens in particular, with their democratic structures based on the political intercourse of the households of the citizens, able to withstand a much larger country? The political power at Athens was rooted in the popular assembly, the economic power rested on domestic production, supplemented by the market, and maritime trade. The latter was absent in the land-based democracy of the citizens of Sparta who had a stratum of free noncitizens as artisans and a relatively large stratum of slaves as their support. The history of Thukydides portrays the conflict between these two polar forms of City States. Both were provisionist, Sparta emphasising its autarchy. The Athenian economy was more open, but they lacked wheat, their land, Attica, being best suited for olive production. Hence the Athenians in the classical period had a law that required each ship to help importing grain on its return, and they maintained a close relationship with the Crimea, where Athenian colonies produced much of the grain consumed in the City. Public finance in Athens therefore could not rely on the revenues from large agricultural estates in the homeland. There were harbour taxes and other contributions, which the popular assembly imposed, but most characteristic was the system of liturgies, according to which citizens promised to maintain a certain service such as the payment for a warship for a year or the equipment for a choir in the theatre. It was therefore a gift-giving to the state, which helped to sustain essential activities. The liturgies were not associated with formal coercion, but they were a matter of honour. One used to distinguish between visible and invisible riches. Visible riches consisted in the houses, the fields and the olive trees which a household might have, while the invisible riches were credits outstanding and other monetary items which could not be seen and which therefore made it difficult to assess the wealth of the head of the house concerned. The liturgies had to be based on what the household could afford to give, comparisons had to be made on the basis of visible riches, and each boasted to have given much in relation to the wealth owned. Provisionism therefore seems to be a characteristic of an earlier stage of development than mercantilism and not dependent on the political form of the state: a kind of provisionism is found both in classical Greece and in the world of the *Yantie lun*, especially among the Confucians, whose provisionism borders on autarkism. Nevertheless, though they had provisionism in common, the picture that emerges from the works of the historians and the orators indicates the specificity of the institutions of public finance and their connection with the political institutions and the economic conditions. The liturgies provided public goods without creating a large bureaucracy, and they strengthened the power of individual citizens. The legalists in the *Yantie lun* cherish the ideal of a strong administration and the submissiveness of all except the emperor.

Next we compare the *Yantie lun* with a text in which systems of public finance are analysed directly, rather than with the philosophical texts on householding by Aristotle and Xenophon. A famous such text on public finance is the pseudo-Aristotelian Oeconomica II, which I have discussed in a recent paper, entitled “Political Economy in the Pseudo-Aristotelian Oeconomica II and the German Cameralist Klock” (Schefold 2016c). The comparison here is immediately carried one step further, because this paper attempts to show that there were essential parallels between cameralist writings between the 17th century and the Oeconomica II. Oeconomica II, probably written by Aristotelian scholars but not by the master himself around 300 BC, is on political economy, the term here meaning the householding of a City State. It discusses proposals to finance City States in emergencies and qualifies some of them as just and to be recommended, others as unjust and tyrannical, and to be rejected. This text

was of special interest at the time of mercantilism and cameralism, when new forms of taxation were tried, when princes ceased to rely on the revenues of their domains and had to find new ways to finance increasing territorial states and soldiers. The problems treated therefore resemble those posed in the *Yantie lun*, but the solutions had to be different according to the different political systems, and the cameralists tended towards mercantilism with regard to foreign trade; provisionism had been overcome.

Oeconomica II was, like the *Yantie lun*, reprinted and studied in early modern times. There were various 16th century editions of the Oeconomica II, several in Latin, and a reprint of one of those Latin editions is found within the work of Kaspar Klock, *De Aerario*, of 1651. The book by Klock, a vast treatise, published in 1651 but largely written during the Thirty Years War, deals with the finances of states and, in particular, principalities, from bottom up, discussing first agricultural and industrial production, coinage and monetary circulation, then a great variety of forms of taxation and finally maxims for the ruler on how to spend, all this in the early cameralist tradition. Klock's book follows the ample literature of his time on foreign countries and introduced his treatise with a book dedicated to the description of all the major countries of the world – European empires and nations, Orient, the Americas, even Subsaharan African kingdoms – with their systems of taxation, seen in relation to the specific "Reason of State" in each, the characteristics of the population, the economic arrangements, the social mores, explaining much through climate and geography, in order to demonstrate that the various aspects of the economic life of a country must fit together and that the systems of public finance have to be adapted to these characteristics. Klock's work is of double interest to us, for it deals with China, mainly on the basis of the reports of the Jesuits, and because it represents a unique 17th century reflexion on the historicity of public finance by comparing the modern views and those of antiquity on the basis of Klock's interpretation of Oeconomica II.

First a word about Klock's assessment of China. He treats the country as a closed world, intent to keep inner peace. Only the Great Wall reminds the reader of the times when the outer confines of China still had to be determined. Klock, who may have written this during one of the worst wars of history, praises Chinese peace, justice, benevolent government and the happiness of the state – no other country in the world is more "political":

> "ideo floret hîc Justitia, quietis mater, guberationis omnis bonitas, & Reipublicae felicitas … Non aliud regnum, nec Dominium antiquum, nec novum illo magis politicum est" (Klock XIX, 3).

Without going into details regarding population and the level of incomes, we note a key point made by Klock. Almost all taxes flow to the emperor in a realm in which there are no vassals and lords. Hence it is essential that the emperor also spend as much so as to enable the people to pay taxes again in the following year. Klock explains this by means of the principle of communicating vessels, which is his illustration of equilibrium. Each other country study had given rise to the explanation of a bit of economic theory, not in abstract form, but by means of a visualisation. The Dutch, for instance, prosper because of share-holding trading companies, while the Grand Duke of Moskovy tries to keep the best trade for himself. China is used to illustrate a circular flow. And that this is what Klock means becomes clear when he goes a step further and asks what would happen if the emperor started to spend on foreign goods. He believes that this would mean a double imposition on the people, for they would have to spend the moneys for the taxes, but they would not have the hope of getting them back again by selling to he state. In the original:

> "In Regno, dico; si enim extra Regnum expenderet, angariae (the impositions) dupliciter consumerent populum: Nam ex ejus manibus elaberentur pecuniae, facultatesque, neque spes superesset emolumenti, aut fructus alicujus" (Klock XIX, 18).

Klock does not speculate that an expenditure of the emperor abroad might lead to exports from China to other countries. The cameralist always fears the outflows due to imports and the successive export is not certain – his mercantilism lacks self-confidence.

Oeconomica II (Kyrkos and Baloglou 2013) distinguishes householding according to four types of households: that of the Great King (meaning that of Persia), that of provincial governors, that of cities and finally that of private households. We may disregard the provinces. The householding of the cities is called οἰκονομία πολιτική (Aristotle 1346a6) – the term "political economy" appears here for the first time. The text affirms that the government of the King is the simplest, while that of the household is "difficult to reduce … to rules owing to the necessary variety of its aims" (Aristotle 1979 [1935], p. 349). Schefold (2016c) tries to explain this by pointing out that the monarch is one person in which all power is concentrated, while the household of the individual citizen must react to a variety of demands made on it according to the roles played by the head of the household. He must act according to the requirements of the City – for instance, paying liturgies –, he may have duties in the military and be required to spend time with the army in a distant place, and he is a head of the family who ought to remain at home, to administer the estate and to keep the family fortune together. Greek philosophy revolves around the principles needed to make choices in contradictory situations. The modern solution, based on the separation of household and firm, consists in observing different ethical rules, depending whether one acts at home in the interest of the family, where one has to care also for weak family members, or in an enterprise where people have to be dismissed, if they are inefficient. Max Weber thought that only this separation made *modern* capitalism possible (for other interpretations see Zoepffel 2006). *Yantie lun*, by contrast, emphasises the simple duties of the individual household and the complexity of the task of governing.

Oeconomica II mentions monopolies. The City of Byzantium, for lack of funds, created a banking monopoly. This is heavily criticised by Klock. To him, monopolies are granted by princes, they lead to prices being too high and they are permissible only in special and extreme circumstances. Klock does not realise that, if a popular assembly of citizens decides to create such a monopoly, it is a form of a self-imposed taxation, and that is why the people of Byzantium temporarily were ready to live with this expedient. The analogy with the *Yantie lun* consists in the fact that the monopolies discussed there have recognised costs, for they serve as a mean of taxation. Moreover, the debate held according to the *Yantie lun* may be seen as a substitute for a consultation of the people which, in an empire, must be represented by individuals elected or chosen from above. Klock, although he is a Protestant, wants to be loyal to the catholic emperor and shows, despite his admiration of the Ancients, little understanding for Athenian democracy.

There are several examples of monetary policies, which Klock seems to deplore and which are recounted in the original Oeconomica II as problematic. However, there are also more positive examples. The people of Clazomenae were, as a city, externally indebted and temporarily unable to pay back. They only could pay interest on their foreign debt. They decided to replace their currency of silver by one of iron, so that the purchasing power of the coins would not correspond to their intrinsic metal value anymore. These iron coins were distributed to the wealthy citizens who were invited to give silver for them, and the city promised to take back the iron coins and exchange them for silver again in the future, paying

interest at the same time on the silver loan thus obtained from the wealthy. The silver so collected was used to pay back the foreign debt of the city. It was therefore an operation undertaken to finance the state by the issue of an undervalued currency, coupled with the promise to return to a currency of full value without loss to the public. The operation is reminiscent of the suspension of cash payments in Great Britain during the Napoleonic War, which was declared to be temporary and led to a return to the gold standard. In the British case, the trust that this would happen prevented a strongly inflationary outcome such as resulted in France, when the revolutionaries issued the Assignats.

The episode is remarkable because it demonstrates that already in Hellenistic times it was possible to conceive of the circulation of a fiat currency, nearly 2000 years before inconvertible paper notes began circulating in the West. Klock approves of the procedure and regards it as so interesting that he tries to add "modern" examples, one of them concerning the reign of Ferdinand and Isabella of Spain about 170 years earlier. If the principles of a fiat currency could be understood that early, why were they not used to replace the costly circulation in terms of silver by means of paper or leather or something similar? We saw above (section 2,4 on money) that notes in China began to appear around 1000 AD and were used systematically under the Mongol emperors.

The answer is clear: the weakness of the states and the rivalries among them in the West led to distrust in any kind of money that did not circulate at full value. Only exceptionally could such an experiment be tried. But European countries often resorted to the depreciation of coins, which represents an intermediate case. The larger and stronger the empire, the more it became a temptation to have coins of lower denomination circulating below full value. There then resulted the curious contrast between the inflation in terms of copper money, accompanied by deflationary tendencies in terms of silver and gold – opposing tendencies that could be observed in Antiquity in the Roman Empire. The *Yantie lun* does not address this problematic directly. The wish to centralise monetary production by the legalists may perhaps be explained in terms of the will on the part of the governing to manipulate the value of coins to some extent so as to achieve ends of monetary policy, which Sang Hongyang defends in terms of his schemes of redistribution. The Confucians seem to trust more, if coins are privately issued on a decentralised basis. If the coins are under weight, they can be refused. Such coins would not be money according to Knapp's theory.

The comparisons could be continued. One might examine how economic principles are tied to philosophical views and religious convictions. But this and other speculations are now left for future research. It is clear that the major differences are related to the completely different structures of the countries and their economies concerned: on the one hand the vast empire, with the power concentrated in the imperial court, on the other the rivalry of a multiplicity of states, some with tyrants as governors, others democratic according to different constitutions. Visions of organising the economy and of thinking about it were formed in both cases, which would have an impact for a long time to come – possibly down to the present. Klock, as a humanist admiring Antiquity and as a German a subject of the Holy Roman Empire, stood in-between. As we saw in the beginning, the *Yantie lun* is still a focus of debates on how to govern China and Aristotle's *Ethics* and *Politics* continue to inspire Western political and economic thought.

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