

# On State Macro-Control Thoughts in Ancient China

## --Based on *Discourses on Salt and Iron*

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**Abstract:** In *Discourses on Salt and Iron*, debates on state governance such as proprieties, righteousness and material benefits, and economic policy during the reign of Emperor Zhao of Han Dynasty (87 BC-74 BC) were recorded, between the Confucians and the Imperial Secretary Sang Hung-yang. The debate mainly centered on Sang Hung-yang's policy of state monopoly policies. On one hand, the Confucians adhered to free economy and opposed to collecting taxes on goods from mountains and marshes, while on the other, the Imperial Secretaries supported the expansion of such policy. Viewing the debate from the perspective of economics, the paper is to explore its inspiration on present state-owned enterprises and private enterprises, and relationship between government and market.

**Keyword:** State monopoly policies, state intervention, non-interference, government and market

During the reign of Emperor Wu of Han dynasty (141-87 BC), governing with non-interference in the early Han dynasty was changed to attacking the Hun with all its forces and carrying out policies the state monopoly policies, equitable distribution system, price equalization operation and unification of the monetary system, to strengthen the government finance. Although it facilitated the consolidation of central power with firm financial foundation, strong discontentment and opposition was aroused among people in agriculture, small and medium-sized commerce, and general public for the difficulties, especially the local dukes and wealthy merchants for the loss of vested interest. Therefore, issues like whether industry and commerce should

be monopolized by government became the big concern of the society, politics and economy then. On the eve of the Emperor Zhao succeeded to the throne, Ho Kuang and Sang Hung-yang were both appointed to assist him. Ho Kuang insisted on the policy of provision for recovery to restore the social stability and strength, while Sang Hung-yang persisted in continuing the state monopoly policies to settle the state deficit for the national security. Their contradiction triggered intense political combat.

In 81 BC (the sixth year of the shi-yuan era during the reign of Emperor Zhao), the government ordered over 60 of Worthies and Literati across the country to confer with the Chancellor and the Imperial secretaries in the capital Chang'an as to the rankling grievances among the people, which was called the Salt and Iron Meeting. The two parties had an intense discussion on financial policies like the state monopoly policies, equitable distribution system, price equalization operation and unification of the monetary system, and also on military and diplomacy like the plough, frontier defense and state security. It was the first extensive debate on state policies in ancient China, which seemed an open strife between the government and the people, but in fact a veiled war concerning political claims between Ho Kuang and Sang Hung-yang.

The Confucians, based on Confucianism, viewed the government had entered into financial competition with the people due to the state monopoly policies, and sturdy natural qualities decayed as artificiality and mercantile pursuits thrived. So they requested less restrictions on currency and business operation instead of the system of state monopoly policies in Emperor Wu's time. Their economic proposal was accepted and carried out after the debate. Three decades later, Huan Kuan wrote the *Discourses on Salt and Iron* based on the official document, from the perspective of the Confucians.

The existing literature mostly analyzed the economic thoughts in the book from the perspective of economic ethnics, identifying with non-interference instead of state monopoly policies. The paper is to reinterpret the economic

thoughts in the book with the political economic background and cultural foundation, based on the view of economics. The paper comprises three sections: the first part is on the key subjects illustration in the book, analyzing the two different views of non-interference and state intervention, from the different opinions of the Confucians and Imperial secretaries about financial dimension, as well as industrial and commercial development; the second part is based on the debate between the state-owned and private industry and commerce, to discuss the synergetic development of state-owned and private enterprises in contemporary China; the author is to conclude, in the third part, the inspiration to the later generations in economic administration, from the aspects of cultural, material and social life.

## I. Key subjects of salt and iron meeting: non-interference or state intervention?

In the meeting, from the different ruling strategies of benevolent government and dictatorship respectively, the Confucians and Imperial secretaries discussed policies of politics, military, diplomacy and economy. Their distinct military and diplomacy views led to disputes on financial revenue and expenditure, thus giving rise to two contrary economic policies of non-interference and state intervention. Specifically, the divergences lie as follows:

### 1. Fiscal Expenditure Dimension

#### A. Imperial secretaries' claim to expand fiscal expenditure

With positive view of state function, the Imperial secretaries advocated to maintain the frontier security and social order by military forces and laws, so they advised to attack the Hun and implement strict laws. They insisted to continue "the salt and iron monopolies, the liquor excise and equitable

marketing”<sup>①</sup> to furnish the expenses of frontier and supervision.

#### B. Confucians’ claim to cut financial expenditure

Owing to Confucianism, the Confucians thought the principle of ruling men lied in virtue instead of mercantile pursuits. Even in response to the threat of the Hun invasion, they preached, “By meaning of moral conduct and bountiful gifts the northern barbarians will subject themselves to us”<sup>②</sup>. In other words, they preferred ruling by virtue so that the authorities didn’t need to launch the war, thus avoiding increasing the financial revenue by exploiting the people. Moreover, the over expansion of state function at that time had added to the financial burden and influenced the people. Therefore, the Confucians advocated “overcoming hunger and cold, abolishing state monopoly policies, and returning people’s rights”<sup>③</sup>.

#### 2. Can commerce contribute to state financial revenue?

On one hand, industry and commerce could gather plenty of resources and promote efficiency by division of labor, which can become the source of financial revenue. On the other, due to its great mobility, expansion of industry and commerce might cause imbalance among all walks of life. On this issue, the two parties had serious contradictions.

#### A. The Imperial secretaries: Positive

Similar to modern economics, the imperial secretaries held that spontaneous trading in market would circulate currency and goods, meanwhile distribute the resources efficiently. Firstly, industry and commerce plays a vital role in currency and goods circulation, “Thus without artisans, the farmers will be deprived of the use of implements; without merchants, all prized commodities will be cut off”.<sup>④</sup> Further, they illustrated with proofs, “nor did they enrich the state through one way, ...Why then must one encourage simple agriculture in order to enrich the country, and observe the ‘well-tithe’ to provide

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<sup>①</sup>Chapter I. The Basic Argument, *Discourses on Salt and Iron*

<sup>②</sup>Chapter I. The Basic Argument, *Discourses on Salt and Iron*

<sup>③</sup>Chapter XXXVI. Flood and drought. *Discourses on Salt and Iron*.

<sup>④</sup>Chapter I. The Basic Argument *Discourses on Salt and Iron*.

for the people?”<sup>①</sup> So they considered industry and commerce profits as the main source of revenue to meet the needs of financial expenses.

#### B. The confusions: Negative

In spite of thinking commerce as important elements of state finance, the Confucians strongly opposed state-owned commerce for two crucial reasons: the great mobility of the wealth of commerce would damage social morals, “dissipating primordial candor and simplicity and sanctioning propensities to selfishness and greed”<sup>②</sup>; the administrators of state commerce were likely to abuse the power to take advantage of the people, imposing their burden.

### 3. The production and exchange of daily necessities

Due to the demand for daily necessities is price inelastic, the demand quantity varies slightly when the price increases. The monopolies of daily necessities like salt and iron will bring an immense amount of revenue without increasing any levy on the crops for the people. Nonetheless, monopolies in market by executive power will destroy the competitive mechanism in the market and add to the people’s burden. Then, the two parties had great differences on the monopoly of daily necessities.

#### A. The Imperial secretaries: state monopoly

The Imperial secretaries firmly supported administrative monopoly and collecting taxes on mountains and marshes, illustrating from the aspects of financial revenue and social management.

As for the financial revenue, the Imperial secretaries identified with the view of *Guanzi* that gaining financial revenue from commodities with low price elasticity of demand like salt and iron. In such occasion, the financial revenue would increase without influencing people’s daily life, “The profits derived from the state monopoly policies serve to relieve the need of the people in emergencies and to provide sufficient funds for the upkeep of military forces. These measures emphasized conservation and storing up in order to provide

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<sup>①</sup>Chapter II. Hold Fast the Plough. *Discourses on Salt and Iron*

<sup>②</sup>Chapter I. The Basic Argument. *Discourses on Salt and Iron*

for times of scarcity and want. The beneficiaries were many: the State profits thereby and no harm is caused to the masses.”<sup>①</sup> As to social management, they considered state monopoly policies contributed to state function in supervising and managing the price stability, industry regulations and technical innovation, so that the market operates in order. Further, politically, the state monopoly policies could also inhibit personal influence and promote centralization. Thus, they insisted in state monopoly policies and excessive profits obtained by the state, which met the needs of state politics, diplomacy and economy.

#### B. The Confucians: private operation

The Confucians denounced the argument of state monopoly policies by the Imperial secretaries and urged abolishing such policy to implement private operation. Firstly, state-owned industry and commerce will lead to pursuing profits instead of righteousness, which is against the basic policy of ruling by righteousness. Secondly, in fact obtaining revenue by monopoly is to conceal the taxes of voluntary trading, and disturb people’s production and life. Thirdly, state monopoly policies need immense human resources and supervising system. The officials might abuse the power and oppress the people owing to maladministration. Lastly, it’s the state officials of monopolies rather than the private business owners that influence the social balance and stability. So they were for *laissez-faire* and objecting to state monopoly.

In conclusion, the two parties had distinctive opinions on the following points: in military and diplomacy, the Imperial secretaries backing defending the state by military forces while the Confucians supporting drawing the neighboring countries by virtue. In economy and finance, the secretaries stood for economic interventionism on industry and commerce, while the Confucians favored macro policy of *laissez-faire*. As to social morals, the Confucians deemed the secretaries’ state intervention would cause profit pursuits rather

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<sup>①</sup>Chapter VII. In Criticism of Shang Yang. *Discourses on Salt and Iron*.

than elemental virtues in the society. In political system, the secretaries considered state intervention would restrain land annexation and destruct great landowners, retard the peasant bankruptcy and intensify the centralization of the feudal government, while the Confucians thought the intervention would definitely impose more burden on the masses and sharpen the social contradictions. Each side has some truth in the views of macro-control.

The administrative monopoly intervention during the reign of Emperor Wu indeed restrained the land annexation and retarded the peasant bankruptcy, which benefited agricultural production to some extent. Meantime, it ended the long-term confrontations of dukes, and promoted the centralization. Nevertheless, monopolies of salt, iron, liquor, mountains and marshes among other natural resources not only retrained the private industry and commerce, and sharpened the social conflicts by increased burden on people. In Emperor Wu's later years, he recognized the disadvantages of state intervention, so he delivered *Imperial Edict on Introspection after the Decision of Luntai County* in 89 BC to ease the social contradiction. As the recording of the first informative and well-conserved edict of introspection in ancient China, "Everything that harmed the people with immense expenditure shall be abolished"<sup>①</sup>, Emperor Wu restarted the policy of governing by non-interference and recovery in his late years. During the discourses on salt and iron, the Hun rebellion had been curbed, the people lived in severe grievance, and the social conflicts sharpened, so state intervention no longer conformed to the times. After the discourses, state intervention was replaced by liberalism temporarily.

## **II. The management of industry and commerce: state monopoly or private operation?**

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<sup>①</sup> History as a Mirror. Chapter XXII.

In the discourses, the Confucians and Imperial secretaries both thought highly of industry and commerce, despite their divergences on the management right. The secretaries deemed state monopoly could support financial expenses on defending frontiers, but the Confucians suggested private operation which is in line with the market rules. Reflecting the transformation of Chinese economic thoughts, the debate shed light on the present industry and commerce in China.

### 1. Three major defects of administrative monopoly

#### A. Production

The Confucians found the disadvantages of state-owned enterprises in production: The ironware manufactured by the state was of poor quality and slow updating so that agriculture was affected; the exclusive sales department sent plenty of young men to remote mountain areas for salt, iron and liquor production, which increased the cost without the best resource distribution. The enterprises lacked the motivation to improve the technique that the less diversified ironware was not possible to meet the needs of different people and hindered their production and life. "Now in Ch'in, Ch'u, Yen and Ch'i the quality of the soil differs. There is variety in the methods of cultivation of heavy and light soils. The use of large or small, the suitability of straight or curved ploughs, are different according to districts and customs. Each has its convenient use. But when the magistrates establish monopolies and standardize, then iron implements lose their suitability, and the farming population loses their convenient use. When the tools are not suited to their use, the farmer is exhausted in the fields, and grass and weeds are not kept down. When the grass and weeds cannot be kept down, then the people are wearied to the point of despair." (Chapter V. Hindrance to Farming)

Actually this is a common problem in any monopolies. The monopolies, lacking competitiveness and the motive to promote the operation and product quality, have low labor productivity, unreasonable division of labor and waste of

the resources. Surely it will impede the sustainable development of economy.

#### B. Distribution of interest

Extensive administrative monopoly will lead to rent-seeking power, government malfunction and political corruption. In spite of destructing the rich businessmen and strengthening the centralization, state monopoly policies took advantage of the exclusive right and nurtured new rich classes, extravagant trend and distribution imbalance and uncertainty. The masses generally realized the state enterprises didn't provide convenient things, but became the way the magistrates made profits. "At present, we see on the other hand the Government opening up national reservations, public fields, ponds, and marshes; but the result is that while the Commonwealth enjoys in name of the rentals from the dykes, all the profit derived from them reverts to the plutocrats. ...It is our humble opinion that this was not the purpose of the late Emperor in opening up parks and reservations, ponds and weirs. They could be turned over to the people in return for certain levies: the Government should get nothing but rents and taxes. Though lease and tax are different terms, they are identical in substance." (Chapter XIII. Parks and Ponds)

The operators of monopolies, on one hand, offered fairly high price to the people, and on the other hand required a large amount of allowance from the government. The non-market way of resource distribution widened the gap between the rich and poor, malfunction in resource allocation and immense state financial loss.

#### C. Externality

The administrative monopoly lowered the efficiency of resource allocation, aggravated the market disorder, and decreased the transparency of market order. As both the "referee" and the "athlete", the local department of economy set and carry out the relevant rules with serious partiality, explicitly against the market fairness. Such situation impeded the fair competition among companies, and a free, fair and competitive market.

## 2. Synergetic development of state-owned and private economies

In the Chinese economic thoughts history, the state-owned economy is featured by the feudal government entering directly into the circulation of commodities and production of some products. It controls the industry and commerce by economic and political means, and influences the whole national economy, dominating the socio-economy. In substance, commodity economy has its rules of free equivalent exchanges, commercial credit and legal system, so the state operation's simply ordering the production without abiding by or even going against the economic rules definitely will hinder the commodity economy. Further, the officials are more inclined to collude with businessmen to embezzle the state property. Private enterprises will be deterred and withered in development, and personal interest is vulnerable to infringement.

Private economy is micro economic form in line with commercial and market principles. It solely pursues profit, with flexible employment and incentive distribution mechanism. So compared with state-owned, the private industry and commerce are more dynamic to boost the economic development. Nevertheless, we have to admit that private economy itself has insuperable limits: the initiative and blindness of development. If the government doesn't constrain the private enterprises' pursuit of interest maximization, the free economic development will lead to industrial structure imbalance and deteriorated wealth polarization. Thus it will arouse fierce criticism of the public.

Therefore, there always are fields in private economy that people hardly are able or willing to do. To maintain the industrial structure balance and avoid wealth polarization, state-owned economy ought to manage the national economy and supplement what private economy lacks, instead of pursuing monopoly interest by restraining private economy development.

Meanwhile, we learn from the Confucians' criticism of state monopoly policies that state-owned economy can develop steadily and fast only through reform. Then the present reformers in state enterprises could deal with the

problems through property right diversification. Such reform doesn't mean simply lowering the proportion of state-owned shares, but internal effective managing structure, reasonable market orientation and profound competitiveness in the enterprises. What's more, the reformers should readjust the state economic arrangement so that the state companies leave the common competition fields and the number of small and medium-sized state companies become less. In such occasion, the state capital focuses on large enterprises and crucial fields concerning the core of the national economy. Investing the finite state capital in the essential fields of national economy will definitely contribute to state-owned economy's dominant and leading role in the national economy. But as for the ordinary fields of lower trade barriers and strong competition, state capital should bear to withdraw since it's difficult for the capital to yield returns in the fields.

In brief, both state-owned and private economies have their own advantages and disadvantages. Unlike private economy, state-owned economy has scale effect and executive privilege. Undoubtedly, state-owned economy encounters issues of low efficiency and rent-seeking power. So the decision-makers often combines the two policies, complementing each other.

### **III. Enlightenment for the later generations: the one conforming to the trend will thrive, otherwise perish.**

There was a similar disagreement to the discourses on salt and iron, the debate between Keynes and Hayek in 1929 around the Great Depression. The transcendence and advantage of Confucian economic ethics lie in "Confucianism always tackles the social economic issues from the root. Unlike the administrators, Confucians are more intended to adjust the social economic mechanism fundamentally to deal with the social economic issues,

pursuing the national long-term interest.”<sup>①</sup> In contrast, the Legalist school, law-oriented, emphasizes state-owned enterprises and perceives that private enterprises should be restrained and managed by the government, so that the national strength will get promoted.

Actually, any economic policies exist in certain social and historical environment. There is no definite right or wrong, but relatively in line with the times. Reviewing the whole book of *Discourses on Salt and Iron*, there are deep meanings in both the Imperial secretaries’ “combining benevolence and dictatorship” and the Confucians’ “ruling by virtue”. Whenever a party seems to be convincing, the other one prevails with more solid argumentation. That’s because of their different purposes and visions of humanity. Sang Hung-yang’s state intervention was to oppose the free economic thought in “the reign of Emperor Wen and Emperor Jing”. His suggestion did make progress in Emperor Wu’s time. But after expanding the frontiers and intensifying the centralization at the great expenses of the people, state intervention didn’t conform to the time any longer. In the situation of hardship and social conflicts, the Confucians strove for abolishing state monopolies and adopting policies centered on private economy. Obviously, this was against Emperor Wu’s state intervention.

Economic policies certainly have limitations, and their effect will disappear or even reverse. When policy environment varies, we should observe the present economic policy objectively and dialectically. The policy should be maintained if in line with the situation, otherwise must be adjusted timely to ensure the sustainable economic development. Confronting market serious disorder in financial crisis or large wars, state intervention needs to be promoted to adjust the economic situation. Nevertheless, the government should reduce the intervention as a supervisor in time when the crisis ends and the economy turns better.

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<sup>①</sup>Zhang Hongyi. Confucian Economic Ethics [M] Changsha: Hunan Education Publishing House. 1989:P54.

This is as the contingency principle by Si Maqian concerning national governance, “The best way is to conform to the natural tendency. The secondary to the worst are guidance, instruction, restriction and competition.” In other words, the best way to manage national economy is to conform with the people’s pursuit of interest, but then some low-profit industries will lack participants. So for industry balance, the government should provide tax deduction and exemption as well as financial subsidies to encourage the private capital to enter. As for the counterfeit and poor-quality commodities and tax evasion by the private business owners through information asymmetry, the government should gradually guide them to adjust, and force them with power only if necessary. Only when the market is seriously in disorder, can the government interfere to restore the balance. Once the market is balanced, the government should reduce intervention. Therefore, the government should adjust the national economic policies timely by observing people’s livelihood constantly.

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