Preface

Since the recognition of the work of Douglas North and Robert Fogel by most economists, the paradigm that they created to analyse the long-run economic evolution of a country has been developed substantially. However, most studies have focused on Western countries while few have studied one of the largest and most ancient countries, China. In recent years, the examination of China’s long-run economic development has attracted increasing academic attention from economic historians, economists, sociologists, historians, political scientists, and so on. In this respect, many hypotheses, such as the political hypothesis, the economic hypothesis, the sociological hypothesis, the historical hypothesis, the hypothesis of systematic dynamics, and the ecological and geographical hypothesis have been developed. In economics, the hypotheses include the resources-technology-institutions hypothesis, the political economy hypothesis, the transaction costs-division of labor-market size hypothesis, and the institutional hypothesis.

In such a context, this study tries to analyse the long-run evolution of the Chinese economy since the Qin dynasty (221 BC) from a perspective of the pattern and inertia of governmental governance based on the petty peasant economy. Relative to other hypotheses, this study could be placed in the category of a neo-institutional hypothesis, although it differs from neo-institutional economics. To be precise, this study could be referred to as “an institutional hypothesis based on nature, geography, and ecology.” In neo-institutional economics, the structure of a country’s property right is one of the most important variables that explain the long-run economic evolution of a country; however, in this study the structure of property right is only an important ring in the institution of Chinese governmental governance and its pattern based on the Chinese petty peasant economy. In addition to property right, the institutions related to administration; how to choose and manage human resources; fiscal and taxation issues; land and industrial management; defense and military matters; how to manage people, society, and culture; how to govern minorities, and so on are all indispensable, interdependent parts of the overall Chinese governmental governance institution.

In particular, how did China form so different an institutional and governance style from the West? This study argues that a favorable natural
and geographical environment is a very important prerequisite that shapes all aspects of governmental governance and its pattern. If this prerequisite is not taken into account properly, it is not easy to give a reasonable explanation of the way in which Chinese governmental governance differs and its inertia pattern. On this basis, a set of institutions with Chinese characteristics, such as the land tenure system, the inheritance system, and the centralized political institution, have been founded. The overall system survives because of the peasants’ fiscal support in the form of tax, land rent, and labor services. It also depends upon a supply of peasants to be soldiers and bureaucrats in order to maintain political governance, and relies upon Confucianism to provide ideological support for the whole of society and to train bureaucrats and peasants. Thus, a set of institutions such as imperial examination, a fiscal system, a bureaucratic system, and an administration system have been masterly constructed by centralized rulers. After more than 2000 years’ practice and trial and error, this set of governance institutions predominated over other governance styles and institutions, and stabilized in the form of Chinese routine practices and administration inertia. We call this kind of pattern or state “the China equilibrium.” It is rational for successive rulers to accept and choose this governance pattern rather than other governance patterns since doing so has a low cost, experiences less risk, and is efficient in terms of production and management. In this pattern, the peasants’ economic interests were protected and their political desire was presented. Confucian scholars chose the right way of working for bureaucrats, the interests of businessmen were marginalized, and new thoughts and innovations were unable to be easily generated in this pattern. As a result, China experienced many imperial alterations but still maintained the way of a physiocracy rather than transforming into the way of modern growth.

Why were there economic fluctuations in Chinese history? The reasons can be found in this unique pattern of governmental governance and its untimely adjustment. Namely, when a change in the internal and external environment facing the petty peasant economy was matched with timely, reasonable, and correct adjustments of governmental governance, there would be economic development and social and political stabilization. In contrast, when the government misunderstood the information about an external environmental change or governmental governance was inappropriate, and/or what action the government took was in sharp contrast with reality, an economic downturn would occur together with social chaos and, ultimately, even dynastic collapse. However, if environments were favorable, this pattern would regenerate itself in a new form. This is an important and unique perspective for understanding China’s unique development path and long-run economic evolution.
Why has there been an economic miracle in China since China’s reform and opening up? This book argues that any one single perspective that adopts a hypothesis such as the reform and opening up, fiscal decentralization, foreign direct investment (FDI), and town and village enterprises (TVEs) since 1978 cannot give a reasonable explanation if we do not employ the perspective of the fundamental transformation of the Chinese governance pattern. In history, the petty peasant economy, combined with disrespect for business and businessmen, formed a solid economic foundation for the survival and development of the whole country, while agriculture and peasants, industry, and commerce are given equal respect in the ruler’s governance framework since the reform and opening up. Before 1978, Confucian thought and imperial examination were two major sources of national ideology. In the imperial period, the only way to be a bureaucrat was measured by the performance of students. In contrast, Confucian thought is now associated with critical study: Marxism and Leninism, Mao Zedong thought, Deng Xiaoping theory, and the theory of the Three Representatives are becoming the national ideology in China. Nowadays, academic expertise is only one of the requirements for choosing cadre members and official candidates rather than a sufficient condition. Further, experienced and clever youths are increasingly chosen as cadre members or administration personnel. In the past, most dynasties maintained an inward-looking stance and preserved existing policies and institutions regarding foreign affairs. However, after the reform and opening up, active participation in the international division of labor and competition, careful learning from all human civilization, a friendly relationship with neighboring countries, and a peaceful international economic and political order have become priorities. In history, the emperor and his bureaucratic stratum were the ruling class; numerous peasants and the industrial and commercial class were their ruled class; and class struggle was the main cause of conflict and the fundamental reason why dynasties rose and fell. In contrast, since 1978, most peasants, workers, and intellectuals have become the owners of the country, and the emperor and class conflict has disappeared. Today, most conflicts are within people.

In this book, questions such as why the Needham puzzle has repeatedly aroused the interest of so many scholars, why the Qin dynasty became bankrupt very quickly, why the Song dynasty entered a new era of governance while the Ming and Qing dynasties turned inward rather than outward to the outside world, why the Guo Min Dang (GMD) administration became bankrupt in mainland China, why China’s reform was initiated from the countryside rather than the city, and where we are heading in terms of governance . . . all these can be answered within the framework of this book.
Some arguments may say that much of the content of this study seems very familiar to the average Chinese. In this regard, consider a very similar criticism by an economist against the new economic geography (NEG), the new school in economics: the ingredients of NEG all come from classical location theory. In fact, NEG is only a new menu of the old dishes done by classical location theory. In this sense, I would like to refute such criticism because it is not a new organization of old content that effectively explains the long-run evolution of the Chinese economy and innovation. Others may argue that the legitimate and just protection of private property is the only way for the modernization of China. Certainly, this is correct in principle. But is it not reasonable to say that if we do not understand the inertial pattern and model of historical Chinese governance, how can we understand the failure of a smooth transition from an agrarian economy to modern economic growth in China, and how can we find the true sources of why China did not choose the right way to modern growth after the fifteenth to the eighteenth centuries? Certainly, how can we understand the deepest logic and fundamental reason of the saying by Deng Xiaoping at the beginning of the Chinese reform and opening up that “the primary stage of socialism will last for at least 100 years.”

Nowadays, there is a clear trend to forget history, especially Chinese history, and only remember the practical reality of Chinese economic scholarship. In this context, this study is an effort to recuperate the tradition of economics with an historic perspective. Moreover, I insist that if we cannot understand the past governance pattern of Chinese government, how can we choose the right way for China’s future, let alone find the optimal path of China’s long-run economic and sustainable economic development?

In terms of the literature, this study follows the discussions of neo-institutional economists, such as Douglas North, and new political economists, such as Daron Acemoglu, about why some nations are rich, while others are poor. However, such studies are mainly comparative economic studies while this book focuses on China’s economic development before the seventeenth century, underdevelopment during the eighteenth to the twentieth centuries, and development since 1978. This study also traces the reasons behind any development, or lack of it, over the past 2000 years.

This study is conducted in ten chapters. These include a literature review, a microeconomic analysis, the presentation of a macroeconomic framework, a discussion of the evolution of Chinese governance over 2000 years, a consideration of the climatic and external economic shock on Chinese governance, a review of the empirical evidence of the relationship between
China’s long-term economic development
governance and economic development, and a discussion of the future
direction of Chinese governance. Consequently, this study may appear
to be thorough but still has many flaws and errors. Further revisions are
necessary when time permits.

NOTES

1. For example, Douglas C. North, *Structure and Change in Economic History*, New York:
W.W. Norton & Company, 1982; Douglas C. North, *The Rise of the Western World, a
Fogel, *Railroads and American Economic Growth, Essays in Econometric History*,
Consent or Contract, the Rise and Fall of American Slavery*, New York: W.W. Norton &

2. Many Chinese historians are inclined to argue that extra economic exploitation by the
ruling class over the ruled class in feudal society is an important reason for struggle of
the ruled and dynastic decline. As the old Chinese saying goes, “tyranny is fiercer than a
tiger.” I argue that the pattern of Chinese governmental governance is a more inclusive
hypothesis than that of the class hypothesis because it grasped class contradiction, the
most drastic form, to explain the historical evolution of Chinese feudal society. This is
undoubtedly correct overall. However, the limitation of this hypothesis is that it can only
be applied to the historical analysis of Chinese feudal society and not the development
transition since the reform and opening up. This is because the foundation of the People’s
Republic of China has almost eliminated the class contradiction and most contradic-
tions take place within people rather than classes; for example, the relation between
government and people is no longer the relation between the ruling and ruled class
but between the governing side and the governed side, and, to a great extent, between
the serving side and the served side. Thus, it is recommended that a more inclusive definition
is used such as governmental governance, which is also aligned with the purport of this
book. Let us draw an analogy, such as people in an airplane who are watching the earth.
The higher the airplane flies, the less clear the view of the earth. The same logic also
works for our case. If we want to understand the economic, historical evolution since
the Qin dynasty until today, it is clear that class hypothesis is very limited, although its
reasoning makes some sense at some times.

3. Here external environmental change not only indicates a change of climate, soil, vegeta-
tion coverage, etc. but also a change of power between the Han and nomads, and a
change of power, relation, and competitiveness compared with other countries.

4. In Chinese history, inappropriate governmental governance was very common; for
example, the information loss between official and lower-level employees and between
the emperor and bureaucrats, and the misunderstanding of the public about bureau-
crats. Moreover, the distortion of policy in the process of transmission from the top
down, such as regards the light tax and low coverage, could be misrepresented intention-
ally by landlords to peasants since landlords could monopolize the transmission of
the information at their disposal. There was also a mismatch of governmental policy
between sectors, such as administration and the economy, the economy and the law,
and the law and inheritance. An example is the Northern Song. Its economic policy was
active or progressive, while its defense policy was very passive or defensive; as a result,
the ruler of the Northern Song lost his position in 1279. For details, see Chapters 5
and 6.

5. The quotation is from a comment by Cristina Terra on Gianmarco Ottaviano and
Jacques-Francois Thisse’s chapter, “Agglomeration and Economic Geography,” in J.V.
They make clear that all the ingredients used in NEG models were already at play in location theory, although not in such an articulate fashion. As they put it, NEG models ‘combine old ingredients through a new recipe,’ the main ingredients being increasing returns to scale and transport costs.