

# Chinese economics as a form of ethics

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## Abstract

This article offers the first full account of Chinese economics. That China has its own economics is not realized. It exists, but still only informally, as part of the Chinese mindset. Being as different culturally as China is, her approach to economics is very different as well. It certainly departs from Liberal economics that dominates Western thinking. It is a form of ethics, while Liberal economics is basically value free. Its eight principles can be derived from Confucian thought. Called by me “Confucian (or – Chinese) economics”, it assumes that people’s goal is not an “instant gratification” but a pursuit of continuity, or legacy. The Chinese also disregard the notion of scarcity, and claim that – if allowed to regenerate – resources are abundant, even exuberant. It is not the struggle for resources with each other, but earnest work that is the superior strategy. Individuals work not for themselves, but for others, mainly family. Motivation doesn’t depend on the enforcement of property rights, but on morality, understood as responsibility for others. The facts are, during two-thirds of their lives, individuals depend on transfers from other – working – family members. Since morals come from family, not the market but the family is the principal institution. But Confucianism is not hostile towards markets. It appreciates them but not in the Liberal “free market” form. It favors “familial markets”, animated by households. Confucians don’t advocate a “authoritarian state” but a limited one, called “moral state”. Its role is to propagate virtue by setting an example. The highest priority is to ensure equality. This is to avoid social conflict, as the worst enemy of growth. During the post-1978 reforms, China phased out of its Soviet-style system in order to revive her “Confucian system”, based on “familial market” and “moral state”. Produced by the reforms, the longest “economic miracle” in history is only the latest evidence of the advantages of China’s approach to the economy.

## Introduction

As two major civilizations, China and her Western counterpart follow largely separate views of the world, including their respective approaches to economics as a study of wealth. This intuitively obvious fact is not accepted by economists, whether Western or Chinese. They deny there is such a thing like a distinctly Chinese school of economics. Mine is the first attempt to outline China’s complete approach to economics (compare: Chen, 1911). Unlike the Liberal (or Classical) economics that dominates Western thought, the Chinese approach is still at an informal stage. It is a part of Chinese mindset contained in Confucian writings. This body of knowledge can be called “Confucian (or Chinese) economics”. Confucianism, of course, can’t be equated with Chinese civilization, which has many sources. Nor is Confucian outlook a monolith. It is subject to internal rifts. However, a casual observation suggests Chinese intellectual landscape is more monolithic than the Western one. Confucianism is constructed to ensure continuity rather than exploration. But this is where it finds its incredible resilience. Admitting these nuances, my article offers only a general assessment of the core of Chinese economics. It also doesn’t deal in necessary depth with the question of the application of this theory and thus its relative worth. Only at the end of the article do I raise some points on how Chinese thinking is reflected in real life, i.e. how the economic agents act and how the system – that frames their actions – operates.

Searching for the core of Chinese economics, I discern a lineup of its eight principles that together constitute a logical sequence. They are all found to differ from the Liberal approach; actually they are often almost a “mirror image” of Western perspective on economy. This is true about the opening question that economists have to ask while constructing their lines of theory. Namely, what is the individual’s main objective function? To Confucians, the primary goal of the individual is the continuity of family line through procreation – or reproduction – and not an “instant gratification”, meaning consumption. Individuals are said to work not for themselves, but on behalf of their family. The motivation for individuals to pursue their goals is thus the moral responsibility for other family members. In contrast, in the Liberal approach, the individual is driven by the security of its property rights. Since it is the family – as a “work unit” – where the key moral choices are made (e.g., giving birth to a child), it is also the family where morality mainly originates from. And because growth of wealth is driven mainly by a sense of morality, it is not the market, but rather the family that is the basic institution economies rely upon. It follows that the key difference here is that Liberal economists assume that economy and morality are detached from each other, while Chinese see them inseparable.

True, some non-liberal Western approaches do recognize the importance of morality and/or family. But none treat economics as ethics, the way Confucianism does. Not even the “Evolutionary economics” of the Austrian-born Schumpeter (1942). In his analysis of capitalism, he argues that capitalism couldn’t emerge without injection of values by three feudal classes, i.e. peasants, clergy and aristocracy, jointly called “protective strata”. They brought a sense of property, acceptance of hierarchy and honor. Of course, capitalism is not possible without capitalists, but to him a capitalist is not a value-free – rational – individual. It is a head of family working for his spouse and children. And, with its “bourgeois ethics” he/she is in pursuit of continuity, i.e., building “industrial dynasty”. This is their function in a capitalist economy, and also the precondition of prosperity. As Schumpeter writes, in a way:

“...the capitalist order entrusts the [investment – KP] interests of society to the ... bourgeoisie. They are really entrusted to the family motive ...” (Ibid. p. 160).

However, as successful as it is, capitalism can destroy itself by eroding the “protective strata”. But also by – as he calls it – “rationalization” of everything in life, making capitalists increasingly unready to sacrifice immediate personal consumption for investment in the future – of family.

Ethical criticism of Liberalism originates also from outside of the broad Liberal circle, most notably from among Marxists. Among them is another Austrian scholar Polanyi (1994), who similar to Confucianism, but with no direct references, assumes that until the advent of capitalism, societies were squarely based on two principles. The one that relates to “family” is the principle of “house holding”, i.e., production for family’s use. The other, related to “morality,” is the principle of “redistribution” of wealth. By allowing the capitalist “free market” to uproot both principles, introduction of the capitalist system released – to use his phrase – the most “devastating destruction” in human history. It is not so much economic deprivation as a psychological one, relating to as he calls it “commoditization”, involving the loss of their sense of humanity (or – dignity). To Polanyi, the most detrimental aspect of introducing capitalism was the bringing in of the fictitious concept of the “economic man” – or “rational actor”. This – central for Liberalism – concept defined an individual as one who by birth – instinctively – needs “free market.” Polanyi summarized his critical opinion this way: “. . . no

misreading of the past provided was more prophetic of the future” (Ibid., p. 44). And, it is only because of the periodic reversals in the implementation of the Liberal agenda that the Western world has been able to last.

But can individuals “afford” being moral? To Confucians, with their view of nature, resources that people need to survive – whether land, water or energy – are abundant, even excessive. They are excessive as long as people respect the rhythm – or logic – of nature, and allow nature to regenerate. With the so defined “economic condition” faced by individuals, the challenge is to work diligently. It makes the economic survival of individuals principally a function of the part of general ethics that is called “work ethics”. Under conditions of abundance, individuals have enough wealth to share their riches and thus can “afford” being moral. This theoretical postulate is a rather drastic, probably the sharpest departure from Liberalism, which is assuming that universally – in any place and at any time – in their efforts, people are faced with the economic problem that Liberals call “scarcity”. The implications of this “scarcity” for human behavior, are enormous. Under these conditions, there are not enough resources for all individuals to survive. Survival becomes not a matter of work, i.e., amount of effort expended, but rather a matter of forceful – if not violent – acquisition of resources from others. It follows, under scarcity, that being moral is, simply speaking, not “affordable”. How could it be otherwise, if giving away wealth you own makes others a greater threat to one’s individual chances of physical survival.

To clarify, treating family as a key agent does not imply that Chinese economics rejects markets. Like Liberals, Confucians are very amicable to markets. But they stand against the Classical concept of the “free market” as a basis of capitalism, where “prices” of goods and not moral “principles” (or “values”) rule the choice. Because of its fundamentally ethical nature, Chinese economics favors a type of arrangement that I will call the “familial market” based on moral principles and coming from the family. Contrary to the Western stereotypes of Chinese political history, Confucians do not call for a “maximal (or authoritarian) state”. The facts are, similar to Liberals, Confucians advocate a “minimal state” that respects independence of individuals to the fullest. But Confucians have a very different concept of state agency, one where family freedom rather than individual freedom is of main concern. In further contrast, Confucians view the state not as a nexus of physical or coercive power but as a moral nexus, with the state providing moral leadership, mostly by setting an example. A more fitting name for such an agency is a “meritorious state”, charged mainly with preventing practices that corrupt society, such as establishing a monopoly on goods and collecting undeserved rent from the buyers. As defined, this Chinese alternative to Liberal capitalism can be labelled a “Confucian system” (Poznanski, 2012).

While Classical economics serves as an ideological base for the capitalist system, even its most orthodox applications greatly deviate from its theories. As an alternative to Liberal economics, Confucian (or Chinese) economics can’t serve as a frame of reference for setting up some kind of capitalist system and it doesn’t. This means that Chinese economics must favor some type of system that would represent its opposite. The question is where in the Western typology of economic systems such a design with a “familial market” and a “meritorious state” would logically fit in. In widely accepted Western typology, there is the “capitalist system” and, in contrast, the “socialist system”, both coming in a range of variants. Therefore, if not capitalist, the Chinese system would have to be seen as a form of the “socialist system.” This means that there might be some affinity between Confucian economics and Western approaches that advocate the “socialist system”, such as the German “Social-Market economics” with the so-called “Rhine capitalism”. The other would

have to be of course the much more widely-adopted Marxist economics, with the Soviet (or Stalinist) model as its extreme application. While calling the Chinese system “socialist” seems acceptable, I suggest we go beyond this dichotomous typology and – to avoid confusion – continue calling it “Confucian system”.

After examining this – by its very nature complex – system, it is not certain that for practical (and efficiency) reasons, Liberalism can be an attractive option for China, with her focus on the ethics of responsibility (“ren”) and preference for family held together by the uniquely Chinese concept of “filial piety”. It appears, time and time again, that Confucian approach offers some potentially substantial advantages compared to its Liberal alternative. For instance, by focusing on continuity of family line as an objective function, “Chinese economics” not only induces population growth and its renewal. It also induces businesses to take a considerably longer time horizon and favor deferred consumption, with higher savings. By stressing the centrality of family as an organizing form, it also ensures stronger motivation to work, including the higher level of mutual trust as an antidote for risk aversion. Due to the greater intimacy, family also lowers the so-called “transaction costs”, and thus the total costs as well. The call for modesty, might serve as an additional burrier to the dangerously mounting pressures on natural resources. Confucian contempt for the destabilizing “monopoly practices” – as a source of wealth inequality (and thus – poverty) is another likely advantage that seems to come with the application of Confucian alternative vision of the economic life.

### **I. Individual’s objective function: pursuit of “legacy”**

The opening issue in constructing any complete approach to economics is the assumption about the individual’s sense of purpose, or his/her objective, and this is the issue where my reconstruction begins (see Table I). Addressing this critical issue, Confucians make it clear that to resolve it one needs to remember that people are an integral part of nature. Therefore, to understand how people operate, one needs to examine nature first. And, to define the individual’s primary objective in economic life, it is necessary to ask first what nature’s purpose might be. In Confucian eyes, nature is equated with the life process, or life itself. Each living creature is said by them to be animated by a sort of code of life, which consists of two indispensable elements, called *yin* and *yang* (see: Mote, 1971). These terms refer not to female and male genders but female and male features, or characteristics. Combined, they are programmed to ensure continuity of life, and since the continuity of life is the aim of nature at large, this must be the goal of individuals as well.

In fact, the best way to conceptualize Chinese economics is to recognize that as with the assumption about the principal objective of economic life – but also of life in general – all its “building blocks” address one and the same central issue of the extension of life through procreation. Confucius himself makes it absolutely clear that the giving of birth to another – consecutive – generation of people is the ultimate mission of the living. This declaration makes Confucian economics an “economics of life”, with a special role for sons in pursuit of it. This is especially a mission for sons, since it is through them that the legacy under the traditional Chinese form of paternalism is transmitted. On this issue, Confucius makes the following cardinal point:

“Since the parents have given birth to a son, it is the perpetuation of the human race, and there is nothing greater than this” (from Chen, 1911, p. 328).

The above prerogative for individuals also applies to the state, whose major role is to ensure as rapid population growth as sustainable, including by the pursuit of economic policies that support large families. It is within that context that despite its leftist, Marxist leaning, the Chinese leader Mao glorified large-size families and phased in pro-natal policies.

This Confucian focus on – let’s call it – “distant gratification” that procreation represents, stands in direct contrast with Classical economics. It assumes that the primary objective function is individual consumption, or “instant gratification”. Before they meet any other desires, people have to satisfy their basic needs. For this, they must first get food to nourish them and shelter to protect them from physical harm. Confucians recognize the importance of basic needs but argue that one can get more from economic analysis by assuming that procreation is the primary goal. It is not so much about what comes first, but rather about what gives more meaning to life. Their thinking is that having children (or – leaving “legacy”) is the meaning of life. Without children the individual’s life is terminal, with a defined end. But not if individuals procreate, since then they are survived by children. This must be the ultimate objective, since by being survived their life – or “blood” – flows into an endless future.

With the distinctions of these two human objectives comes the Confucian separation of goods into two categories, material and spiritual. “Instant gratification” involves mainly the former and the provision for posterity relates basically to the later. On the “material” goods Confucians call for showing a necessary restraint. Mencius wrote that:

“For cultivating heart, nothing is better than having few [material – KP] desires. If someone has few desires, although there will be times when he does not persevere, they will be few. If someone has many desires, although there will be times when he perseveres, they will be few” (from Norden, 2009, Book 7B, 35.1).

Regarding “spiritual” needs there is no threat of scarcity, since they mostly involve human relations (e.g. the comfort of the household, familial love). “Spiritual” goods are thus superior to “physical” goods, a point forcefully made by Mencius:

“The best life is characterized by simple, everyday pleasures and rich relationships with family, friends, and members of one’s community.”

**Table I** Basic assumptions: Confucian and Classical Economics

	<i>Confucian Economics</i>	<i>Classical Economics</i>
1. <b><i>Principal Objective</i></b>	Continuity (Procreation)	Consumption (Existence)
2. <b><i>Resource Condition</i></b>	Abundance (Excess)	“Scarcity” (Deficit)
3. <b><i>Survival Strategy</i></b>	Earnest Work	Resource Acquisition
4. <b><i>Motivating Force</i></b>	Moral Attitude	Property Rights
5. <b><i>Basic Institution</i></b>	Family Unit	Free Market
6. <b><i>Income Distribution</i></b>	Equality (No Poverty)	Inequality (With Poverty)
7. <b><i>State Prerogatives</i></b>	Meritorious State	Minimal State
8. <b><i>Preferred Method</i></b>	Common Sense	Theoretical Models

The practical effect of the Confucian focus on continuity of kinship is that it blurs the difference between perceptions of the present and the future, something that is neatly woven into the whole Chinese culture. This blending is consistent with the Chinese idea that time is a continuum, with no beginning and no end. Everything alive is seen as being caught in cyclical returns. This sense is also encoded by the Mandarin language. It lacks tenses, so the present and future are equated (as argued in Chen, 2013). This way of encoding time differs from the British practice, where explicit time markers are required. The respective concepts of time also differ, since the British people have a linear notion of time, where each moment brings one closer to an inevitable end. The effect is that Chinese feel that the future is closer than it is for the British. Given this, they more readily accept choices with “distant gratification” in sight, that is, to save for future consumption. Besides, the primary focus on seeking future rewards makes people work harder (Harrell, 1985).

## **II. “Economic condition”: abundance of resources**

The next issue for any economics to settle is under what conditions people pursue their goals. In the Classical economics this issue is called “economic problem (or question)”. However described, such a problem gives rise to economic activity, meaning the economy. To settle

this defining issue, the Chinese turn again to nature as a “designer” of human life, both the taught process and the action taken. The Confucian argument is that if people are coded with the need to pursue continuity, nature must have created the material conditions that allow for it to take place. Accordingly, Chinese economics rests on an assumption that universally – in time and space – nature provides people with sufficient resources, and that it supplies an abundance of resources, such as land and water. This is not to say that people never face a lack of resources and related economic hardships. But, as Mencius argues, while this lack can become a reality to suffer from, even with devastating consequences, nature can’t be blamed for it. Only people can cause scarcity or famine by acting not in accordance with but against a nature that is generous. He explains:

“If one does not disrupt the farming seasons with building projects, but only waits until after the crops have been harvested, the grain will be inexhaustible. If overly fine nets are not used in the ponds, so that sufficient fish and turtle are left to reproduce, they will be inexhaustible. If people bring their axes into the mountain forest only in the proper season, the wood will be inexhaustible” (Norden, 2009 Book 1A, 3.3 – 3.4).

Of course, it is not all the fault of human “economic errors” that people may occasionally be confronted with an insufficient amount of goods to continuously support their lives. Nature can be even very capricious and bring flood or draught, so that there might be – say – less food available than needed for a tough year. But as Confucians argue, even if such nature-driven fluctuations of food supplies may lead to starvation, this can’t be viewed as an evidential proof that nature is unforgiving. Mencius writes on this issue of such cases of inadequate supplies of food that: “...not the harvest is responsible but people” (from Norden, 2009, Book 1A, 3.3 – 3.4). People are responsible since starvation is avoidable by storing and releasing food in time for the most disadvantaged to be taken care of. This Confucian view on the causes of starvation is echoed by a key figure in the field of the modern economics of development, the Indian scholar Sen (1999). In his view, poverty of any kind is not a curse but a product of failing economic institutions, e.g., market- or state-type speculation with supplies and prices of foods.

The Confucian belief in the abundance of resources is antithetic to the thinking of Classical economists. This is probably the most divisive issue separating the two approaches. The liberal view is that as a “law of nature” people are universally made to live under the condition of the so-called “scarcity of resources”. The introductory material in most Western textbooks on economics usually offers a definition of this inescapable condition as one that stems from the combination of two forces, namely the unlimited needs of individuals and the insufficient supplies of resources available to meet them. How accurate this interpretation of the Liberal definition of scarcity is might be debatable but what is certain is that liberal economists don’t share the Confucian outlook on what humans’ fate is. As described by Confucians, humans have emerged in the world and continued because and only because the world is easy to survive in and thus should be viewed as a “happy place” Liberals view the world as one of the limited resources and hardship, and is thus a “dismal place”. And delivering this scary message Liberals themselves characterize their discipline – as a “dismal science”.

On the surface, the Liberal assumption of unlimited needs might seem almost self-evident, and so the related consequences. With an unconstrained appetite for goods, people can’t ever satisfy all their needs. Consequently, they have to go through painful substitution of one product on their “consumption function” by another rather than enjoy benefits of having

access to all of them at once. Confucians admit that individuals always make choices within finite budgets, but they don't accept the implied notion that this itself makes people fall into such a dismal situation. As Confucian economics claims, if the ethical dimension is added to the equation, there is an easy solution to this apparent spending dilemma. People can simply show a necessary moral restraint and prioritize their spending without undergoing any kind of "pain" at all. Mencius explained this particular point plainly:

"I like fish, but I also like bear's paw, but if I can't have both at the same time, I will forgo the fish and eat the bear's paw. I love life, but I also love righteousness, and if I can't have both at the same time, I will sacrifice life to have righteousness" (from Norden, 2009, p.260)

Turning to the related question of availability of physical resources, already the early British luminaries of Liberalism such as Hobbes (1651) and Malthus (1798) made a strong claim that resources are always inadequate, so that economies are confronted with a problem of so-called "surplus of population". This idea has also attracted historians, particularly those working on migrations. Their argument is that when scarcity emerges, a surplus of the population surfaces up and in response, people move to other locations. The example of choice is Britain at the time of the Industrial Revolution when her population multiplied. The Brits actually moved abroad in large numbers, with the whole episode called in Western literature the "Great Migration". But the outflow is no proof of "scarcity", since as much as 4/5 of the demographic increase stayed on the supposedly overpopulated island. And how can "scarcity" be a universal phenomenon, if the migrants moved to North America, which was a relatively sparsely-populated, huge continent with an abundance of land and water. The reality is, the British didn't run away from scarcity as understood in classical economics, but decided to find "greener pastures" and/or to bring a thrill of adventure to their lives.

Back to China, there is here no special character for "scarcity" in her language, as if "scarcity" didn't exist. The reason for this linguistic omission is that indeed – literally speaking – it did not exist. Through her extended history, China has not engaged in large-scale territorial expansion. Accordingly, China's land mass hasn't changed much over centuries, even though China has continuously enjoyed military superiority over her neighbors. An exception has been the period of Mongol invasions that extended to Tibet and Vietnam and involved failed attempts to conquer Japan. When Chinese expanded their reach it was by migrating, as in the case of Manchuria, where in few years, millions of Chinese brought their families to this sparsely populated region. While largely confined to the same territory, her total population magnified tremendously. The last time it did was after 1949 when "forced" industrialization started. Within the same official borders, China's population increased during these decades by no less than three times to become the most populous society on earth. Knowing of these cases, how can one claim that universally there is "shortage" of resources. China actually represents one of the most important cases that points exactly to the opposite.

### **III. Prevailing economic strategy: earnest work**

The next step in building any line of economics is to determine what the prevailing strategy for meeting goals is. For Confucians to argue that resources are inexhaustible doesn't mean the world is a sort of dreamland or paradise, where all is handed over on a plate for good people to enjoy. To meet their needs people have to convert resources into goods. In other words, they need to work, and work – labor – is thus the only source of value, or wealth. Meeting

needs through work is not a big problem, since at least the “basic needs” are modest. Besides, resources are a prerequisite for meeting “material needs” but not so much for the “spiritual” ones, which happens to be the superior of the two. Importantly, Confucians goes as far as to view work itself as a significant source of joy, and thus on its own work becomes a “spiritual good” itself. For this to materialize one needs to choose the profession that he/she loves most, and most individuals tend to do so. This must be why in reality, people hate laziness and tend to work more than they need.

Differentiation within society is recognized in Chinese economics, but this is only with respect to the types of occupations people hold. The lowest in the hierarchy are merchants and money lenders who work for profit, or rent. That they are put at the bottom of the social taxonomy is not because Confucians have contempt for making money, which is often stressed by liberal critiques of Confucianism as a detriment to prosperity, or progress. The Confucian intention is only to prevent the levers of power from being handed over to those members of society whose inclination is to meet pecuniary interest first. The rise of these groups in the social hierarchy is discouraged, since their financial success might be confused by people as living evidence that they are better people who should be listened to in matters of state. Not to forget, there is one more group and it has the lowest status – they are soldiers, together with those who supply them with deadly hardware. For clarity, Confucians talk about the professional soldier and not the ordinary people – historically peasants – who join army not for money. Or any other reason except for the defense of their households, i.e., families that they belong to (or communities that families are an intricate part of).

In the world of scarcity assumed by Classical economists, work is not so much a strategy of choice. It cannot really be a preferred response to scarcity, because work alone can't ensure an adequate supply of finite resources. People who are faced with scarcity as it is defined thus have no alternative but to secure their survival by taking resources from each other. This is often described by Liberals as a ruthless “struggle for survival”, where only winners stay in the game. This is certainly how Hobbes and Malthus understood the essence of the free markets. Here, due to competition, higher cost producers declare bankruptcy. Through the bankruptcy procedure, resources are captured by the lower cost producer. The ultimate weapon is war, where not individuals – meaning producers – but nations fight for physical resources, i.e., territory. By assuming the above, Liberalism provides a kind of “theory of war”, where repetitive bloodshed is something imposed on people by nature. Being an opposite approach, Confucians seem to offer a “theory of peace”, where war is not a curse but rather a matter of choice for people to make. Or more precisely, it is a matter of what ideas people share about potential benefits and damages from waging wars (point made by Wight, 1992)

The concept of the “struggle for survival” had been given a theoretical form already by the first Classical thinkers, who came up with the concept of an oversupply of people that – for the sake of global balance – must be periodically removed. The already mentioned prominent predecessor to Smith, Hobbes (1588-1679) wrote in his famous book “Leviathan”: “When the world is overcharged with inhabitants, then the last remedy of all is war ...” Partly overlapping with Smith, the Reverend Malthus (1766-1834) produced a model to explain this apparent phenomenon and that harsh remedies are unavoidable. Called the “Malthusian Trap”, this model claimed that due to their inborn instinct people strive to multiply and have as many children as women are capable of delivering. When for whatever reason material wealth increases, the gains are used disproportionately to have – meaning feed – more children. A related rise in population will outpace the change in production level. Historically, as the theory goes, the resultant surplus of people has been dealt with either by starvation or by war.

The only way to avoid such brutalities is a moral way, namely the voluntary reduction of the birth rate, but history provides little evidence of that.

The Malthusian theory was almost immediately challenged by the classical economists themselves, and it is still widely treated in the profession as a failed theory. It has been debunked for misrepresenting both sides of the equation, both human fertility and the fertility of the soil. But in spite of this categorical dismissal by the Liberal economists, Malthus is still doing quite well. He still enjoys great name recognition, and this first economics professor ever is regularly mentioned in the contemporary literature. While his demography is dismissed as counterfactual, the Liberal concept of the “struggle for survival”, with its nasty contents is kept alive by the voices of many scholars, like the widely received and widely revered academic Dawkins (1978). In the spirit of his economic predecessors, this British evolutionary biologist produced a most widely received theory that in the world of scarcity, genes that animate the robot-like people are obsessed with maximizing their number of replicas by making individuals engage in what he repeatedly calls a “ruthless” struggle for survival.

#### **IV. Principal motivating force: moral sentiment**

Once the Confucian argument is made that economic wealth is a function of the work effort rather than of taking control of others’ physical resources, the question arises what motivates individuals to adopt this particular strategy. In Confucian economics, work effort is assumed to be driven by peoples’ concern for others. Confucius categorically stated: “You live for others, not for yourself.” This is also the correct meaning of Mencius’s related general point on the ethics of life: “To use the world to care for someone is the ultimate in care” (Norden, 2009, Book 4.3) He meant by this that individuals are motivated by their concern not for themselves but for their family. More precisely, it is about obligations to an extended family, or clan, that traditionally has been a dominant form of organization in China. Such an assumption turns Chinese economics into ethics, understood as an art of living. This should come as no surprise, since nature is seen by Confucians as a moral order, so every aspect of human life, including the process of wealth creation, has its moral root as well.

This is another instance of when Liberals will categorically disagree with the Confucians. To Liberals, the primary economic motive is not to care for others but to secure the most resources for yourself. Accordingly, what is said to make people act are property rights (North, 1981; Levy, 1988). Property rights are understood as legal and/or casual rules that ensure appropriation of rewards by individuals for putting resources to use. This assumption might seem to make sense, but there is a simple proof that a moral outlook and not economic security is the key motivator. It is self-evident that people go through a “life cycle”, with three stages consecutively as children, adults and elders. Let’s say that each stage lasts one-third of the lifespan. People can work only during this one-third when they are adults. During the remaining two-thirds of their life, as children and elders, they can’t work. To survive, they need to rely on wealth transfers coming from working family members. Their survival is possible due to working adults’ sense of responsibility, which is the exact meaning of morality. It follows that at least two-thirds of the management of wealth is driven by ethical forces. For Liberalism to ignore this two-thirds of economic activity that relates to transfers of wealth is a measure of its internal limitations as a discipline.

Morality is ignored by Liberal economists as an economic variable, since bringing subjective concerns, like care for others, into their model of behavior only detracts from the assumed

rational individual's ability to make optimal choices. But how it is that morality – as a rule – undermines rationality, since morality is developed spontaneously to assist people in survival? Let's assume that within the simple Confucian model of life introduced above, the working adult refuses to help an elderly parent. While the adult's instant gratification will double, this refusal won't go unnoticed by any children that the adult supports. When this utterly heartless adult becomes elderly, the child won't feel any obligation to help its parent to survive. How rational could the adult's refusal could be, since without a financial transfer from the child its lifespan as an elderly will be abruptly cut by as much as one-third. Not surprisingly, the central tenant of the Confucian concept of a virtuous life is the uniquely Chinese concept of so-called "filial piety", i.e. a feeling of complete devotion to one's parents at whatever cost to the child, even its life. This wisdom is well preserved in the following passage from Confucius:

"Filial piety is about pleasing parents – by understanding them – to achieve 'peace of mind'" (from Lin, 1938).

One can look differently at the transfers and notice that at each point in their work as an adult, a given person must consider transferring a sufficient portion of their generated wealth to other family members. If the working member is single and there is one child and one elderly parent – to support them materially, he/she would have to sacrifice 2/3 of their earned material wealth. And, in a larger family, with two working adults and their two children plus two elderly, the ratio will be 4/6, or 2/3. And, this burden is not in a single year but during the whole one-third of his/her life of an adult. This, by all means, is an extreme financial sacrifice, so it would require some extreme moral attitude. As Confucians argue, this sort of extremity requires an unconditional love, one with no gain in sight other than a "gain" from displaying love itself (compare with Fromm, 1956). This is the reason, why Confucius himself said the words: "Love is man" and Mencius repeated them (Classics, vol. I, p. 405; and vol. II, p. 485). But man to him is life, so it follows that "Love is life". "Life" in turn is the energy "qi", which comes in two forms, female "qi-yin" and male "qi-yang". Thus, the most accurate way of looking at the empowering force of "qi" is to say that "Qi is love".

The logic of the Confucian argument is that while as a factor of production labor – work – is the source of value, or wealth, all ingredients or threads in the human life rest on ethics. Therefore, it is ultimately ethics – its condition or strength – that is responsible for peoples' motivation to seek wealth by doing work. It can also be said that it is not so much work, but it is morals that generate wealth. Therefore, best understood as a factor of production, it is morals that are wealth. In the words of Confucius: "... the material prosperity of a nation does not consist in its material prosperity, but in righteousness" (from Lin, 1938, pp.136-7) He expressed this idea also in a shorter line: "... doing the good is our only treasure" (after Lin, 1938, p. 135). This idea is echoed by Mencius who interpreting Confucius passage from in the "Great Learning" – chosen by Chen, (1911, p.293) – wrote that according to his master:

"Having virtue there will be a man. Having the man, there will be the land. Having the land, there will be wealth. Having the wealth, there will be its use" punctuated with the memorable sentence: "Virtue is the root, and wealth is only its outcome" (Classics, vol. I, p. 375).

## V. Basic economic institution: the “family unit”

Each approach to economics requires that it specifies the type of institution, or system that is most important for wealth creation. This is a critical question, since in their wealth creation individuals set up rules – or routines – that make their economic pursuits most effective. The system that secures the best conditions for individuals to maximize their contributions to wealth creation must be the most effective. The principal concern of liberals, with their focus on “solitary individual” who strictly follows the dictates of his/her reason, is that the system maximizes the individual’s autonomy. The individual should have complete access to information and no shackles to limit his/her choices from the menu of alternatives available. The reason shouldn’t be, for sure, disturbed by subjective considerations, such as moral concerns, or sensitivities. The institution that to them guarantees complete autonomy is a “free market”, and where competition determines both prices and the fate of players, whether they stay in the game or go bankrupt.

In “Confucian economics”, as it should be rather clear by now, the principal institution must be the family as an alternative to the free market, where individuals act on their own. Given the highest importance of morality in the pursuit of wealth for the institution of the family to play such a vital role in society as a “work unit”, the family has to be most critical for the strength of morality. This is exactly the point made by Confucians about the role of the family in any economy, Chinese or not. They argue that family is so essential, because the family is where codes of morality are coming from. To be precise, people don’t “invent” morality, but rather learn its intricacies from nature. As a “moral order” nature provides people not only with resources but also with moral rules of economic conduct, waiting to be realized. Family is where this takes place, since this is where the various most important moral choices are made, for example, to bring a child into this world (i.e., birth). Besides, the strongest incentive for acting morally comes from within the family itself, since no other type of associations are as close – or intimate – as the “kin (blood) ties”.

What is largely missed in Western literature on China is that while Confucians assume family as superior to markets they still find markets indispensable. It follows from the fact that production is diverse in terms of what people make and in what size, so that there should be an exchange of goods for the benefit of each other. Mencius gives this account of markets:

“If you do not exchange goods for raw materials so as to make up for what people lack with what people have in surplus of, then the farmer will have an excess of grain, and the woman will have an excess of cloth. If you do exchange them, then the wheelwright and carpenter will all get food from you” (Norden, 2009, p.37; Book 3 B, 4.3).

People will willingly engage in market exchange on their own, unless the state is mismanaged and allows a collapse of social order. To remedy economic failings the only effective way is for the state agency to:

“... simply return to root ... to bestow benevolence in governing. This would cause ... all those who plow to want to plow ... all traveling merchants and shopkeepers to want to place their goods in ... markets” (Norden, 2009, p. 8; Book I A, 7.18).

The “Confucian system” is different from the “capitalist system” not because only one of them, the capitalist system, is based on the market as a principal institution. Throughout the whole of human history, markets have come in different versions to meet different needs that drive peoples’ economic actions. The real difference between the two systems discussed here is that they operate different types of markets. “Free markets” – advocated by Liberals as an apparently superior institution – are based on competing individuals, while the markets advocated by Confucians are based on competing families. By assumption, the former type is unrestrained by ethical rules and follows the logic of competition itself, while in the latter type competition is “embedded” in ethics with its own logic. To capture these distinct institutional features, it is best to call such a Confucian systemic design a “familial market” Keeping this distinction in mind, markets are thus not so much a Western invention, but are much – or more – of Chinese origin (see: Pomeranz, 2013).

Speaking of the centrality of family, it is not all about the critical impact of “work ethics” on the growth of production, but also about the fact that the “familial market” can produce goods that the “free market” can’t. These happen to be products that fall in the already identified category of “superior goods”. Superior goods are those that, when their production cost goes up, rather than reduce their demand people demand more of them. Confucians argue that such goods are not provided by “free markets” but by “familial markets”, even more from outside of the market context, that is, by the family unit itself. Among them is sense of security, parental affection etc. The evidence of their superiority is that with growing real wages in the “market sector” people don’t elect to work more hours. They cut their work week in the “market sector” (e.g., down to four days in France). This is to spend more time in the “family sector” with the loved ones they care most for. Not surprisingly, though still having a status of a developing economy, the Chinese, being family centered, in both the formal and the informal sectors, enjoy a very low retirement age, both for males and females.

As a rule, there is no perfect information, but in the case of “instant gratification”, transactions are frequent and prediction can be relatively easy. The risk of missing an optimum solution is thus not excessive. In these situations, risk-averse individuals can act at least approximately like liberal “rational actors”. But in the case of seeking continuity of life, information required for “rational choice” is simply not available. In this pursuit of, as I will call it “distant gratification”, couples would have to have access to ample information on costs and benefits for the remainder of their life. Of course this is not possible, so if couples were acting like “rational actors” and avoiding risk at any price, they would be discouraged and wouldn’t ever choose to have children (Morse, 2001). In real life, as we all well know even from our casual observations, people have children, so they can’t be “rational” in the strict – classical – sense. That this is a different kind of rationality, doesn’t mean that continuity as an objective is not an economic issue and thus not a subject for economics to seriously analyze.

For “rational choice” to lead people to an “equilibrium”, a fine-tuned “free market” must generate perfect information in the form of the so-called “free prices”. While this precondition can be met, though imperfectly, in the market for goods satisfying instant gratification, there is no such a thing as a market for procuring children as a way to achieve one’s posterity. Rare attempts have been made in Western economics to model such a market by assuming children are tradable like any other goods (e.g. Becker, 1989). Of course, there can be no such markets, though in places like traditional China there were some – limited to relatives – “exchanges” of children. Children are not tradable since there is no sizable supply of them, nor is there a significant enough demand for them to make a market operate. If legacy is an objective, disincentives for selling ones’ offspring must be enormous. Buying is also out of the

question, because people want children of their “kin” which they can’t ensure only by breeding their offspring.

## **VI. Egalitarian distribution: seeking social harmony**

The next issue to examine in order to develop a full picture of the economy is to resolve the paradigmatic issue of income equality. On this issue, the Confucian assumption is that for economic success a very strict cross-society equality is required. Speaking of the merits of equal distribution, it is critical to look first at political consequences. Confucians believe it is imperative for wealth creation that there is “social peace” and because, as moral beings, people develop a sense of “social justice”, there is no peace without justice. Since the differences among individuals in work ability are relatively small, what is found just by people is that distribution of income is equitable. Only then a “social peace” is ensured, or in Confucius’s words: “When wealth is equally distributed, there is no poverty ... [and] there is no dissatisfaction, [and] the country is secure”, meaning stable. Conversely, the noticeable inequalities are perceived as a proof that abusive practices were allowed. This leads to moral resentment or even “social disorder”, as the worst enemy of wealth creation.

Confucians argue that the major way for people to decouple their wealth from their work effort is by establishing a monopoly. With a dominant position as suppliers, monopolists can manipulate amount of goods offered. By artificially creating shortages, they can raise prices above the “free market” level. The difference in price levels is called “superior profit”, or “rent”. Those who have to pay rents resist doing so. As a consequence, “social peace” can be disturbed. For Confucians, to avoid such an adverse outcome the agency of the state – be it emperor and his bureaucracy or some other institution – has the moral duty to prevent rents from occurring and taxing them out existence if they have appeared. Such form of income equalization is postulated in order to correct “immoral behavior”. This happens to be the only reason for Confucians to advocate income equalization. For fuller clarity, in this case income equalization is not about implementing some calculated – socially – optimal pattern of wealth distribution but rather about denying certain sources of incomes.

While the general rule is that the state should collect low taxes, no higher than a tenth of farmer income earned by all classes, including farmers. An exception to this rule is made in Chinese economics for the cases when some monopoly abuse is involved, regardless of whether this is private or public monopoly of supplies. Confucius articulates this taxation principle this way: “Riches ... are what men want. But if they are obtained in an improper way, they should not be held” (Classics, vol. I, p.166). Mencius captured the same principle for designing taxes in the following quote:

“When the ancients had markets, they were for exchanging what they had for what they lacked. The officials merely kept order. But there were some base fellows there who would seek for a “vantage point” and climb up on it. They would gaze left and right monopolizing the profit from the market. Everyone thought they were base, so they followed up by fining them. Taxing merchants had its origin in dealing with these base fellows” (Norden, 2009, Book 2B 10.7).

The Confucian call for a strict equality of income sharply departs from the Classical view, where there is no such arguing in favor of equality of wealth on similar grounds. Nor does it

call for modesty to limit apparently unlimited appetites for goods. Liberals are basically against the concept of “social justice”, as a moral construct. To them, “social justice” implies some kind of theoretical optimum, where transfers of wealth among people raise the total welfare precisely to the highest level possible. However, as the Liberal argument goes no such optimum can ever be calculated by anyone with necessary precision. The most precise mechanism for allocating wealth among people is the “free market”, where no one is a judge of what is socially just and what is not. There is thus no need for a separate theory of distribution and having a production theory is enough. This is claimed to be the case, since under the Liberal rules of “free market” all “contributions” to wealth are rewarded proportionally. Therefore, there are guarantees that the pattern of wealth distribution doesn’t upset the search for most efficient use of physical resources, which are assumed to be scarce.

That calculating the socially optimal pattern of distribution can’t be perfect, wouldn’t mean to Confucians that there is no justification for redistribution across society. This is inescapable, since, however foggy in their minds, people always have some “sense of justice”. Besides, to sensibly argue that allocation of wealth should be left to a free market, presumes that as defined this agency can guarantee that proportionality will be perfect. For distribution to be perfect by Liberal standards, the free market as envisioned would have to be perfect. But how can the distribution be left to “free market”, since “free market” has a built in tendency to become imperfect? Here producers compete on the basis of their efficiency and the reward for the more efficient players is that – through bankruptcy procedure – they take over production from the less efficient, so that monopolies emerge. Freed from “free market” discipline, they can choose to be “alert” and further thrive on efficiency or to be “lazy” and earn “rents”, which is anathema to the strictly “egalitarian” Confucians.

## **VII. “Meritorious state”: providing moral guidance**

Another “building block” for any school of economics is the concept of state, in relation to two other agents, i.e. the individual and the family. The Liberal view – with Smith (1776) taking the lead – is that as an instrument of power the state should be a “minimal state” with very little intervention. This is a logical implication of treating “free market” as the principal institution since it provides most “autonomy” to individuals. Western historians believe that, as a manifestation of progress, there is a tendency over time for this individual “autonomy” to expand by replacing state control with market control of economic life. They also argue that the role of the state in China has always been excessive since operating a “maximal state” that grabs all the power available is here not a matter of choice but a primal instinct. The records of the past reveal that this claim is clearly a gross mischaracterization. The Chinese concept of state, like the Western one, also fits into the category of a “minimal state”. But a “minimal state” doesn’t have to be a powerless – or near-absent – and the case of China proves this particular point (compare with Vries, 2015).

While in the Liberal economics a “minimal state” is preferred for the sake of freeing individuals to pursue their own destiny, in “Chinese economics”, the reason for a minimal state is to ensure “autonomy” of the family. States are expected to serve families and to serve them best. States must therefore take on themselves only the least amount of duties – tasks – to aid families. The state should undertake only what families can’t do more effectively for themselves. With the wealth of knowledge about specifics, families should be able to run their own life better than the state can. This must be particularly true for a country as huge

territorially and as populous as China has always been. As an evidence of this preference for a “minimal state”, there are records of imperial instructions to provincial authorities to try to handle local issues or face penalties, even jail time if they pass an undue burden onto the state. In Confucian thinking, the states’ “hands-off” policy itself enhances state power to rule the country, since by concentrating on fewer issues, the state can obviously be more diligent in taking on economic issues that matter the most.

What then is the main role of such a minimal state, which requires low taxes and is in some sense “withdrawn”? The Confucian thinking is that what is most important for the economy, must also be most important for the state. Since within this doctrine morality is the main factor behind wealth creation, the principal role of the state must be also to ensure that ethics are upheld. For the state to propagate morality among the ordinary people, the state itself must follow the ethical prescriptions, i.e., be incorruptible. Accordingly, similar to the Confucian concept of market, the Confucians concept of state is a moral one. It is the contents of the underlying ethics that makes such a state – as much as the “familial market” – uniquely Chinese. The goal of providing a moral example for the society at large might look like a rather limited kind of duty for the state to carry on, except that by stressing moral aspect this concept helps the state to increase further its power to control practical aspects of economy. Since the state’s power is a function of the trust that it earns with the people based on the moral example it sets, once the trust is widely earned running the country should be an easy exercise.

Going further, the Confucian doctrine of state agency makes it clear that if there would be no attempts to violate the protection of individuals as owners or otherwise, legal protection by the state bureaucracy wouldn’t be necessary. To accomplish compliance by fear through purely legal means would be cost prohibitive and thus detrimental to the wealth creation that it is supposed to enhance. In this context North (1981) mentions morality – but also the ideology, and religion – as ways for reducing transaction costs. This is also the Confucian position, except that to Confucians the purpose of societies should be to reach the stage when interactions are not regulated by legal means but rest fully on moral resolve. If there is a moral harmony people will voluntarily comply and society will avoid or even eliminate any costs of enforcement. Confucius said emphatically that:

“The thing is we should make it our aim that there may be no lawsuits at all, so that people who have done wrong will be too ashamed of themselves to indulge in words of self-defense” (Lin, 1938, p.129)

Thus, as the highest value in Confucian doctrine, moral harmony can stop destructive litigation, which will bring in the ideal outcome, the “end of law”.

The other distinctive feature that allows the Confucian version of the minimal state to be an effective actor is the utmost stress on the professionalism of state officials. The Confucian ideal is that of a “meritorious state”, or meritocracy (Bell, 2008). For Confucians, authority to rule over others should be given only to individuals selected from among the largest pool of talent. Selection of the most capable must be left to a strict examination system that anyone, regardless of position or wealth can join at any point. The selection process involved must guarantee complete impartiality, e.g. by conducting multiple blind tests. Massive reading material for the tests required candidates to devote years to absorb and memorize. From the earliest days, China has operated such a scheme, often called in literature a “mandarin system”. This system was formally abandoned in 1911, but even after the revolutionary shift

in 1949, China's state has retained its general rules, though without explicitly appealing to Confucianism. What was there to erase from collective memory, given that the Confucian meritocratic state was a primary invention, and which, hundreds of years later influenced Europe, in part by way of the German sociologist Max Weber and his ideal of a "modern bureaucracy".

The primacy of the family relative to the state agency is repeatedly stressed by Confucius and his followers. Whatever the importance of the state for economic life, what matters most is that – in his view – it is family where primarily or ultimately the strength of the state comes from. This assumption about the family is expressed in the following quotation by Mencius:

"The root of the world lies in the state; the root of the state lies in the family;  
the root of the family lies in oneself."

In this passage, "oneself" doesn't refer to the autonomous individual of Liberalism, but an individual as a family member, one who squarely operates within the confines of the family (after Norden, 2009, Book 4A, 5.1). What is meant by this specific hierarchy of power where family overrides the state, is that because to succeed the state needs to be virtuous – or uncorrupt – the families that the state rests upon must be virtuous. This critical point was made by Confucius:

"... when the family life is regulated, then national life is orderly, and when national life is orderly, then there is peace in the world" (after Lin, 1938, p.106).

### **VIII. Preferred methodology: use of "common sense"**

The final "building block" for each school of economics is a choice of the preferred methodology, including the definition of the proper research agenda. To Confucians this agenda is a moral aspect of life. More specifically, they call for the examination of threats to the core of ethics, which comprises "*moral laws*". Nature provides all individuals with what is needed to ensure continuity so that in addition to abundant supplies of resources, nature also provides people with "*moral laws*". Mencius states it plainly: "There is no human who does not tend towards goodness ... (from Norden, 2009, p. 69; Book 6 A, 2.2-2.3) Coming as a birthmark, this predisposition for what can be called "*natural goodness*" can be lost due to two kinds of threats. One is the failure to cultivate virtuous behavior, a task that can never be finished. The by far more important threat is the submission by individuals to wrongful ideas. Mencius stated: "Moral capacity can be threatened by "pernicious doctrines" (e.g., the theory of "egoism" of Yang Zu (440-360 BC). He also used a more aggressive wording, repeatedly calling such threats "*evil doctrines*", with evil consequences. In Mencius view: "Evil doctrines and cruel practices ..." cause political chaos, which, as said earlier, Confucians view as the main cause of economic misery (after Norden, 2009, Book 4A, 4.9).

With the research agenda set, the related methodological question for economics is that of validation of assumptions made and in the case of Confucian thinking – for the reasons just mentioned – this validation is about methods for identifying "pernicious doctrines". According to Confucians, the method of choice is for individuals to use "common sense", i.e. to examine personal experience without turning for help to specialized – or theoretical – knowledge (compare with Popper, 1972). Mencius stresses this idea:

“The best teachings are those that discuss what is near but with significance that is far-reaching” (from Norden, 2009, Book 2A, 37.12).

Motte (1971, p. 26) captured in Chart 3 this principle of Confucianism: “The Chinese world view kept man’s attention on life here and now”. Discerning “moral laws” as singularly correct is to them an empirical issue of whether one’s actions serve others or harm them. There is no place for theory in addressing such moral issues by creating categories and building models, which is the Western method of choice for addressing social issues. For Confucians, while nature speaks with one voice and has one set of rules for all, theories can be multiple and may also contradict each other. While theories can meet standards of logic, they may question the merits of “moral laws”. It is because theory is powerless in finding which one is “true” that Confucians detest theory, as it is understood in Western thought.

To most Western scholars, this – seen as ostensibly anti-scientific standing – is a sign of China being in a “pre-scientific” stage of knowledge that is ruled by superstition. This opinion was expressed by Weber (1951) mentioned earlier, who was one of the first major Western academic major figures to venture into examination of Chinese tradition. He attempted to explain why China failed to instantly join the “Industrial Revolution”. In his view, Britain gained advantage by switching from superstition to “science”. China failed to engineer this shift, because:

“In spite of the logical qualities of the language, Chinese thought has remained rather stuck in the pictorial and the descriptive” (Weber, 1951, p.125).

He continues his critical assessment with:

“The power of logos, of defining and reasoning, has not been acceptable to the Chinese ... Chinese philosophy did not give birth to scholasticism because it was not professionally engaged in logic ... based on Hellenistic thought. The very concept of logic remained absolutely alien to Chinese philosophy ... oriented to purely practical problems” (Ibid. p.127).

The escape from the entrapments of the theory is one method for identifying threats, and Confucian disinterest in history is another. This disinterest in history shouldn’t be confused with disinterest in tradition. Tradition is to be greatly cherished, but not necessarily when the past is filtered by biased historians. In the Confucian view the practice of history as a discipline rests on shaky grounds, since material from days gone is sparse and of course can’t be related to direct experience. Consequently, history can be interpreted in many ways that can’t be tested for full accuracy. The worst that can happen is when theory is brought to historic analysis to imitate “modern physics” and like this brand of physics looks for “iron laws” of history, with fixed patterns of change and precise predictions of the future (see: Popper, 1957). Again, there is an issue of how to separate a “true” from the “untrue”, because the application of logic to these laws can’t really help. It is better to be skeptical about uses of history, particularly for judgment on issues that are of a moral nature. And, as the Chinese traditionally do it, they use history only sporadically to illustrate “moral lessons” for the living and do so descriptively, mainly for the purpose of archiving what is left of the past (e.g., record books – and genealogies – kept by the heads of family).

There is one more preferred method for people to safeguard against threats, namely to “filter” from whom ideas come. For Confucians, the most trustworthy sources are “sages”. Educated, they are not mainly scholars but rather moral teachers fully versed in Confucianism. Ascribed the highest rank in society, sages are considered more important than emperors. Expecting the most from emperors, Confucius claims that only an emperor who is also a sage can rule (compare with Vries, 2011). The emperor is not law, nor is he above the law of the land. The same rules apply to all, for there is one “moral order” that nature provides. Emperors’ authority, or the “Mandate of Heaven”, is bestowed not by “heaven” but by the people. Their verdict is based on how he the ruler treats people. In Confucius’s words: “Loving what people love, and hating what people hate: this is he who is called the parent [emperor – KP] of the people” (from Lin, 1937, p. 77). Otherwise, when this requirement is violated, people should rebel and dethrone an unjust ruler (rebellion rather than – state – war being the main source of political “havoc” in China’s millenniums of history (Lin, 1938).

## **Conclusions**

Demonstrating that Chinese have their own complete brand of economics is the first step; the next one is to discuss its real-world application and establish what the relative worth of this approach to economy is. Left with limited space, I will use my conclusions to point to the evidence of influence that Chinese economics exerts on today’s China. Ideally, these remarks could stimulate future research on Chinese approach to economy. Beginning with the opening issue, one wonders whether the Chinese still show overwhelmingly preference for continuity over “instant gratification”. One might doubt this being the case, since in 1979 China adopted “family planning”, i.e. “one-child” policy. Yes she did, but this is no evidence that a major change in mentality has taken place. The idea to restrict procreation didn’t emerge from within China, but was picked up by the state from Western academics prematurely alarming that “population explosion” is nearing and will soon destroy the globe. Control of birth was installed by the state, but the population has never accepted it. Even some officials have voiced concerns, mainly that it will lead to “population implosion” From the outset, the policy has been opposed by the masses, particularly by the still dominant peasants. Though people have been getting richer, the opposition didn’t subside, so that the state finally decided in 2015 that the restriction will be lifted, starting with the educated class.

Turning to the second issue of the “economic problem”, the question is how “Confucian” China is in terms of using its resources. To follow Confucian principles, China would have to show interest in giving resources a “breathing space” to be replenished. The evidence loudly speaks to the opposite. As a latecomer, China is clearly replicating – or even exceeding – the damage experienced by European countries at the time of their own – early – industrialization. The drop in water level in many, or most rivers and lakes is quite alarming, and air quality in most of the major cities – agglomerations – is alarming as well. The pictures from the capital city Beijing make one wonder how much harm these conditions cause to the health of inhabitants, and – thus – what must be the cost of failing health to the economy. This sorry status is very well documented, particularly in Western research (recent example: Smith, 2015) But this deterioration of environment – land and water – is no evidence of scarcity that Liberals attribute to “population expansion”. It isn’t nature that is the cause, but people, who violate the Confucian principle to “follow the seasons” and allow nature to regenerate (e.g., through poor urban planning, underspending on water purification). The only area where China has made some advances is energy. Low on conventional sources – coal

and oil – in almost no time, China has become the world leader in alternative sources, solar and wind energy (as well as in the related manufacturing branches).

Is there any evidence that today's China follows Confucian – “puritan” in spirit – attitude to work? The answer is, there is ample evidence that – earnest – work is viewed by people as a way of life, often even a meaning of life. Any visitor can see it in today's China, where people typically start their work at 8-9 am and stay there even for as late as 10pm. They work also on Saturdays, even though – not that long ago – free Saturdays were introduced cross-China. Free Sundays were instituted in 1911, when dynastic system was put to an end. Mostly state officials took advantage of this new law, but not the peasants. Until now, free Sundays, or two-day weekends are relatively rare among them. It is a common practice that officials are expected to attend meetings during weekends. In the private sector, dominated by small shops, people use fronts of their houses for business – work – and the back is for family life. Thus, in practical terms, they are constantly open for business. And there is still no tradition of having holidays, except for two per year official holidays, called festivals. Incidentally, these one-week long festivals, are family gatherings, devoted to rekindling the Confucian spirit (to digress, about 300 million children travel to meet with parents, in these largest modern-time migrations).

There is also evidence of strong respect for Confucian ethics, with “filial piety” as its cornerstone. In practical sense, it is a requirement to transfer wealth from children to elderly. As documented by studies on income distribution in China, it is common nowadays for children to transfer as much as one third of their income to retired parents, who used to earn much less. Following tradition, parents typically live under one roof with their children. To be specific, as much as 60 percent of elderly parents – older than 65 – reside together with their children (Zhang, 2014). This fact explains why in China most of the new apartments for young couples are designed with extra rooms for parents /and why Chinese living in America prefer houses with facilities for in-laws/. But the transfers are not one-sided, since parents sacrifice for the benefit of their children as well. The major help for children is provided by parents through sharing the burden of raising their grandchildren, which further explains why three generations tend to live under one roof. By taking care of their grandchildren, parents allow their own children devote more time to work and contribute to the overall – family wealth. Importantly, it is this wide-spread family practice that allows hundreds of millions of migrant workers – mostly from among married couples – to assume urban jobs (and return home when jobs are gone).

China also seems to have followed Confucian “recipe” for prosperity by using the post-1978 reforms to hand over the economy mainly to families, or – to put it differently – by delegating its control to the “familial market”. Like in many other countries, “family” is not a category used for national economic statistics, so to give a definite answer on how much China's production comes from family businesses isn't easy. However, there are many – I would add sufficient – indications that the choice by the reformist leaders was to shift management of resources to families rather than individuals, of which the later would be a Liberal choice. Returning the state-owned farms – or communes – to families (and their traditional clans) was one step toward a family based system (Naughton, 1996). Initially, peasant families were allowed to use state land for a payment and later they were also given right to acquire land and thus enjoy limited ownership rights. Accordingly, an internal market for land was rather quickly reestablished and speculation became rampant. These, and other dynamic changes in the farm sector eventually reached the stragglings industry. The subsequent decision by the party-state to assign the task of industrial revival to the so-called “township” – in fact family-run –

firms, is another valid proof that the recent China has followed the Confucian “recipe” for success (see: Rawski, 2011).

There is then the issue of Confucian concern for equality. Before the post-1978 reforms, difference in wealth (but not status) were insignificant, and there was a wide-spread poverty. Judging by the formal coefficients, China has reached extreme inequality. In 2016 she reached the US ratio of 0.5, compared with 0.3 reported back in 1980. This would suggest a sharp departure from Confucian principles, but one should be cautious. Chinese economics has given the highest priority to eliminating poverty. During the recent decades, as a rare exception among developing economies, China eliminated most of the endemic poverty, numbering over 300 million people. Average Chinese experienced constant growth in real wages at rates close to the productivity growth. For much of this time, real wages were going up at 6-7 percent annually. By contrast, in other countries that around the same time decided to reform a similar Soviet model – under liberal guidance i.e. the so-called “Washington Consensus” (Kolodko, 2012) – real gains from reforms for the wage-earners were much lower. In extreme cases, even with some production growth, by the year 2015 real wages were lower than in 1990 (e.g. Bulgaria, Serbia, but also Ukraine), or near stagnant (e.g., Russia) (Poznanska & Poznanski, 2015)

There are also indications that – generally speaking – China has preserved the quintessentially Confucian concept of “meritocratic state”, where the state is mainly a “bystander” acting as a moral guide. While the imperial examination system was abandoned in 1911 by the Republican China, the political regime formed after 1949 has continued this tradition (not counting the upheaval of Cultural Revolution, when college entry exams and public service tests were temporarily suspended). As before, the brightest recruits are promoted to high party/state positions. To reach upper echelons, members of the party have to pass through a near dozen-step venting procedures (many times more than, for example, currently in the United States, Lee 2011)). Out of concern that officials “serve people” rather than themselves, they are systematically screened for ethics. Nevertheless, the corruption is rampant and represents a serious problem. The major stimulants for corruption are the “connections”. Called in Chinese “guanxi”, they are built mainly around family ties. This is a price for assigning – as Confucianism requires – the key role to family, rather than individuals or state. And, it is not that corruption goes unpunished since in contrast with most of the developing countries China operates a vast and harsh apparatus to police abuses of public office. Continuing the traditional dislike for mixing politics with business interests, Chinese party/state restricts the ability of business people to join the ranks.

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SUGGESTED CITATION:

Kazimierz Poznanski, "Chinese economics as a form of ethics", *real-world economics review*, issue no. 80, 26 June 2017, pp. 148-170. <http://www.paecon.net/PAEReview/issue80/Poznanski80.pdf>

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