

Lecture Review: Chinese Economic Thought Before Adam Smith

**Lectured by: Zagros Sadjadi
(University of West Indies)**

**Reviewed by: William Dwyer
(California State University, Hayward)**

Professor Sadjadi began his talk by stating that the history of economic thought as taught in today's universities contains an extreme Western bias, because it omits the economic thought of China, which until the 16th Century was the wealthiest nation on earth. Indeed, the major reason the new world was discovered, he said, was the desire to open up a trade route to China in order to bring riches to Europe. He said that the history of Chinese economic thought is essential to an understanding of modern East Asian economies. Accordingly, he identified three schools of economic thought, two of which have been strongly influential. He also presented a number of parallels between Chinese and Western economic thought, which have been largely ignored by contemporary historians. I found his discussion interesting and informative, but I believe that he focused too strongly on the authoritarian elements in Chinese thought and not enough on the libertarian.

Professor Sadjadi stressed that it was the economic ideas of ancient China that paved the way for the development of capitalism in modern China. He cited the dominance of two schools of economic thought. One, typified by Japan and South Korea, involves a capitalism that is fairly autocratic and dominated by large corporations like the Keiretsu and the chaebols. He said that this school is also reflected in the authoritarian capitalism of Singapore and Taiwan, which is

based upon smaller companies. Although I can understand Singapore as authoritarian, I would not have applied the same characterization to Taiwan.

The second major school of Chinese economic thought is represented by Hong Kong, a city state described by Milton Friedman as a model of the free market. However, Sadjadi noted that the government of Hong Kong provides extensive public transportation and public housing to “allow capitalism to work” and “around which it can flourish,” the implication being that capitalism cannot succeed without a publicly subsidized infrastructure.

Here I believe that Professor Sadjadi displayed a certain bias against the free market. Capitalism is fine, as far as it goes, he seemed to imply, but it needs an infrastructure provided by the government. This view ignores the fact that privately funded transportation is more economical than the publicly funded kind, precisely because the latter is almost certain to operate at a loss. Nor is public housing a necessary adjunct to the free market. Homelessness (for able-bodied, self-responsible adults) is created by *impediments* to the free market, such as rent control and zoning laws, which cause a shortage of affordable housing.

A third school of Chinese economic thought mentioned by Professor Sadjadi is one which he says contains an animus towards monopolies and autocratic power. However, if I understand him correctly, he believes that this school has exercised little if any influence on modern East Asian economies, since he apparently regards the other two schools as dominant.

Since he did not identify these schools by name, it is not clear to me if he was referring to the three main schools of political thought in ancient China – the Legalists, the Taoists, and the Confucians – which were established from the 6th to the 4th Century B.C. The Legalists believed that the state should have maximum power, the Taoists favored virtually no state interference, and the Confucians were the mixed-economy alternative.

Professor Sadjadi did, however, refer to the Taoist philosophy, with its “hands-off approach,” which he said was popular among the common people, who thought that the best way to improve the wealth of a nation is for the ruler to do nothing. However, he neglected to mention the noted Taoist intellectual Chuang Tzu, who lived during the 4th and 3rd Centuries BC and who, in a comment reminiscent of Pierre Proudon or Friedrich Hayek, stated, “Good order results spontaneously when things are let alone.” (Murray Rothbard, *Economic Thought Before Adam Smith*, p. 25)

Moreover, Professor Sadjadi seems to have been unaware of a key Chinese historian, Ssu-ma Ch’ien, who lived during the 2nd Century BC and who was himself an advocate of laissez-faire. Unlike the more ascetic Taoists, however, Ch’ien was a utilitarian who rejected the idea that people could solve their economic problems by reducing their desires. He believed that the goal of economic activity was the attainment of wealth and comfort. Ch’ien also recognized the importance of specialization and the division of labor, the self-regulating character of the free market, and the opportunistic role of the entrepreneur. (Joseph J. Spengler, “Ssu-ma Ch’ien, Unsuccessful Exponent of Laissez Faire,” *Southern Economic Journal* (Jan. 1964), pp. 223-43)

Professor Sadjadi explained the relative absence of free-market theorists in Chinese thought by noting that the established intellectuals were so closely affiliated with the government, they tended to be authoritarian and statist in their orientation. However, he did identify a pro-capitalist strain in the Confucian school wherein Confucius states, “The only way that the government can become rich is for the people to be rich. If the people are poor, the government will be poor,” a concept reminiscent of the modern Laffer Curve, according to which taxation eventually reaches a point of negative returns.

Professor Sadjadi pointed out several other interesting parallels between Chinese and Western economic thought. For example, *The Book of Wan Tsu* argues that the price of goods is related to the quantity of money in circulation, which is similar to the modern quantity theory of money. Wan Tsu also says that when times are bad, the government should spend more money to stimulate demand, reflecting a Keynesian or consumptionist macroeconomics. Another early Chinese economist, Sang Hong Yang, believed in the benefits of monopoly and of economies of scale for reducing costs, but failed to appreciate the benefits of competition for keeping prices down.

Other Chinese concepts mentioned by Professor Sadjadi that predate Western economics include the existence of a demand curve in ancient Chinese thought, the law of diminishing marginal utility, the importance of equating marginal cost with marginal utility, the advantage of price discrimination, and the disadvantages of fiat money.

Despite little more than a passing reference to the Taoists and a failure to acknowledge the Chinese libertarian Ssu-ma Ch'ien, Professor Sadjadi gave a rich and illuminating lecture on a much neglected topic in the history of economic thought.