

TALLINN UNIVERSITY OF TECHNOLOGY

Faculty of Social Science
Ragnar Nurkse School of Innovation and Governance

ZHAO Xuan

**Wang Anshi's Economic Reforms:
Confucian Economic Policies in Song Dynasty China and
Their Proto-Keynesian Aspects**

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Supervisor: Professor Wolfgang Drechsler

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ZHAO Xuan

**Wang Anshi majandusreformid: konfutsianistlikke
majanduspoliitikad Song'i dünastia Hiinas ja nende
proto-keynesianistlikud aspektid**

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Abstract

Current mainstream scholarly understandings of Wang Anshi's economic reform tend to belittle it as nothing but a government's pillage of people's wealth as well as a betrayal to Confucianism, and deny the existence of the parallel between the reform and modern western economic policy paradigms, especially the Keynesianism. But as long as understanding the original ideas of Wang Anshi's economic thought and his reforming policies, and comparing the those ideas with John Maynard Keynes' and Abba Lerner's thoughts, one would find Wang Anshi's reform was an endeavor to make Confucianism work in his time, because Confucian economic principles acted as the sources of ideas and the blueprint of the reform; and this endeavor well deserves the title of "proto-Keynesianism", because both sides in this parallel reach consensus about the importance of government's expenditure to support aggregate demand, increasing inducement to invest, and state's control of economy in curing the economic depression of unemployment and preventing it from happening.

Key words: Wang Anshi, Wang Anshi's Economic Reform, Confucianism, Confucian Economics, *Zhouli*, John Maynard Keynes, Abba Lerner, Keynesianism

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1. Introduction

During the half decade between 1069 and 1074, Wang Anshi (王安石, 1021-1086), the leader of a Confucian school of thought (the New School, “新学”) and the Chancellor (同中书门下平章事) of the Northern Song dynasty (北宋, 960-1127), launched one of the most famous economic reforms in Chinese history. In both China and the Western world, this reform used to be quite a prominent topic for scholarly investigation in the 20th century (see Li 2004), but it cooled down in the 21st century – as has been claimed, because enthusiasm for the study of individual figures and events in history faded away (Li 2010, 22-26). But this quietness does not mean the already obtained understandings of this economic reform are not debateable. In fact, the true meaning, the significance and the “advancedness” of the thoughts behind the reform are still to be elucidated. Through focusing on the actual implementation of the reform policies, some recent studies generally drew the conclusion that the reform should be belittled as a government’s pillage of the people’s wealth to solve its fiscal crisis (e.g. Fu 2004, Li 2007), but, as we will see infra, this is not what the essence of the reform was, but precisely what Wang Anshi and his followers tried very hard to avoid. This thesis takes the position that bad implementation of these policies should not obscure the greatness of the ideas behind them. Perhaps even more importantly, the dominance of the Neo-Liberal paradigm in economic theory has created an unfriendly atmosphere for understanding Wang Anshi’s economic reforms which, as presented infra, believed the control of economy should be the right and duty of the state and aimed at retrieving this control from the private sector to the state in order to cure economic depression.

However, before our time’s criticism of the reform, there was a perspective which emerged in the early 20th century, both in China and in the Western world, and which eulogized Wang Anshi’s economic thought, as crystalized in his economic reform, for its parallels with some influential modern Western political-economic theories. Most of the works following this perspective believed the reform was the implementation of a kind of proto-State Socialism or Socialism long before the Western concept had

emerged (e.g. Liang 1936, Xiong 1936, Gowen 1914, Franke 1931).

Under this circumstance, what this thesis therefore tries to do is to understand Wang Anshi's economic thought and his designs of economic policy that are contained in the texts of Wang's works and the policy documents to see what Wang's original ideas really were, and to examine whether, while avoiding far-fetchedness, in his 11th century context, Wang Anshi really did think up and implement a version of the economic policy paradigms which Westerners created hundreds of years later – the parallel as has been argued about his role in “modern” Public Management (Drechsler 2015). To be specific, this thesis argues that Wang Anshi well deserves the title of a medieval Chinese proto-Keynesianist.

Actually, although in 1944, Henry Wallace, the Vice President of the United States during 1941-1945, had praised Wang Anshi as the first Chinese “New Dealer” (see Li 2004, 17 and Li 2014, 216), this parallel has rarely been scholarly examined.¹ Compared with his contemporaries, Wang Anshi stood prominently as arguably the only person who understood that the lack of sufficient consumption and investment in economy would cause the poverty of the state and the people as well as unemployment and the insufficient exertion of productive capacity, and the only one who undertook to solve this by pushing government's active expenditure in supporting investment and consumption to support aggregate demand, rather than going for strict saving for a balanced budget. This viewpoint is in clear parallel with the “conventional Keynesianism” as an economic policy theory, which “represents little more than the positive relation between government expenditures and national income, or in more sophisticated versions something closer to Abba Lerner's idea of ‘fiscal federalism’ in which fine-tuning expenditure and tax policy can stabilize the level of aggregate demand at full employment” (Kregel 1995, 261).

The task of this thesis is thus to “understand” Wang Anshi's thought and ideas contained in the texts written by him. Therefore, the method of investigation of this thesis is based on Hans-Georg Gadamer's hermeneutics (2013; see also Drechsler 2015 for a similar reasoning regarding Wang Anshi), which is the approach to understanding the truth in

¹ An exception is Xia 2004, but this was not taken up by any other scholars and remained without influence; it claims that Wang's commercial policy had nothing to do with Keynesianism because Wang made the state directly engage in commercial trade, which Keynesianism does not do.

the “text”, including historical texts, which are the subjects of investigation in this thesis. According to Gadamer, the process of “understanding” is that “when we try to understand a text, we do not try to transpose ourselves into the author’s mind but, if one wants to use this terminology, we try to transpose ourselves into the perspective within which he has formed his views. This happens even in conversation, and it is a fortiori true of understanding what is written down that we are moving in a dimension of meaning that is intelligible in itself and as such offers no reason for going back to the subjectivity of the author” (Gadamer 2013, 303). This process concerns two “horizons” – “the range of visions includes everything that can be seen from a particular vantage point” (Gadamer 2013, 312) – including “the horizon in which the person seeking to understand lives and the historical horizon within which he places himself” (Gadamer 2013, 312-313). In this way, “understanding is always the fusion of these horizons supposedly existing by themselves” (Gadamer 2013, 317). In practice, in understanding a historical text, the “fusion of horizons” lies in reconstructing the “questions” that the text answers. Understanding a text means to understand the question it answers. Gadamer says that “a person who wants to understand must question what lies behind what is said. He must understand it as an answer to a question, if we go back behind what is said, then we inevitably ask questions beyond what is said. We understand the sense of the text only by acquiring the horizon of the question – a horizon that, as such, necessarily includes other possible answers” (Gadamer 2013, 378).

Following this hermeneutic framework, this thesis will start with reconstructing the “questions” Wang Anshi’s economic texts tried to answer, namely the historical context it stood in. This reconstruction will be mainly based on the outcomes of modern historical study. Then, with this “horizon of questions”, this thesis will move to illustrating Wang’s economic thought, which is integrated from all of his works, because Wang Anshi made no special treatise to fully illustrate his economic doctrine; instead, his economic thought is scattered in his short essays, letters, poems and some paragraphs in the texts the main topics of which are other issues. Then the thesis will move to Wang’s main economic reforming policies preserved in the original policy documents as the idea of implementation and crystallization of Wang’s general economic thought. Finally, the thesis will examine more closely the parallel between Wang Anshi’s economic reform and modern Keynesianism.

2. The Context of Wang Anshi's Economic Reform

Wang Anshi's economic reform tried to establish a set of Confucian economic institutions as the permanent economic order and at the same time to solve the fiscal and economic depression of his time. To understand this, the starting point of this thesis must be placed in the 1050s, a time containing the problems which Wang Anshi's economic reform tried to solve.

2.1 The Economic Context

After the prosperity and enlightened governance in its early years, in the 1050s, the Northern Song dynasty, the dynasty that ruled China from the late 10th century until 1127, was haunted by a series of crises, such as the rebellion of Tangut (党项, the Northern Song's client state in Northwest), the fatigued and weak army and an apparent low efficiency of the bureaucracy. But among all of them, the unsustainable state finance and the depressed national economy were the problems that triggered the highest anxiety among the Northern Song's political elites.²

These elites believed that "redundant" soldiers and public servants caused the fiscal crisis, because they saw the fiscal deficit grow as the scale of army and bureaucracy expanded (see Smith 2009, 347-349; Golas 2015, 147-149). For example, during the first quarter of the 11th century, the Northern Song had 912,000 soldiers and 9,785 public servants, but in 1049, there were 1,259,000 soldiers and 15,442 public servants, and in 1021, there was a fiscal surplus of 24,074,900, but in 1064, there was a fiscal deficit of 15,726,002.³

² About the 11th-century crisis facing the Northern Song, see Smith 2009, 347-352; Williamson 1935, 71-83.

³ All data is from *Song Shi* [宋史, *History of Song Dynasty*] 1977, 4349-4353. The tax in Northern Song was tax in kind, including generally 27 kinds of goods from coins, grains to textile and animal leather. Different kinds of goods have different unit of measurement: "Grains are counted in 石; coins in 缗; silk textiles in 匹; gold, silver, and silk floss in 两" (*Song Shi* 1977, 4202-4205). So the unit of measurement of a sum of government money differs when its content differs. Because the numbers are only used in comparison in this thesis, units in government money will be omitted for convenience. Besides, in the original Chinese text, the units are also omitted.

Along with the “poverty of the state”, the “poverty of the people”, namely the depressed national economy, also concerned Northern Song’s political elites (Smith 2009, 384-387). The main body of Northern Song’s “people” was the rural population: government statistics showed that in 1034, 80% of the Northern Song’s population lived in rural households.⁴ And Northern Song’s rural households mainly consisted of three groups: “landlords”, or the upper three ranks in the rural tax register book, who constituted 7-27% of rural households and possessed roughly 77.5% of the cultivated land; “small farmers”, or the lower two ranks, who formed 40-60% of rural households but possessed only roughly 22.5% of the cultivated land; and the remaining one-third unranked households, including tenant farmers, rural merchants and craftsmen who had no land (Golas 1980, 299-304).

Although most of its population lived in the rural area, Northern Song’s economy should not be seen as a closed natural economy. Instead, since the Chinese state had already given up its authority in the ownership and distribution of land in rural areas and in the strict organization and regulation of the market in cities in the mid-eighth century, Northern Song’s urban and rural economy were commercialized economy to a great extent, with the dominance of private ownership of land in rural areas, expanding urbanization, and large use of money (see McDermott and Yoshinobu 2015, 321-398; Golas 1980, 298-299). Actually, the first true paper money globally was born in the Southwestern regions of the Northern Song (see Golas 2015, 210).

“As land and the entire agrarian regime were drawn deeper into the commercial vortex, the farmer’s ability to hold onto his land came to depend increasingly on his access to money and credit” (Smith 2009, 394). In this circumstance, the small farmers whose economic situations were always fragile because their lands were not adequate to secure sufficient income for their family, always had to take loans from the well-capitalized households, so “many of them were chronically in debt, and mounting debts led all too often to the forced sale or foreclosure of their lands” (Golas 1980, 301-302). The interest rate of rural loan in Northern Song was very high. The government’s maximum limitation of the interest rate of rural loan was 100%, but the market interest rate could reach “several hundred percent” (*Song Shi* 1977, 4159). Under this high interest rate,

⁴ See *Xu Zi Zhi Tong Jian Chang Bian* [续资治通鉴长编, *The Long Compilation of the Continuation of Comprehensive Mirror in Aid of Governance*, ab. *Chang Bian*] 1986, 2780.

according to Wang Anshi's observation, "would-be borrowers are often denied the funds they need."⁵ Contemporary description of small farmers' lives went like this: "when the harvest is good, farmers live in well-off circumstances, family members support each other; as soon as natural disaster happens, farmers emigrate, flee, starve, and die" (*Chang Bian* 1986, 4242).

In this small farmers' misery, "the chief beneficiaries of this process were the wealthy landowners, many of them officials" (Golas 1980, 302). And this was also clear for the Northern Song's political elites, including both Wang Anshi and his followers and their opponents. One of the most important goals in Wang Anshi's reform, as presented below, was to restrict these wealthy people's power over small farmers' economic destiny. Even Sima Guang (司马光, 1019-1086), who was Wang Anshi's top opponent and eradicated Wang's reforming policies after coming to power in 1085, also found that the rural wealthy class benefited at the cost of the poverty of small farmers.⁶ He wrote:

It is fortunate for small farmers to have some output, which, however, has to be plundered by government and creditors. Before the crops leave the threshing ground, before the cloth discharges from the loom, the output already no longer belongs to the farmers, so they live in poverty. What they eat is coarse grain, and even coarse grain is insufficient; what they wear is coarse cloth, and even coarse cloth is in shortage (*Song Shi* 1977, 4168).

Today's rich households in village take advantage of the poor's temporary shortage, lend usury to them, wait until the harvest, and press the poor to pay back debt and interest. So the poor farmers' hard-won output normally gets despoiled by the rich even before the grains are reaped.⁷

In this way, it seemed understandable why Northern Song political elites, both from Wang Anshi's side and his opposite side, pejoratively called these wealthy households, in both rural and urban area, who accumulated wealth at the cost of others' poverty, the "plutocrat households" ("兼并之家" literally means those who annex others' wealth,

⁵ *Song Hui Yao Ji Gao* [宋会要辑稿, *The Compiled Draft of the Compendium of Government and Social Institutions of Song*, ab. *Ji Gao*] 2014, 6041; English Translation: Smith 2009, 396.

⁶ About Sima Guang's biography and his administration, see *Song Shi* 1977, 10757-10770; *Song Shi Ji Shi Ben Mo* [宋史纪事本末, *History of Song In Narrative Style*, ab. *Ben Mo*] 1977, 411-426; Levine 2009, 484-509.

⁷ *Xu Zi Zhi Tong Jian Chang Bian Shi Bu* [续资治通鉴长编拾补, *The Complement to The Long Compilation of the Continuation of Comprehensive Mirror in Aid of Governance*, ab. *Shi Bu*] 2004, 262.

translated as “Plutocrat” by Williamson 1935, “Engrosser” by Smith 2009).

The poverty of small farmers formed a serious problem in Northern Song’s national economy, which was put as the top priority in his economic reform by Wang Anshi himself. He wrote in a public document in 1070 to justify his reforming policies:

In recent decades, the farmers have always lived in very hard lives. Government only knows to put burden on them, but seldom aid and relieve them. Take the capital region as example, the water conservancy projects like dikes and canals have been mostly unmaintained; the deserted arable lands near the capital city stretch hundreds of square miles contiguously; families by families go bankrupt and exile. This is what the situation looks like in the nearest place to us, we could imagine what the other remote regions are. Once the disaster happens, the bodies died from starvation pile each other, and the roads are filled with refugees. Just like the famine in Northern Yellow River regions last year, although government dispatched the grain from Southeast to relieve them, but that wasn’t really helpful for those in exile, no mention to those dead. And when the state levy more from the people for urgent expenditure, the upper ranked households are always forced to make donation, and lower ranked households have to sell their land and property to fulfill government’s extortion. And these are really what the so-called state’s stringency in wealth is. Besides, the farmers’ misery caused by our corvée system is a common sense so familiar to everyone that doesn’t need more description. As the result, since the enthronization, his Majesty issued the edicts to enjoin us that the most urgent issue should be promoting agriculture, managing state finance, and reforming the corvée system. Therefore, it is very obvious that today’s most fatal problem is in economy and state finance (*Ji Gao* 2014, 6050).

Along with the poverty of small farmers, Wang Anshi here also expressed his worry about the impaired agricultural productivity of the empire: land abandonment and unmaintained water conservancy projects, which also drew contemporary political elites’ attention. For example, in 1049, a memorial to the emperor alerted:

In Tang Dynasty (618-907, Chinese Dynasty before Northern Song), the

country had 8,900,000 households, and 14,300,000 *Qing* (顷) reclaimed land. Today, we have 7,300,000 households, but only 2,150,000 *Qing* reclaimed land, among which at least 300,000 *Qing* are actually deserted. The reason is that many farmers are bankrupt and give up tillage (*Chang Bian* 1986, 3998).

In 1043, an imperial edict wrote:

In the Southern Yangtze region, there used to be low-lying paddy fields surrounded with dikes (圩田) capable to resist floods and drought. However, most of these facilities are dilapidated now. In Central Plain where there is saline-alkali soil, there used to be the excavation of canals and ditches for irrigation. However, the construction has been suspended for years (*Ji Gao* 2014, 6120).

And, in 1068, the eve of Wang Anshi's economic reform, a report from the Central Secretariat (中书省) to the emperor wrote:

In the past, the water conservancy facilities all over the country stored water in floods and irrigated lands in drought, from which people benefited a lot; however, now, nearly all of them are unmaintained, and unable to resist flood and drought. Besides, the dikes in the regions of rivers and lakes are also mostly ruined, so fertile lands cannot be tilled by the people (*Ji Gao* 2014, 6124).

This was the image of the Northern Song's state finance and national economy at the eve of Wang Anshi's economic reform, which formed the problems the reform had to solve. Before the reforms, the empire had also tried to solve these problems on both the central-government level and the local level, but these attempts had generally failed (see Smith 2009, 350-351). Since the empire believed too much expenditure on redundant soldiers and public servants caused the fiscal deficit, cutting government expenditure and the scale of army and bureaucracy became the empire's main solution to the fiscal crisis. For example, Emperor Renzong (仁宗, 1010-1063, ruled since 1022) "had been concerned with fiscal problems and had ordered to cut government expenditures several times" (*Song Shi* 1977, 4350), such as discharging 95,000 soldiers from Northern border (*Chang Bian* 1986, 4023). But Emperor Renzong did not succeed, because "relevant ministries didn't fully execute the emperor's will, and were blocked by usual practice"

(*Song Shi* 1977, 4353). When Emperor Shenzong (神宗, 1048-1085, ruled since 1067, the emperor who provided the platform to Wang Anshi for his reform) just succeeded to the throne, he ordered Sima Guang to lead a bureau specifically for cutting government expenditure, but very soon, Sima Guang reported to the emperor that “none can be cut in short time” (*Song Shi* 1977, 4354). Solving fiscal crisis through cutting expenditure seemed a dead end in the emperor’s eyes, so he abolished this approach and supported Wang Anshi, who provided him with a solution via a whole new paradigm.

Compared with other Chinese dynasties, Northern Song was prominent for its promotion of agriculture, and the empire did not seek to compensate fiscal deficit with increasing taxation on agriculture (see Golas 1980, 310-311). Emperor Shenzong believed adding tax on people was “extorting the people downwards but collecting people’s hatred upwards” (*Ji Gao* 2014, 3121). And the empire took some measures to solve the problems in its economy. For example, Emperor Renzong used tax reduction to relieve small farmers’ financial burden and awarded the government officials who could promote land reclamation and water-conservancy project construction. These policies improved Northern Song’s national economy only to some extent, as, for example, it took decades for Emperor Renzong’s tax-reduction policy to turn Northern Song’s agriculture from “many lands in the country were deserted and the farmers always exiled” to “the population multiplied and lands were reclaimed on a large scale” (*Song Shi* 1977, 4163-4165). But the core of the problem, namely the high interest rate in rural loans, the heavy debt and the lack of capital of small farmers, were not touched. As the result, on the eve of Wang Anshi’s reform, the depression in national economy was still serious. In 1068, Wang Anshi wrote in his memorial to the emperor about the major problems they faced: “The farmers have never been effectively relieved, and government doesn’t recondition land and water for them to improve their productivity.”⁸

In general, on the eve of Wang Anshi’s economic reform, the fiscal and economic depression had already become very critical in the eyes of Emperor Shenzong, whose ambition was to retrieve Northern Song’s lost territory in Northeast and Northwest (*Song Shi* 1977, 314). In 1069, he wrote in an imperial edict:

⁸ *Ben Chao Bai Nian Wu Shi Zha Zi* [本朝百年无事札子, *The Memorial on Why Our Dynasty Has Been Basically Peaceful For One Hundred Years*, ab. *Zha Zi*], in *Lin Chuan Xian Sheng Wen Ji* [临川先生文集, *Wang Anshi’s Collection*] 1959, 446.

The precondition of governing the land under the heaven successfully is to make the people rich. But, today's government can't afford its expenditure, and people are living in poverty. In this circumstance, even if I work hard from the day to the night, what difference can I make? (*Ji Gao* 2014, 3121)

Therefore, he “put administrating state finance and national economy as the top priority since his enthronization” (*Song Shi* 1977, 4354). And as a consequence, Wang Anshi also prioritized fiscal and economic issues. In 1071, when Emperor Shenzong showed his concern about the insufficient financial supply in the Northwestern frontline, Wang Anshi said to him:

The reason why we couldn't make notable military and political initiative now is because of the insufficiency of fiscal and economic resources, therefore, I put the proper administration of state finance and national economy in the most prior place. If we launch the initiative before state finance and national economy get properly administered, the initiative won't last long. I have always held the viewpoint that politics is like playing chess, what matters to the result of the game is whether the pieces are moved in the right time sequence. And in administering economy and finance, it is the agriculture that was the most urgent (*Chang Bian* 1986, 5351).

2.2 The Ideological Context

Wang Anshi did not see his economic reform only as the solution to immediate fiscal and economic problems but also as a new economic order that should work permanently as an adaption of the Confucian approach in accordance with a newly changed world after the collapse of the previous ideal mode of organizing the Chinese empire.

According to recent studies (Bol 2010; Li 2006), the middle of the 11th century in Northern Song was the eve of the formation of Neo-Confucianism, the political philosophy that took its full shape in the 12th century and guided the Chinese empire from then on until the early 20th century (see Yao 2000, 96-98). It was a period when the economic, political and social changes in China since the mid-8th century, such as privatization of land, urbanization and commercialization in economy, China's loss of its dominance among the nations and states in Eastern Asia and the disappearance of the

large oligarchy literati clans that dominated the government⁹, had made the previous Confucian mode of organizing the Chinese empire seemingly untenable for the new time, and a period when Chinese intellectuals of different schools of thought intensively debated with each other, claiming that they found the way of organizing the empire in the changed world (see Bol 2010, 7-8). Wang Anshi and his followers formed one of the four most influential camps in this debate, with the other ones being Sima Guang's camp, the Su Shi (苏轼)-Su Zhe (苏辙) brothers' camp, and the Cheng Yi (程颐)-Cheng Hao (程颢) brothers' camp (see Liu 1959, 22-30).

Anyone who studies Wang Anshi's works will highly likely be impressed by his deep admiration of Confucius, his yearning for a Confucian ideal world, his mastery of Confucian classics and knowledge and his praise for the Confucian political heroes – “the ancient great rulers”. Wang Anshi believed that a Chinese intellectual should carefully study the original Confucian classics and see them as orthodoxy, while taking the other ideologies like Buddhism, Taoism, and Legalism as heterodoxies which one should read to benefit one's understanding of Confucian classics but which one must not believe.¹⁰ Politically, Wang Anshi advocated that organizing the empire following the original Confucian classics was the only solution to the crisis in his time. As a devout Confucian, Wang Anshi was well aware of the ideological context of his time. Wang Anshi saw that, although Confucianism was put in the position of the official political philosophy by Northern Song's government, the public schools educated students with Confucianism¹¹, and the empire selected public servants through the examination testing their mastery of Confucianism (See *Tong Kao* 1986, 281-297), the mode of governance of the Northern Song empire was not intentionally organized through adopting Confucian principles into the changed world but was in an unreflected way inherited from the past. And Wang Anshi noticed that although Northern Song's emperors were all basically good emperors, they had never made any conscious effort to interfere in and shape reality by following Confucian principles. He wrote: “The emperors (of Northern Song) didn't discuss the principles of ancient great rulers with scholars for

⁹ About the economic, political and social changes at that time as the context of the formation of Neo-Confucianism, see Bol 2010, 7-42.

¹⁰ *Da Zeng Zigu Shu* [答曾子固书, *A Letter in Reply to Zeng Zigu*], in *Wen Ji* 1959, 778-779.

¹¹ See *Wen Xian Tong Kao* [文献通考, *The General Investigation of Government Documents*, ab. *Tong Kao*] 1986, 395-401.

implementing them. And everything is allowed to go freely as it desires, and no sufficient intentional endeavor has ever been made” (*Zha Zi*, in *Wen Ji* 1959, 446). This situation deeply worried Wang Anshi. He believed that it was the lack of an intentional practice of Confucian political-economic principles that caused the fiscal crisis and economic depression, and he believed that if one would let the situation continue, “even if the ruler is not tyrannical, the country will still inevitably fall into chaos.”¹² Wang Anshi wrote:

(Since Emperor Renzong is an ideal ruler,) it is natural to expect that people are rich, and the empire is well-governed. However, it’s not the case ... The reason is the prevailing ignorance of the rule of law and the absence of good institutions. Today’s government has strict laws and regulations, so why did I say there is no rule of law or good institutions? That’s because most of today’s laws and regulations don’t accord with the essence of ancient great rulers’ laws and institutions. Mencius said: ‘if the ruler is famous for being benevolent, but the people don’t benefit from his governance, that’s because the governance doesn’t accord with ancient great rulers’ essence of governance.’ Mencius’ words explain today’s situation. However, the time of ancient great rulers has long passed, there have been so many changes, so even the most ignorant person knows it is impossible to revive ancient great rulers’ institutions as they were in every detail. So, I suggest we should follow the essence of ancient great rulers’ laws and institutions and adopt them to today’s world.¹³

At the present time we are not preparing for war, the people are peacefully conducting their occupation and are doing their utmost to produce the wealth. But both public and private parties are concerned with financial stringency. This is because we are not administering state finance and national economy according to the Way (*Wan Yan Shu*, in *Wen Ji* 1959, 417).

“The ancient great rulers’ essence of governance” (“先王之道” or “先王之政”) and the “Way” (道) were those concepts in Confucian political philosophy that signified the

¹² *Shang Shi Zheng Shu* [上时政疏, *The Memorial On Current Affairs*], in *Wen Ji* 1959, 423.

¹³ *Shang Renzong Huang Di Yan Shi Shu* [上仁宗皇帝言事书, *Memorandum to Emperor Renzong*, ab. *Wan Yan Shu*], in *Wen Ji* 1959, 410.

ideal Confucian political principles, and they are actually synonyms of each other. Wang Anshi wrote:

The Way was originated from Fu Xi, matured by Yao and Shun, inherited and carried forward by Yu, Tang, Wen, and Wu. All these were the ancient rulers who made the Way clear and comprehensive ... And there were also the inheritors of the Way among the people, including ... Confucius.¹⁴

In Confucian political philosophy, the “Way” is the natural as well as the ideal ultimate principle which the state should believe in and practice all the time and in all aspects of the country. According to Yao (2000, 139), the “Way” is the humaneness (仁) and righteousness (义), and “the foundation of a harmonious universe, a peaceful society and a good life, and without it the transformation of the universe would break down, human society would fall into chaos, and the state would weaken and collapse” (Yao 2000, 140) Confucians believed that the “Way” is manifested firstly in the ancient great rulers’ governance, then preserved in Confucius’ doctrine and then in the original Confucian classics (*Song Shi* 1977, 12709). Regarding the economic aspect, according to Chen (1911, 168-175), the “Way”, namely the Confucian principles, meant that the state should be the promoter of people’s economic life and creatively enter the economy, and the state should control the consumption, production, and distribution to equally diffuse and confer the wealth to all the people, like state socialism, because Confucians believed the wealth is the cause of the happiness, and in order to make people equally happy, the state should enable the people to enjoy the wealth equally.

In general, from the economic and ideological context of Wang Anshi’s reform in the 1050s, one can see that what Wang Anshi intended to achieve through his economic reform was to translate the “Way”, namely the Confucian political economic principles, as preserved in ancient great rulers’ governance and Confucian classics, into a series of practical economic institutions which were not only able to solve the intermediate fiscal crisis and economic depression of his time, but also as a set of principles for a permanent political economic order which could organize an empire in a Confucian ideal way for quite a long time.

¹⁴ *Fuzi Xian Yu Yao Shun* [夫子贤于尧舜, *On Confucius Is More Sagacious Than Yao and Shun*], *Wen Ji* 1959, 711.

3. Wang Anshi's Economic Thought

3.1 On *Zhouli* and the General Economic Principles

Among all important Confucianism Classics, Wang Anshi chose *Zhouli* (周礼, *The Rituals of Zhou*, also known as “*Zhou Guan*” “周官”, *The Government System of Zhou*) as the most important source from which he extracted the Confucian economic principles to form his economic thought and his reforming economic policies, because, as Wang wrote:

The application of the Way to matters of government, will ensure an observance of correct distinctions between the worthy and unworthy, and official positions will thereby be properly regulated. Matters of economy will be dealt with in due proportion, and full consideration will be given to the time when things should be done. It should be the chief concern of everyone making the laws of the state to see that the Way is embedded therein, so as to ensure that in the actual execution of the laws, those who are administering them will naturally be fulfilling the obligations on their own. For emphasis on these matters, the *Zhou Guan* stands supreme in history. It stresses the necessity for moral character in the officials administering the laws and also for the observance of the ethical implications of the laws themselves. The actual laws enunciated in the work are worthy of perpetuation, the government system outlined therein being more perfect than any other which is available in literature. This is accounted for by the fact that the rulers of Zhou held the laws and ordinances of previous regimes in the highest regard and continued their efforts in the development of them until they reached perfection. The result was that the system of governments which they represent became the model for succeeding generations and needed no additions. But that was not the sole credit of King Wen, King Wu and Duke of Zhou, just as the temperature of the atmosphere represents the results of the accumulated action of generations of

natural laws.¹⁵

These words were from the Introduction Chapter of *the ZhouGuan Xinyi* (周官新义, *The New Interpretation of the Rituals of Zhou*), which was written by Wang Anshi as a new interpretation of *Zhouli* and used as the textbook in public schools all over the empire (Chang Bian 1986, 6493). Considering the influence of this book and Wang Anshi's deep belief in Confucianism, although his opponents blamed Wang Anshi for using *Zhouli* as the disguise to bewitch the emperor to implement heterodoxy rather than the real Confucianism (Ben Mo 1977, 338), reading both texts arguably makes it very apparent that Wang Anshi really meant what he said here, and although one could never exclude the possibility that Wang used *Zhouli* as the rhetorical shelter for his thought and policies, even so, reading both texts makes clear that it is a faithful one.

Zhouli is generally considered to be the constitutional text of the Western Zhou Dynasty (1046-771BC), and it was probably written by the *Duke of Zhou* (周公), the political hero of Confucius himself (See Elman and Martin 2010). *Zhouli* talked about the organization and function of all six government branches of a monarchical state. It “is an idealized blueprint for government organization that appears to include very ancient knowledge side by side with Warring States/early imperial political thought and government organization” (Elman and Martin 2010, 1). *Zhouli* also includes the state's economic institutions. Wang Anshi believed: “Half of *Zhouli* is about administering state finance and national economy.”¹⁶ So, *Zhouli* had been used several times as the blueprint of economic reform in Chinese history, such as Wang Mang (王莽)'s economic reform in the early 1st century, which intended to realize the nationalization of land and state's control in commerce (Franke 1931, 1-4). The economic institution designed in *Zhouli* is featured as “vollkommen bürokratisierte[r] Staatssozialismus” (Franke 1931, 1). In Northern Song, before Wang Anshi, *Zhouli* was regarded as a blueprint leading to economic prosperity, good governance, social harmony and a strong army by Li Gou¹⁷ (李觏 1981, 1009-1059), who was regarded as a representative of the most talented and

¹⁵ *Zhouliyi Xu* [周礼义序, *The Introduction of the New Interpretation of the Rituals of Zhou*], in *Wen Ji* 1959, 878. English translation: Williamson 1935, Vol. II, 298-299.

¹⁶ *Da Zeng Gongli Shu* [答曾公立书, *A Reply Letter to Zeng Gongli*], in *Wen Ji* 1959, 773.

¹⁷ See *Zhouli Zhi Tai Ping Lun* [周礼致太平论, *On Zhouli as the Approach to Success Governance*], *Li Gou Ji* [李觏集, *Li Gou's Collection*] 1981, 70-137.

outstanding scholars in the Southern Yangtze Region as well as a friend by Wang Anshi himself.¹⁸

Based on *Zhouli*, Wang Anshi formed his fiscal and economic theory. In 1047, in the letter to his superior official, Wang Anshi expressed his general idea about how to administer state finance and national economy:

I think the reason why the state and the people nowadays live in poverty is not only because of the unleashed expenditure, but also because of the lack of wealth generation. For individual households, their richness relies on the protection and aids from the state; for the state, its richness relies on the tax and tribute from the people; and for the people, their richness relies on extracting wealth from nature, as the parents would never attempt to earn money from their sons, instead, they would teach their sons the way to earn money. If parents transact with their sons, and don't let the wealth from outside the family in, the parents could acquire all their sons' money, but the total wealth of the family doesn't increase. Today's discussions on finance and economy sound pleasing, but all of them stay focused on how to enrich the state through collecting tax and tribute from the people. It's just like parents trying to earn money from their sons. And this probably is why our country and people are facing poverty.¹⁹

This is the essence of Wang Anshi's principle in administering state finance and national economy: the state must promote the generation of wealth, collect some of it and use that to enrich the people. And Wang Anshi believed this principle accorded with the essence of ancient great rulers' governance. He wrote:

I have made some enquiry into the method of administering state finance and national economy adopted by ancient great rulers. In a word, that is to motivate all resources in the country to generate the wealth for the whole country and to collect and use the wealth to afford the expenditure for all of the people in the country (*Wan Yan Shu*, in *Wen Ji* 1959, 417).

¹⁸ *Da Wang Jingshan Shu* [答王景山书, *A Reply Letter to Wang Jingshan*], in *Wen Ji* 1959, 819.

¹⁹ *Yu Ma Pan Yun Shu* [与马运判书, *A Letter to Commissioner Ma*], in *Wen Ji* 1959, 795-796.

This principle was the general guidance for Wang Anshi's economic reform. And it accompanied him throughout his career: in 1073, Wang Anshi still taught this principle to the emperor:

The individual households' richness could rely on the protection and aids from the state; the state's richness could rely on the tax and tribute from the people; but the people's richness must only rely on extracting wealth from nature (*Chang Bian* 1986, 6049).

3.2 On the Full Exertion of Productive Capacity

In Wang Anshi's system, the source of wealth in a country is "extracting wealth from nature", and all of the resources in a country should be motivated to generate wealth. Thus, in order to make the state and the people as rich as possible, all of the resources in the country must be motivated to the maximum extent to extract wealth from nature. In this sense, what Wang Anshi proposed here is the full exertion of the productive capacity within a country: to fully motivate all human and natural resources in the country to generate wealth to meet the demand of the state and the people.

In Northern Song, the most important economic sector was agriculture. And in 11th-century China, the most decisive factor in fully exerting the productive capacity in agriculture was how the water-resource condition of the land was reconditioned. The facilities altering irrigation condition and providing flood protection was the most fundamental guarantee of harvest. According to Joseph Needham (1980, 413-422), the monsoon climate and the big river networks in China made it indispensable to build water-conservancy facilities to handle the flood brought by extreme waterfall in rainy seasons; and the intensive cultivation in Chinese agriculture, the loess in Northern China and the paddy field in the South made the irrigation facilities as indispensable as coal-mining and iron-making in industrial revolution. Besides, turning more deserted lands into arable lands was another fundamental approach to fully exerting the productive capacity in agriculture.

This knowledge was familiar to Wang Anshi. He emphasized that the state should focus on promoting the full exertion of productive capacity in national economy, especially in agriculture. He regarded "reconditioning land and water" (修水土), namely, reclaiming deserted land and constructing water-conservancy projects, as the core to enrich the

country and nourish the people. Wang Anshi believed this was also the essence of the ancient great rulers' economic policy. He wrote: "The Duke of Zhou wrote *Qi Yue* because agriculture is the undertaking that the rulers' governance should rely on."²⁰ *Qi Yue* (七月, *The Seventh Month*) was a poem in *Shijing* (诗经, *The Book of Songs*), describing the farmers' agricultural activities and daily lives for a whole year in ancient time.²¹ In his interpretation of *Zhouli*, Wang Anshi wrote: "the duty of the *Office of Shi* (事官) is to make the country wealthy, to cultivate and nourish the people"²² The Office of Shi, also known as Office of Winter (冬官), is one of the six major government branches in *Zhouli*, which is in charge of state-owned manufacture, construction industry, reclaiming land and building public water-conservancy projects.²³ And Wang Anshi believed the reason why the Office of Shi was listed as the last one among all six government branches in *Zhouli* was because "the ultimate goal of the whole government system is to generate wealth. And the essence of the Office of Shi is wealth generation" (*Xin Yi* 1985, 27) And it is worth noting that, in *Zhouli* and Wang Anshi's interpretation, the state, rather than the private sector, was in charge of reclaiming land and building water-conservancy projects. In a memorial to the emperor, Wang Anshi wrote that the specific government initiative was required to recondition lands and water (*Zha Zi*, in *Wen Ji* 1959, 446).

3.3 On State Finance

After the wealth was extracted, the state could collect its fiscal income. However, Wang Anshi did not think the state should only collect. He criticized the politicians who only knew extorting the people for "impairing the emperor's ruling" (*Chang Bian* 1986, 5737). Wang Anshi believed "to sow is to reap."²⁴ Wang Anshi thought the state finance should not be a one-way flow of wealth from the people to the state to fund the state; on the contrary, the "great ruler's richness" should be a bidirectional flow and mutual promotion process between the state and the economy. And this viewpoint was drawn from *Zhouli*.

²⁰ *Yu Yan Jiu Shou Qi San* [寓言九首其三, *The Third Out of Nine Fable*], in *Wen Ji* 1959, 160.

²¹ *Mao Shi Zheng Yi* [毛诗正义, *The Interpretation of The Book of Songs*] 1990, 278-286.

²² *Zhouguan Xin Yi* [周官新义, *The New Interpretation of The Rituals of Zhou*, ab. *Xin Yi*] 1985, 10.

²³ *Zhouli Zhu Shu* [周礼注疏, *The Interpretation of The Rituals of Zhou*, ab. *Zhu Shu*] 1990, 592-644.

²⁴ *Yi Cha Fa* [议茶法, *On the Tea Monopoly*], *Wen Ji* 1959, 743.

Wang Anshi differentiated two kinds of state income set in *Zhouli*: “*Fu*” (賦, the tax), which is collected by the state through levy; and “*Gong*” (貢, the tribute), which people in different occupations tribute to the state (*Xin Yi* 1985, 15). According to *Zhouli*, *Fu* is the tax on the lands, commercial trade and natural resources, and its content is currency, namely, coins and grains, and those objects of taxation who do not have currency can pay other equivalent material objects instead (*Zhu Shu* 1990, 31). Meanwhile *Gong* includes all the material objects produced by different occupations, like crafts, implements, raw materials, cloth, jewelry, entertainment goods and local specialties to meet the royal family’s demand and the state’s demand for means of ceremony, diplomacy, public administration, construction, and defense (*Zhu Shu* 1990, 30).

The difference between *Fu* and *Gong* is the way they reach the state. *Fu* can be collected by coercion. The state just needs to reap money from the people, and even if the people do not have money, their property could be confiscated and sold off to convert into currency. *Fu* could be acquired immediately. However, *Gong* requires time for production. Wang Anshi said: “[the content of *Gong*] was the goods the utility of which is turned from natural raw materials through manpower, which was different with currency” (*Xin Yi* 1985, 15). If the state requires certain utility, it has to wait until the utility gets produced. Here, coercion does not help at all. Therefore, the way *Gong* reaches the state is through people’s tribute. Wang Anshi wrote:

Fu is about collection; *Gong* is about attraction. The state’s wealth cannot be acquired by collecting, but by attracting it to come to the state automatically. *Fu* is about currency, and *Gong* is about utility. Currency is about collection, and (according to *Zhouli*) the collection is limited within the king’s directly controlled regions, which means the scope of collection should be narrow. The utility is about delivery first and acquisition later. And delivery is spread among the whole country, which means the scope of delivery should be wide. The Chancellor should serve the king with the Way. And the Way of the king is making collection narrow and making delivery wide ... getting narrowly and giving widely (*Xin Yi* 1985, 17).

The words Wang Anshi uses here are quite abstract. What he meant was that not all of the fiscal demand of the state could be satisfied just with levy and currency. The state

also needs utility. And the utility is more satisfying to state's needs. The ceremony could not be served by currency, but by various means of ritual; the war needs all kinds of military equipment rather than just currency. So, "the state's wealth cannot be acquired by collecting, but by attracting it to come to the state automatically". The utility could not be simply levied by coercion like currency. The way the state acquires utility is to make the state the inevitable destination where the utility should flow to ("致"), so the utility will come to the state automatically.

Wang Anshi regarded this approach as identical to "delivery", because what makes the state the inescapable destination was that the state should deliver first, and then, in return, the utility would be flowed back to the state automatically. But every state has already been an inescapable destination of a certain part of the total utility in the society, because the people are obliged to pay tribute to the state. So, here, Wang Anshi was not saying that the state should be the inescapable destination of already existing utility. According to him the utility which could be generated in the future of which the path and destination has not yet been realized, although its path has already been regulated. And since the path through which people pay tribute and tax to the state has already been there, the difference would be whether there is more new generated wealth on that path. So, the state should make "delivery", should provide action in promoting the growth in wealth generation. As a result, compared with the past, more wealth can be generated, so more wealth will be paid to the state in the form of tribute and tax, in which process, the state can make it the unescapable destination of more utility. In this way, the state does not need to raise the tax rate, namely to collect more wealth through coercion, but can acquire more wealth through the growth in economy. Here Wang Anshi actually suggested that instead of raising the tax rate, promoting the growth in economy and sharing the output of the growth was a much better way for the state to collect more wealth. And Wang Anshi believed this approach was "the Way of the ruler". In this way, "the state gets enriched without raising the tax rate" (*Ben Mo* 1977, 326). In comparison, Wang Anshi's opponents, like Sima Guang, believed that "all the wealth in the country is either kept by the state or preserved by the people" and believed it was impossible to "enrich the state without adding tax" (*Ben Mo* 1977, 326).

Wang Anshi actually put the growth of the national economy at the foundation of the fiscal abundance of the state. And the improvement of the fiscal situation should not

occur only in the field of state finance; it should also lead to the improvement of the national economy. This is his general solution to the fiscal crisis: the improvement of the fiscal situation lay in the state's pushing its force in promoting national economy and taking the share it deserved from the output of the growth. This is also why in Wang Anshi's economic reform, there is no intentional endeavor to simply increase the state income, but it is all about the improvement of the national economy. Wang Anshi did not believe that just strict budgeting in state finance would solve problems; the depressed national economy and people's universal poverty "are really what the so-called state's stringency in wealth is" (*Ji Gao* 2014, 6050).

Wang Anshi provided a more detailed description of how to make the wealth come to the state automatically. He wrote:

After the Chancellor appoints the people into different occupations, the people will have wealth. Then the wealth could be collected by the state. After collecting people's wealth, if it can't be administered wisely, this could not be called 'righteousness'. If the people are governed with righteousness, then their wealth could be made to automatically flow to the state. If the state could make the wealth come to it automatically, this could be called the richness of the great ruler" (*Xin Yi* 1985, 23).

The key to realizing "the wealth comes to state automatically" is to administer state finance with "righteousness". Namely, a certain way of expenditure and collection in state finance is required. Therefore, Wang Anshi always emphasized that government should care about the "collection and distribution, purchase and sale" ("散敛开阖") of government fiscal resources. He wrote:

The wealth collected from the people to cover the expenditure of government has a fixed number. But if its collection, distribution, purchase and sale could be carefully controlled, and to eliminate all the misconduct and corruption in its process, how could the fiscal problem concern us? Except this, what else could be the method of those exemplary public servants in the past who could benefit the people but added no burden on government's finance?²⁵

²⁵ *Jie Li Zhu Dao Zhuan Yun Shi Jing Hua Cai Li Kuan Xu Min Li Zhi* [减励诸道转运使经画财利宽恤民力制, *The Draft of the Imperial Order to the Fiscal Commissioner in Every Province to Flexibly Utilize Finance to Relieve the*

Wang Anshi also made specific illustration about the “righteousness” in expenditure and collection in state finance, which also bring us to the last part in his economic theory: “the individual households’ richness relies on the protection and aids from the state.” Wang Anshi wrote a poem about how the state should use its fiscal resources according to the essence of ancient great rulers:

Those who couldn’t afford the cost of wedding and funeral;
Would receive the loan from government as relief.
Those who faced the loss caused by bad harvest;
Would receive the loan from government to continue their undertaking.
Surplus goods on the market would be purchased by government;
And sold out when there was shortage.
The government nowadays doesn’t follow these precedents;
And neglects the importance of restricting plutocrat’s engrossing.²⁶

From the poem, we can see that Wang Anshi suggested that state finance should be used in social relief, supporting the investment and stabilizing market demand. And among all of the above, Wang Anshi specifically emphasized the importance of “restricting plutocrat’s engrossing” (“抑兼并”).

3.4 On “Restricting Engrossing”

In restricting plutocrat’s engrossing, Wang Anshi did not intend to launch an egalitarian revolution to eliminate all the rich. For example, when he heard Cheng Hao, the leader of another major contemporary political-philosophical camp, suggest to restrict the maximum amount of land a household could possess and to restore the Nine Square System (井田制, an ancient egalitarian and state-owned land distribution system believed to exist in Western Zhou Dynasty), he said the following words to the emperor:

Today’s government doesn’t have a comprehensive arrangement for agriculture, or sufficient agriculture-supporting agencies, or sufficient water-conservancy projects as ancient times. Therefore most of the small farmers are seeking help from the Plutocrat households in dealing with temporary shortage in living and

People’s Resource], in *Wen Ji* 1959, 512

²⁶ *Yu Yan Jiu Shou Zhi Si* [寓言九首其四, *The Fourth Out of Nine Fables*], in *Wen Ji* 1959, 160

production; so how could we expropriate rich people's lands and grant them to the poor? It's not applicable; even it's applicable, it's not beneficial (*Chang Bian* 1986, 5181).

Here, Wang Anshi actually saw the positive and irreplaceable function of the wealthy in filling in the blanks which the state left in the economy. This attitude was reasonable at that time. For example, a 13th-century Chinese classic about social relief listed motivating the rich households to relieve the poor as one of the five major government's social relief measures in Northern Song.²⁷

Wang Anshi's problem with the Plutocrat households was that they abused their economic power to control the economy, to manipulate the economic forces like price, interest rate, investment and market exchange, which, in Wang Anshi's viewpoint, was the usurpation of the privilege of state. In his poem named "On Engrossing" (兼并), Wang Anshi wrote:

In ideal ancient dynasties;
The state treated people as its sons.
All wealth was controlled by the state;
No matter public's or individuals'.
The rulers controlled all economic powers;
As the Polaris centered the orbits of all stars.
State controls all wealth granting and collecting;
So Plutocrats' engrossing was regarded as crime.
There were laws to punish this crime;
So there was no room for engrossing at all.
But state's control of economy was usurped by Plutocrats afterwards;
Since then ruling the people become more difficult for the state.
The First Emperor of Qin dynasty didn't understand this;
And he even built a memorial platform for the Plutocrat, Qing the widow.
The rites and righteousness is getting faded;
The Classics of sages are buried in dust and unattended.
The laws against engrossing are still kept in the books;

²⁷ *Jiu Huang Huo Min Shu* [救荒活民书, *On Relieving the Famine*] 1985, 34

But the attempt to implement them will incur the mocks.
Bureaucrats don't know the right way to govern the country;
And believe the necessary talents are extorting and levy.
Scholars don't know to push the reform;
And believe the engrossing shouldn't be blamed.
The economy is out of the control of the state;
Plutocrats usurp the control of sale and purchase.
When state competes with Plutocrats in controlling the people;
The people will suffer more.²⁸

In this poem, Wang Anshi believed that according to the essence of ancient great rulers, the state, rather than the private sector, should control the “granting and collecting” (“赋予” or “取予”) and “sale and purchase” (“开阖”) of wealth, namely those forces that control the move of wealth, like price, interest rate, market exchange and investment. And those Plutocrats who abused economic power to control those forces should be considered criminals. Besides, Wang Anshi believed they should also be considered the enemies of the emperor in governing the people. He wrote:

The wealth unites the people, administering the wealth requires good laws, making the laws work depends on qualified public servants; otherwise, the wealth won't be administered. If the wealth can't be administered, the humblest men living in small villages and small alleys can take advantage to usurp the control of economy, monopolize all of the economic interest and compete with the state in the control of the people to serve their endless desire. They don't have to be very noble and politically powerful to do so. In this circumstance, if the emperor claimed that he doesn't lose the control of the people, it's just in name only. And in this circumstance, even if the emperor focuses on enriching the people and works hard, it's barely meaningful.²⁹

In this way, Wang Anshi's “restricting engrossing” was actually to retrieve the control of economy, to retrieve the control of the economic forces that determined the flow of

²⁸ *Jian Bing* [兼并, *On The Engrossing*], in *Wen Ji* 1959, 114

²⁹ *Du Zhi Fu Shi Ting Bi Ti Ming Ji* [度支副使厅壁题名记, *The Inscription on the Wall of Assistant Minister of Treasury's Office*], in *Wen Ji* 1959, 860-861

wealth and people's economic condition, from the private realm back to the state. And he prioritized this issue in his economic reform. In 1070, Wang Anshi said to the emperor: "in administering state finance and national economy, the most urgent is the problem in agriculture, of which the most critical countermeasures were relieving farmers from their misery, restricting engrossing, facilitating and urging agriculture production" (*Chang Bian* 1986, 5351).

3.5 Comparison with previous economic policies and opponent's economics

Wang Anshi regarded the prevailing countermeasures to the fiscal and economic depression at his time, namely cutting state's expenditure and laissez-faire attitude towards economy, as just "stay focused on how to enrich the state through collecting tax and tribute from the people", which was just like "parents trying to earn money from their sons". He did not think the empire had done enough about "extracting from nature" and "protecting and aiding the individual households", nor "restricting engrossing". Wang Anshi wrote:

[in previous regime] The farmers have been worn down by corvée; whereas the state hasn't issued special relief to them, nor established special government agencies to take charge of the reclamation of land and the construction of water conservancy projects ... And there is not good institution in administering state finance and national economy (*Zha Zi*, Vol. 42, *Wen Ji* 1959, 446).

Today's problem is that there are not sufficient special government agencies in charge of reconditioning land and the water, not too many redundant agencies on these issues.³⁰

Wang Anshi had never agreed with previous solutions, which put fiscal balance above promoting economic growth. He did not believe that cutting public servants and soldiers would be the solution. Wang Anshi did not believe redundant public servants and their salaries caused the fiscal problem, because, when there were fewer public servants and lower salaries, state finance was still short of funds; and as long as state finance and the national economy would be administered properly, adding public servants' salary would not be a burden to state finance (*Wan Yan Shu*, *Wen Ji* 1959, 417). Wang Anshi also

³⁰ *Kan Xiang Za Yi* [看详杂议, *Discussions On Some Issues*], *Wen Ji* 1959, 664.

though that, before the qualified commanders took charge of the army and the recovery of national economy could provide sufficient employment, the discharge of soldiers would cause the collapse of Northern Song's national defense and social unrest.³¹ In general, in his reform, Wang Anshi would reject the austerity policy of previous administrations focusing on strictly balancing the budget and make the state spend in the fields where it should have spent to promote economic growth.

To a large extent, the differences between Wang Anshi's economic thought and the previous economic policies were also the differences between Wang and the economic theory of his opponent, the so-called "conservatives". Take Sima Guang for example³²: in contrast to Wang Anshi's criticism of previous approaches to solve fiscal and economic depression, Sima Guang believed the most effective way out of the depression was insisting on the old path. And against Wang's idea that administering state finance and economy, namely, using "collection, distribution, purchase and sale" of fiscal resources to improve national economy, was a "righteousness", Sima Guang thought this "administering state finance and economy" was the government being utilitarian and extorting the wealth from people, which violated the "righteousness" in Confucianism, because Sima Guang, as well as other conservatives, held a static view to economy and believed the wealth was either kept by the state or by the people. Thus, the conservatives did not believe using fiscal resources to promote economic growth was a feasible way out of the depression, so in their vision, sticking to reducing government expenditure to reduce the burden on the people was the only available solution. As for the Plutocrats, Sima Guang had a *laissez-faire* attitude towards them, seeing no shortage to let them control the economy. In this circumstance, Wang Anshi stood among his contemporary colleagues as the only one who saw that, under his circumstance where a large amount of labor, material investment and natural resources was left idle, the key to solving the problem was not austerity and focusing on balancing the government budget, but to fully motivate the fiscal resource to revitalize the economy. And through his reform, Wang was going to establish the institutions to secure that his approaches against depression could work permanently.

³¹ Sheng Bing [省兵, *On Disarmament*], *Wen Ji* 1959, 177

³² About economic thought of conservatives represented by Sima Guang, see Qi 2009, 1177-1186; Zhao 2002, 202-221; Smith 2009, 387-389.

4. The Economic Policies of Wang Anshi's Economic Reform

In April 1068³³, Wang Anshi arrived in the capital city as the private counselor of Emperor Shenzong, who was considering his choice of Chancellor (Williamson 1935, Vol. I, 98-112). In the following months, Wang Anshi and the emperor discussed state affairs, and Wang's ideas about them were highly appreciated by the emperor. Emperor Shenzong said to Wang Anshi:

All of your ideas could only be carried out by yourself for me, so I have to bother you with the duty of the head of the government; and considering you have been so good at what you study, you must also want to implement your idea, so please do not decline this offer (*Shi Bu* 2004, 153).

Therefore, in the February of 1069, Wang Anshi was appointed as the Vice Chancellor (参知政事). And his reform, the implementation of his idea, was initiated since then (*Shi Bu* 2004, 153). And in 1070, he was promoted to Chancellor (*Chang Bian* 1986, 5301).

4.1 The Economic and Fiscal Planning Commission (制置三司条例司)

Wang Anshi's first move was to establish a special commission in charge of the economic reform as the revival of the "Agency of Currency" (泉府), a government agency in *Zhouli*, which used state fiscal resources to purchase unsalable goods and sell them at an even price in shortage and to lend loans (*Zhu Shu* 1990, 217-220). Wang Anshi designed this agency so that its purpose was "to restrict engrossing, to relieve the poor, and to optimize the wealth circulation" (*Shi Bu* 2004, 156). He believed that "if we want to administer national economy and state finance wisely, the Agency of Currency must be revived to restore the control of economy" (*Shi Bu* 2004, 155). Therefore, in February 1069, the emperor appointed Wang Anshi to lead the newly established Economic and Fiscal Planning Commission (EFPC) to inspect all the fiscal and economic institutions and policies in the country to make improvements.

³³ All the dates in the following parts are referring to the Chinese lunar calendar.

4.2 The Equitable Transport and Distribution of Tribute Measure (均输法)

In July 1069, the EFPC launched the Equitable Transport and Distribution of Tribute Measure to improve the tribute system of the empire.³⁴

Northern Song had a four-level government pyramid system:

1. the central government;
2. provincial (or circuit) government (路);
3. district (or prefecture) government (州);
4. county government (县).

In every province, there was the Fiscal Commissioner (转运使) in charge of fiscal and economic issues. In central government, there was the National Finance Commission (三司), a large and powerful ministry, in charge of state finance and national economy. Besides, the empire also set the Commissioner of Supply (发运使) specifically in charge of the state monopoly in tea, liquor salt and coin and of transporting the tribute from the six Southeastern provinces to the capital (about Northern Song's fiscal system, see Golas 2015, 141-147).

Besides the tax, Northern Song government also collected the tribute consisting of many kinds of commodities, like animal products, raw materials and manufactured goods, from the areas where these commodities were produced. The problems caused by the inflexibility in this tribute system were what this new measure tried to solve (Golas 2015, 165).

According to the policy document, the kind and amount of the goods a province should tribute were pre-set. Government's work was only to collect and transport the tribute, ignoring the supply and demand situation of the goods on the market. Thus, "when the supply is boom, and the price is low, the government dares not to enlarge the collection; but when the supply is depressed, the price is high, the government can't cut the tribute ... so it always happens that the price in remote regions might be multiple times that of the even prices, whereas, the price in capital was half the even price" (*Ji Gao* 2014, 3122). As a result, state finance was harmed, people's burden became heavier, and "the well-capitalized businessmen and Plutocrat households take advantage of the

³⁴ About the original policy document, see *Ji Gao* 2014, 3121-3122.

difficulties of the public and private and usurp the control of market” (*Ji Gao* 2014, 3122).

The new measure aimed at switching this rigid system to a flexible system in which the state acquired its tribute through using fiscal resources to participate in market transaction to adjust the supply and demand of goods in different markets in different areas:

The Commissioner of Supply should be granted a sum of fund and the authority of discretion. When transporting tribute to the capital, the Commissioner should sell the tribute goods in the market where there is shortage and use the income and the fund to buy the needed goods in the market where there is surplus ... In this way, the control of economy could be retrieved by the state; the shortage and surplus could be in control; the cost of transportation could be reduced; government’s excessive extortion could be eliminated; the farmers could be relieved; and state finance could be sufficient (*Ji Gao* 2014, 3122).

This new law was made according to the essence of ancient great rulers. Wang Anshi wrote:

Observing ancient great kings’ rule, within the kings’ directly controlled region, the taxation level of different areas differed from each other according to their distance to the capital city. Beyond the directly controlled region, different regions submit local specialties as tribute. Besides, the state made the law of circulating the currency and transferring the utility to circulate between the abundant and the short. At that time, when the state managed the goods and the currency on the market, the principle was to make the have-not have and to make the harmful gone. The unsalable goods were purchased by the government to prepare for shortage in the future. And this was not the government’s monopoly of commercial profit, because to govern and organize all the people in the country, the state fiscal income is necessary; managing state income requires righteousness; and managing state income with righteousness means the people’s taxation and tribute burden must be even, the demand and supply within the country must be circulated, the abundance and

shortage of the goods and currency must be supervised, and state's control of the devaluation and upvaluation of purchase and sale must be conducted delicately (*Ji Gao* 2014, 3121-3122).

4.3 The New Measure of Buffer Stock of Grain (常平新法)

In September 1069, EFPC issued the second new measure, of which the official name was the New Measure of Buffer Stock of Grain, but it was better known as the Measure of Green Sprout (青苗法).³⁵

This measure added the new function to the Buffer Stock Grain Granaries (常平仓) and the Public Welfare Granaries (广惠仓). The Buffer Stock of Grain Granaries were widely established all over the country since 1006, to purchase the grains in good harvest and sell them in bad harvest to prevent the fluctuation in grain price, protect farmers and relieve the famine (*Chang Bian* 1986, 1384-1385). The deposit, composed by grains and coins, in granaries was under the jurisdiction of the Court of Agriculture (司农寺),³⁶ a relatively idle agency in central government in charge of the emperor's personal arable land and of supplying agricultural products for ceremonies (*Ji Gao* 2014, 3687-3688), rather than the National Finance Commission, the state finance system, to prevent embezzlement. The Public Welfare Granaries, of which the deposit was from the output of government reclaimed lands, was set in 1057 to relieve the vulnerable groups in the urban area (*Chang Bian* 1986, 4488).

Wang Anshi wrote about the previous management of the deposit in these two granaries:

The deposit in Buffer Stock of Grain Granaries and Public Welfare Granaries all over the country is more than 15,000,000. But the inflow and outflow of deposit is not properly managed, so their function of social relief is not fully delivered ... The deposit in both granaries is stagnant. Its only use is to sell grain in shortage, so the beneficiaries it covers are merely urban households, the farmers seldom benefit from it ... [on the other hand] the Plutocrat households always take advantage of small farmers' temporary shortage and lend them the usury with more than 100% interest rate, so would-be borrowers

³⁵ About the original policy document, see *Ji Gao* 2014, 6041-6042.

³⁶ See *Chang Bian* 1986, 1384-1385 and 3059.

are often denied the funds they need (*Ji Gao* 2014, 6041).

So, in addition to the previous function, Wang Anshi allowed the farmers to borrow the deposit of the granaries as the loan, which was contemporarily called the *Green Sprout Loan* (青苗钱). The interest rate of the loan should be set by every district government based on the lowest price of the grain in the past ten years, and the maximum limitation of the interest rate was 20%. Central government should send the Special Commissioners (提举常平水利差役事) to every province to take charge of the implementation of the new measures and the use of deposit in the granaries.

According to the policy document, the loan was not given directly to individual farmer households but to the unit (保) formed by every five households of which the credit was guaranteed by other member in the unit. The unit should use the property its members had as the mortgage to borrow the loan. The loan should be distributed within the members of the unit. The borrowing had to be voluntary, and forcing borrowing was forbidden. The tenant households intending to borrow should be guaranteed by their land owners. If the deposit could satisfy the demand of loan in the rural area, the urban households possessing property were also allowed to borrow. The procedure should be the same as that in rural area (*Ji Gao* 2014, 6042).

According to Wang Anshi's design, the Green Sprout Loan was not only a social-welfare loan but also development finance. He wrote:

If farmers could receive the loan, they will not suffer from temporary shortage, so that they could focus on tillage. In this circumstance, the farmers could be motivated by the government to reclaim more lands and construct water-conservancy projects to improve their production. As a result, the agriculture production in the country will be improved automatically (*Ji Gao* 2014, 6041).

This new measure was also made according to the essence of ancient great rulers. Wang Anshi wrote:

This measure corresponds to the essence of ancient great rulers' principle of spreading the benevolence to benefit the farmers and to subsidize the agriculture production, and the principle of taking from the rich to aid the poor

and to restrict engrossing ... This is the Duke of Zhou's principle ... The deposit in both granaries wasn't fully used, thus, we have to follow the principles in *Zhouli* to add the function of providing loans to previous institutions (*Ji Gao* 2014, 6049).

Wang Anshi expected the new measure to realize the following goals:

The deposit could be increased through purchasing in excess and selling in shortage; the price of grains could be stabilized; the farmers could overcome temporary shortage and focus on tillage; and Plutocrats couldn't take advantage of the farmers' difficulty. All of the goals are only for people's welfare, and the state doesn't expect improving its fiscal income through this process (*Ji Gao* 2014, 6041).

Wang Anshi specifically emphasized that the Green Sprout Loans should not be used to compensate state finance. He wrote:

The principal and interest income in the New Measure of Buffer Stock of Grain is not subordinate to the National Finance Commission, so it is legally impossible to be transferred to afford state expenditure, but only serves to relieve the farmers (*Ji Gao* 2014, 6049).

4.4 The Measure of Corvée Exemption (免役法)

Northern Song's government required its farmers to fulfill the compulsory labor service in local government, like peace keepers, tax collectors and tax transporters. And this formed a heavy burden on farmers (Golas 2015, 167-170). For example, in 1067, an imperial edict wrote: "The natural disasters always make farmers exile. One important reason is because people's corvée burden is too heavy" (*Song Shi* 1977, 4298).

Wang Anshi's countermeasure is the Measure of Corvée Exemption: to ask the farmers to pay a fee to the government, and for the government to use that fee to hire the clerks to replace farmers' service:

The Measure of Corvée Exemption originates from four kinds of government personnel (府、史、胥、徒) in *Zhouli*, and the 'civilians serving in government' in *Liji* (礼记, *The Book of Rites*, one of Confucianism classics). All of the people in the country have different economic situations and customs, therefore, the

households-registering book is not a solid reference to distribute corvée duty. As a result, farmers suffer from uneven corvée duty. Now, if we can implement the Measure of Corvée Exemption to equalize the corvée duty all over the country and replace the corvée with the hired service, the farmers all over the country will be relieved back to the land and focus on tillage.³⁷

In December of 1069, EFPC ordered to experimentally implement the Measure of Corvée Exemption in every province (*Chang Bian* 1986, 5521). In October 1071, the Measure of Corvée Exemption was officially issued: “All households should pay the fee based on their property to avoid the corvée. The government should use that fee to hire service. The amount of the fee should be determined based on the different situations in different counties” (*Chang Bian* 1986, 5524). In the reformers’ viewpoint, this new measure “matched the essence of ancient great rulers to let the people pay a fee to support the civilians serving in the government” (*Chang Bian* 1986, 5521).

4.5 The Agriculture Promotion Ordinances (农田利害条约)

In November 1069, EFPC launched the Agriculture Promotion Ordinances to arrange governments’ working procedure to promote land reclamation and construction of water-conservancy projects.³⁸

According to the ordinances, every county government should report to its superior district government about the following items: information on deserted arable lands and the proposal of reclamation, and hydrological and water-resource information of large rivers and large water entities and the proposal of constructing, renovating and improving water-conservancy facilities. The proposal should illustrate the estimated cost and estimated time limit of the project and illustrate how to afford the cost, how to arrange the work, how to motivate farmers to participate, how to provide loans to farmers to help them out of temporary shortages so they can be motivated and how to arrange the cooperation between multiple counties if necessary. After verification by the district government, the report and proposal should be forwarded to the Special Commissioner. If the project was really worthy building, the Special Commissioner should appoint the leader of the project. If the cost of the project is too much and

³⁷ *Shang Wu Shi Zha Zi* [上五事札子, *The Memorial on Five Issues*, ab. *Wu Shi*], in *Wen Ji* 1959, 440

³⁸ For the original policy document, see *Ji Gao* 2014, 5958-5959

beyond local people's capacity, all beneficiary households should be allowed to borrow Green Sprout Loans. And if Green Sprout Loans were still not enough, highly propertied households should be encouraged to provide loans, and the government should help in collecting debt. The work of the project was carried out by beneficiary households. The convention should be made to arrange the distribution of the work among the households. Any household that did not fulfill its duty would be punished with forfeit, and the forfeit should be used in the project.

Actually, in Wang Anshi's economic reform, the Agriculture Promotion Ordinances should be regarded as the core which the rest of the policies at least partially served. "Reconditioning land and water" was regarded as the "non-delayable" task by Wang Anshi and Emperor Shenzong (*Chang Bian* 1986, 5444). Green Sprout Loans was for motivating the farmers to focus on tillage and participation in the improvement of agriculture productivity; and the Law of Corvée Exemption also intended to "release the farmers back to the land and tillage".

In May 1070, Emperor Shenzong disbanded the EFPC, because "the fundamental of the economic reform has been established, the rest is about implementation and maintenance to enhance the achievement." And the New Measure of Buffer Stock of Grain, the Law of Corvée Exemption and the Agriculture Promotion Ordinance were put under the jurisdiction of the Court of Agriculture (*Ji Gao* 2014, 3688-3689). Since then, the Court of Agriculture became the headquarter of the economic reform in rural economy and the most important government agency. In 1074, Emperor Shenzong said: "As long as the Court of Agriculture's duty is finished, the problems in the country will be fundamentally solved" (*Chang Bian* 1986, 6095).

4.6 State Trade Measure (市易法)

Although we have insufficient sources regarding the problems in Northern Song's urban economy and commerce, it was reasonable to say that the urban economy was also not ideally healthy. In 1051, the Emperor Renzong issued an edict, saying:

The ancient great rulers all would optimize market circulation and satisfy the demands of both the private and public realms. Recently, the institutions of our economy malfunction. The grain price keeps roaring, the government expenditure goes unleashed, the commercial trade is blocked, and the rich and

despotic Plutocrats take advantage to benefit themselves (*Chang Bian* 1986, 4080).

Besides, Wang Anshi's attention was drawn to commerce by a letter from a person named Wei Jizong (魏继宗). The letter wrote:

The market in the capital is in chaos: businessmen use price to elbow each other, so the price is extremely unstable, the fluctuation of the price sometimes reaches multiple times that of the even price. The well-capitalized urban Plutocrats take advantage of the chaos and usurp the control of the market: in prosperity, when the businessmen crowdedly come to the capital and the supply of goods exceeds the demand, the Plutocrats suppress the price and purchase large amounts of goods for storage; in depression, when businessmen seldom come and the goods are in shortage, the Plutocrats use their storage to drive up the price. In this way, the Plutocrats' profit rate reaches hundreds of percent, and a large amount of wealth is concentrated in their hands, but the businessmen from outside cannot make a profit, so they are unwilling to do business in the capital city, the residents suffer from plutocrats' engrossing, and state finance is in stringency(*Chang Bian* 1986, 5622).

The State Trade Measure was enlightened by this memorial. Wang Anshi believed the problem in commerce was caused by the absence of the state's control. He wrote:

In the ancient great ruler's regime, the state controlled the price to stabilize the market and restrict plutocrats' engrossing. Now it has been a long time since the ancient great rulers' time, and the state no longer holds its control, so well-capitalized privates take the chance and control the economy for their interest (*Chang Bian* 1986, 5622-5623).

So Wang Anshi proposed to use state finance to establish the State Trade Agency (市易务) in the capital and recruit businessmen as the agents of the agency. In order to control well-capitalized Plutocrats, Wang Anshi recruited the leaders of them as the agents. All of the agents should mortgage their property to the Agency and guarantee each other's credit. The Agency should purchase the unsalable goods, and the price should be set based on the even price and the negotiation between agents and sellers. Any businessmen who wanted to borrow goods or coins from the Agency should be allowed

to mortgage their property in exchange for equivalent goods and coins. If the debts and interest were paid back in half a year, the interest would be 10%; if they were paid back in one year, the interest would be 20%. Forcing businessmen to borrow was forbidden. If the agents found certain crucial goods which were necessary to purchase now and sell later for buffer stock, the Agency could listen to their suggestion, but the Agency should not seek excessive profit in the transaction.³⁹ Wang Anshi wrote:

We use millions of coins as the principal for market stabilization and borrowing to the businessmen as the loan for trade and ask the businessmen to pay back thousands of coins as the interest ... if the purpose of the State Trade Measure is achieved, the market circulation will be smooth, the economy will be prosperous, and the state fiscal situation will be improved (*Wu Shi*, in *Wen Ji* 1959, 441).

In March 1072, the State Trade Agency was established in the capital. Emperor Shenzong granted one million *Strings* (贯) of coins from the national treasury to the Agency as the principal (*Chang Bian* 1986, 5624). Since then, the State Trade Commissions (市易司) with the same function were established in other provinces and more State Trade Agencies in other districts and municipalities.

The State Trade was also the implementation of the essence of ancient great rulers. Wang Anshi wrote: “The State Trade Measure originates from the Market Controlling Agency (司市) in Zhou Dynasty, and the Policy of Price Stabilization (平准) in the Han Dynasty” (*Wu Shi*, in *Wen Ji* 1959, 440-441).

4.7 The Results of the Reform

The establishment of the EFPC and these five specific policies compose the main body of Wang Anshi’s economic reform. In summary, in the reform, Wang Anshi mainly established three projects: firstly, he turned the national tribute system into a system to control the commercial market and provide market-price stabilization; secondly, he made the Court of Agriculture become an agriculture investment agency to provide loan to farmers, to invest in the land reclamation and water conservancy projects construction, and to improve the national corvée system; thirdly, he built State Trade

³⁹ About the policy document, see *Chang Bian* 1986, 5623

Agencies and Commissions as urban trade and financial agencies to provide commercial market stabilization and the loan for businessmen.

It is not easy to judge whether Wang Anshi's economic reform was successful or not, mostly because nearly all of the primary sources about Northern Song and Wang Anshi's reform held a very negative attitude towards Wang and his reform, which became the mainstream attitude in Imperial China (see Li 2004; Liang 1936). However, there is still some evidence from which we can see the success of the reform: in the age of Jia You (嘉佑, 1056-1063), the fiscal income of central government was around 36,800,000; in comparison, this number increased to around 50,600,000 during the reform (*Tong Kao* 1986, 235); during the time of reform, "all central and local governments had sufficient fiscal resources, even the small town had a deposit of no less than 200,000" (*Song Shi* 1977, 10568); the number of reclaimed farming land in the empire increased from around 4,400,000 *Qing* in 1066 to 4,614,550 *Qing* in 1083 (Qi 2009, 58); the proportion of land-holding farmers in Northern Song rural population increased from 60% before the reform to 69.6% in 1072, which was also the highest in the whole Northern Song history (Qi 2009, 1170); during 1070 to 1076, the reform administration constructed 10,793 water-conservancy projects all over the empire and reclaimed 361,178 *Qing* farming land nourished by water conservancy projects (Smith 2009, 393); and, although the commercial tax was lowered in Emperor Shenzong's regime, the commercial tax income all over the empire increased from 8,463,900 before the reform to 8,788,621 in 1077, which reflected the growth in commercial activities (Qi 2009, 1025-1026). From these achievements, we could see that, during the reform, the state finance was optimized, more farmers returned to their land and became employed, more farming lands were reclaimed and improved, and the growth in commerce was achieved. Besides, what made these achievements more impressive was that, during the reform, the labor force of the empire (丁, male adult population) actually decreased from 29,092,185 in 1066 to 23,807,165 in 1075 (*Tong Kao* 1986, 113; *Chang Bian* 1986, 5069, 6654). More economic and fiscal output was achieved with less available labor, so I think it is quite reasonable to grant more credit to the wise reforming policies. Considering the improvement in state finance and national economy, and the fact that the establishment and the maintenance of the reforming policies continued for 17 years during 1069 to 1085 until being eradicated by conservatives, I

think we could claim, without a doubt, that Wang Anshi's economic reform was a success, for both of his ambitions – solving fiscal crisis and economic depression and establishing an economic order which could last permanently – were achieved.

Wang Anshi was well aware that his reform inevitably harmed the interest of well-capitalized rural and urban Plutocrats and would incur their attack, and Wang was worried whether Emperor Shenzong's will was strong enough to resist the attack from the officials and politicians who were influenced by the Plutocrats (*Chang Bian* 1986, 5433). But his worry finally came true.

From the summer of 1073 to the spring of 1074, a serious drought disaster took place in the empire, and Wang's opponents seized this chance to attack the reform and interpreted the disasters as the punishment from Heaven, for the reform violated the will of Heaven,⁴⁰ because in Confucianism belief, the serious natural disaster was regarded as the condemnation from Heaven for a dynasty's misconduct in governing (Yao 2000, 144). Under these pressures, Wang Anshi was forced to resign in April 1074, but chose his successors, who strongly guarded his legacy in government (Williamson 1935, Vol. I, 347-352). In February of 1075, under the suggestion of Wang's followers, the emperor resumed Wang's position of Chancellor, but in October of 1076, Wang Anshi resigned again because of his son's death, holding the honorable title as Chancellor (Williamson 1935, Vol. I, 353-364). Since then, Wang lived in retirement, and in 1077, he was granted the title of "The Duke of Jing" (荆国公) and finally passed away in 1086. Meanwhile, since 1076, even without Wang's assistance, Emperor Shenzong himself still insisted on the reforming policies until his death in 1085 (Williamson 1935, Vol. I, 365-388).

⁴⁰ See *Xu Zi Zhi Tong Jian* [续资治通鉴, *The Continuation of Comprehensive Mirror in Aid of Governance*,] 1957, 1750-1754; Williamson 1935, Vol. I, 279-284.

5. Wang Anshi's Economic Reform as Proto-Keynesianism

Experimentally, in order to understand Wang Anshi's economic reforms, one could argue that if we broadened our horizon to include the modern Western economic paradigms, then Wang Anshi's economic thought and his reforms could not be merely considered a medieval Chinese Confucian economic reform, but a form of proto-Keynesianism that happened a millennium ago.

According to Gadamer's hermeneutics, the key to understanding a text lies in reconstructing the questions the text answers. If we reconstruct the questions John Maynard Keynes' major works answered and the questions Wang Anshi's economic discourses answered as following, we would find that among both Lord Keynes' and Chancellor Wang's ultimate concerns was how to realize full employment, namely, the maximum quantity of employment which is compatible with a given real wage (Keynes 1936, 12). Regarding the theoretical aspect, in his *The General Theory of Employment, Interest and Money* (in short, *General Theory*), Keynes tried to discover the determinants on which the amount of employment in an economic system depends at any time, so that the authority of the economic system can control those determinants to realize full employment (Keynes 1936, 247). And the determinants of the amount of employment Keynes discovered were the propensity of consumption and the relation between the marginal efficiency of capital and interest rate. In reality, the extreme case representing the questions facing Keynes was the Great Slump, the economic depression featured by the massive involuntary unemployment of workers and plants. According to Keynes' analysis, the fundamental cause of that massive unemployment was the wide gulf "between the ideas of lenders and the ideas of borrowers for the purpose of genuine new capital investment with the result that the savings of the lenders are being used up in financing business losses and distress borrowers, instead of financing new capital works" (Keynes 1962, 79). The lenders universally asked higher terms for loans than new enterprises could afford, and so the borrowers were reluctant to borrow because the fall in prices made those who postponed new enterprises gain by

this delay (Keynes 1962, 78-79).

In the economic context of Wang Anshi's time, we could also see massive unemployment that mainly happened in Northern Song's agriculture sector, which fit the features of the Great Slump in Keynes' analysis and triggered Wang Anshi's concern about full employment. For Keynes himself, it seemed that he was aware that the massive unemployment caused by the lack of inducement to invest, which he discovered, could happen in history. Keynes wrote:

There has been a chronic tendency throughout human history for the propensity to save to be stronger than the inducement to invest. The weakness of the inducement to invest has been at all times the key to the economic problem. Today the explanation of the weakness of this inducement may chiefly lie in the extent of existing accumulations, whereas formerly risks and hazards of all kinds may have played a larger part. But the result is the same. The desire of the individual to augment his personal wealth by abstaining from consumption has usually been stronger than the inducement to the entrepreneur to augment the national wealth by employing labor on the construction of durable assets (Keynes 1936, 347-348).

As the reconstruction of the “questions” facing Wang Anshi's texts about economy in 1.1 *supra* shows, in Northern Song's most populated economic sector – agriculture –, the interest rate of loans by the Plutocrat households was very high and beyond farmers' capability to shoulder; the farmers were always “denied the funds they needed” because of the high interest rate of loan; whereas the investment in “new enterprises” was stagnant: many lands became deserted, and the water conservancy projects became unmaintained all across the country. As a result, the economic resources in the country, whether labor or improved land or the material investment put in the land, were not fully employed in economy, just as Wang Anshi observed: “the water conservancy projects like dikes and canals have been mostly unmaintained; the deserted arable lands near the capital city stretch hundreds of square miles contiguously; families by families go bankrupt and exile” (*Ji Gao* 2014, 6050). Facing this situation, Wang Anshi especially emphasized the full exertion of productive capacity, namely, the full employment of the economic resources in the country: “extracting from nature” and

“motivating all resources in the country to generate wealth” must be regarded as the only source of wealth in the economic system and “reconditioning land and water” was a “non-delayable” task. Namely, the core task of Wang’s economic policies was to re-motivate the idle factors of productions in his time, like the farmers forced to exile from their lands, the deserted or unreclaimed arable lands and the idle and unmaintained material investment made to improve the lands, back to the economic system to generate wealth for the whole empire. And he criticized that the administration before him ignored this problem but just concentrated on keeping the budget in balance.

In general, the questions in the “texts” of Keynes’s major works and the “texts” of Wang Anshi’s economic reasoning were similar. The economic problem Wang Anshi faced was a case where the propensity to save was stronger than the inducement to invest in the history before Keynesianism was born. No wonder Vice President William Wallace, Wang Anshi’s fan in the US, said in a public speech in 1944:

It was ten years ago that I learned for the first time about the famous Chinese New Dealer who lived about 900 years ago, Wang Anshi. Under very great difficulties he was faced in the year of 1068 with problems which, allowing for the difference between historical periods, were almost identical with the problems met by Franklin D. Roosevelt in 1933. The methods which he employed were strikingly similar (Li 2014, 216-217).

The similarity between Keynes and Wang Anshi also lies in the “answers” their “texts” provide. Although their reasoning processes were quite different, their ideas about the causes and solutions to the involuntary unemployment were also similar. In *General Theory*, Keynes proposed that at a given propensity to consume, the level of employment depends on the amount of current investment which was determined by the relation between the marginal efficiency of capital and the interest rate of the loan. He wrote:

Given what we shall call the community’s propensity to consume, the equilibrium level of employment, i.e. the level at which there is no inducement to employers as a whole either to expand or to contract employment, will depend on the amount of current investment. The amount of current investment will depend, in turn, on what we shall call the inducement to invest; and the

inducement to invest will be found to depend on the relation between the schedule of the marginal efficiency of capital and the complex of rates of interest on loans of various maturities and risks (Keynes 1936, 27-28).

Therefore, the causes of unemployment lie in the weak propensity to consume and too high interest rate. Keynes wrote:

Not only is the marginal propensity to consume weaker in a wealthy community, but, owing to its accumulation of capital being already larger, the opportunities for further investment are less attractive unless the rate of interest falls at a sufficiently rapid rate (Keynes 1936, 31).

Based on this reasoning, Keynes' general policy proposals to solve unemployment included government's expenditure policy to support aggregate demand and lowering the interest rate (see Kregel 1995). Just as he was aware that the unemployment caused by the lack of propensity to consume and inducement to invest happened long before his time, Keynes was aware that similar solutions to the problem also existed in history long before his time. Keynes believed that Mercantilism tried to increase inducement to invest in the country through increasing trade surplus to a lower interest rate of loan. He wrote:

At a time when the authorities had no direct control over the domestic rate of interest or the other inducements to home investment, measures to increase the favorable balance of trade were the only direct means at their disposal for increasing foreign investment; and, at the same time, the effect of a favorable balance of trade on the influx of the precious metals was their only indirect means of reducing the domestic rate of interest and so increasing the inducement to home investment (Keynes 1936, 336).

The doctrine and policy of anti-usury in history was also the same case. This doctrine believed "the rate of interest is not self-adjusting at a level best suited to the social advantage but constantly tends to rise too high, so that a wise government is concerned to curb it by statute and custom and even by invoking the sanctions of the moral law" (Keynes 1936, 351). Keynes believed the fame of this doctrine should be rectified, because, as he wrote:

Certain of the risks and hazards of economic life diminish the marginal

efficiency of capital whilst others serve to increase the preference for liquidity. In a world, therefore, which no one reckoned to be safe, it was almost inevitable that the rate of interest, unless it was curbed by every instrument at the disposal of society, would rise too high to permit of an adequate inducement to invest (Keynes 1936, 351).

Besides the ideas and policies aimed at lowering the interest rate to increase inducement to invest in history before him, Keynes also admitted that the theory blaming the lack of propensity to consume for causing unemployment was not a new thing, such as the theories that rectified the luxury and criticized thrift and saving for the purpose of realizing full employment, like Bernard Mandeville's *Fable of the Bees* (see Keynes 1936, 358-362).

Looking at it this way, it may not be too far-fetched to think that if Keynes had happened to know Wang Anshi's reasoning about unemployment and the approach towards full employment, he would not feel any surprise but would have classified the Chancellor as his predecessor in realizing that the state should increase the inducement to invest, lower the interest rate of loan and support the propensity to consume to realize full employment. As opposed to Keynes's approach of modern economics, Wang Anshi drew his conclusion more from the traditional wisdom of managing the economy preserved in Confucian classics as the Way and the ancient great ruler's policies rather than reasoning himself – although the question in ancient China always is how much the tradition provided the rhetoric rather than the reason for the policy. And yet, as mentioned in the sections *supra*, the principles of ancient great ruler's economic policy in Wang Anshi's eyes were to make the have-not have, to make the harmful gone, to take from the rich to aid the poor, to lend low-interest-rate loans to people when their enterprise needs investment, to buy the unsalable goods and sell them when there is shortage in the market, and to eliminate Plutocrats' engrossing through usury. And in practice, Wang Anshi understood the lowered interest rate of loan would stimulate more inducement to invest in economy which would reduce the unemployment. Wang Anshi's most prior tasks in economy was to promote agriculture, and in order to do so, he put much of his hope on the Green Sprout Loan—the endeavor to lower the interest rate and increase the volume of capital in economic system, because, as he wrote: “If farmers could receive the loan, they will not suffer from temporary shortage, so that they could

focus on tillage. **In this circumstance, the farmers could be motivated by the government to reclaim more lands and construct water-conservancy projects to improve their production. As a result, the agriculture production in the country will be improved automatically**” (*Ji Gao* 2014, 6041).

In summary, Wang Anshi learned from ancient great rulers that he had to keep the interest rate low to support the investment in people’s enterprise, which at his time was land reclamation and water-conservancy project construction, and to stabilize the commercial market. However, in his time, just like in the time of Mercantilism, the Chancellor did not have the apparatus that could directly influence the interest rate of loans or increase the inducement to invest to motivate private lenders or stabilize the propensity to consume in the commercial market. Thus, Wang Anshi had to use the money from the state to set up a financial agency countervailing to the private lenders to provide loans with a much lower interest rate; he had to use state money to directly invest in people’s enterprises and lever private investment; he had to make the state become the trader in the commercial market to provide stabilization when the private cannot. In this way, his endeavor was as justifiable for Keynesianism as Mercantilism, the anti-usury doctrine and the *Fable of the Bees* in realizing that the inducement to invest and the propensity to consume should be increased for the sake of full employment.

The destinations to which Keynes’ employment theory lead include the “euthanasia of the rentier” and the “socialization” of investment, about both of which Wang Anshi reached consensus with Keynes again. At the given schedules of marginal efficiency of capital, to maintain full employment, the volume of capital should be increased and the interest rate should be lowered to increase the inducement to invest. In this way, the rentiers and their power based on the scarcity of capital would inevitably be restricted and die out. Keynes wrote:

So far as one can guess at the schedules of the marginal efficiency of capital corresponding to increasing amounts of capital, the rate of interest is likely to fall steadily, if it should be practicable to maintain conditions of more or less continuous full employment – unless, indeed, there is an excessive change in the aggregate propensity to consume (including the State) (Keynes 1936, 375).

Thus we might aim in practice (there being nothing in this which is unattainable) at an increase in the volume of capital until it ceases to be scarce, so that the functionless investor will no longer receive a bonus (Keynes 1936, 376).

In Keynes' eyes, full employment is not a natural result which could be realized automatically by the economic system itself, but the result of centralized control and a plan, so the control of saving, investment, consumption and other economic forces should be retrieved back to the state from the private realm:

The State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways. Furthermore, it seems unlikely that the influence of banking policy on the rate of interest will be sufficient by itself to determine an optimum rate of investment. I conceive, therefore, that a somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment; though this need not exclude all manner of compromises and of devices by which public authority will co-operate with private initiative. But beyond this no obvious case is made out for a system of State Socialism which would embrace most of the economic life of the community. It is not the ownership of the instruments of production which it is important for the State to assume. If the State is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them, it will have accomplished all that is necessary (Keynes 1936, 377-378).

I believe that some co-ordinated act of intelligent judgment is required as to the scale on which it is desirable that the community as a whole should save, the scale on which these savings should go abroad in the form of foreign investments, and whether the present organization of the investment market distributes savings along the most nationally productive channels. I do not think that these matters should be left entirely to the chances of private judgement and private profits, as they are at present (Keynes 1962, 173).

To eliminate the scarcity of capital of which the inevitable result is the "euthanasia" of

rentiers and their economic power, and to retrieve the control of economy back to the state in Keynes' theory were also ideas that composed Wang Anshi's "restricting engrossing". One of Wang Anshi's most important purposes in his reform was to relieve the farmers from rural usurers' suppression, and his solution was to use state fiscal resources to increase the volume of capital to try to eliminate the scarcity of capital and the Plutocrats' power based on that scarcity, which was similar with Keynes' idea. And in his economic reform, Wang Anshi tried to make the state retrieve the control of "granting and collecting" and "sale and purchase" of wealth, namely those forces that control the circulation of wealth, like price, interest rate, market exchange and investment, from the Plutocrats who abused the control of those forces for their own interest. Except these, as he saw no applicability and benefit in nationalizing the ownership and distribution of land and the indispensable function of the rich in the economy to fill the blank left by the state (see *Chang Bian* 1986, 5181; Qi 2009, 1168), Wang Anshi would also agree with Keynes that as long as the state could control those important economic forces, it was not necessary to nationalize the instruments of production, and the initiative of individuals should be respected.

Wang Anshi also reached a consensus with Keynesianism in how state finance should be used. In this aspect, Wang Anshi's parallel was the *Functional Finance* of Abba Lerner's, who "was probably the first economist outside of Keynes's inner circle to grasp the nature and importance of the *General Theory*" and "provided the logical framework (functional finance) for Keynes's policy recommendations" (see Scitovsky 1984), namely, "the principle of judging fiscal measures by the way they work or function in the economy" (Lerner 1943, 39). Lerner wrote about the central idea of Functional Finance:

Government fiscal policy, its spending and taxing, its borrowing and repayment of loans, its issue of new money and its withdrawal of money, shall all be undertaken with an eye only to the results of these actions on the economy and not to any established traditional doctrine about what is sound or unsound (Lerner 1943, 39).

And according to Lerner, there were mainly three principles in Functional Finance which ultimately served the realization of full employment through the support of

adequate spending and the control of inflation through reducing spending. Lerner wrote:

First, the adjustment of total spending (by everybody in the economy, including the government) in order to eliminate both unemployment and inflation, using government spending when total spending is too low and taxation when total spending is too high; second, the adjustment of public holdings of money and of government bonds, by government borrowing or debt repayment, in order to achieve the rate of interest which results in the most desirable level of investment; and third, the printing, hoarding or destruction of money as needed for carrying out the first two parts of the program (Lerner 1943, 41).

According to Functional finance, there are three pairs of instruments for government to adjust the total spending in economy. Lerner wrote:

There are thus three pairs of fiscal instruments at the disposal of the government: buying and selling; giving and taking (money to or from citizens); lending and borrowing. The first item in each pair is appropriate when total spending is too low; the second item in each pair, which is the opposite of the corresponding first item, is appropriate when total spending is excessive (Lerner 1951, 127).

In comparison, Wang Anshi's state finance theory expressed that the state should focus on using its fiscal resources to improve the economy rather than solely seeking budget balance in the short term, just like the parents should teach their children to make money rather than earn the money from their children. And in this process, Wang Anshi especially emphasized the careful use of the "collection and distribution, purchase and sale" of government fiscal resources. And facing the depression and unemployment in Northern Song's national economy, Wang Anshi specifically emphasized more government spending in economy to provide adequate spending for full employment.

In specific policy proposals, the consensus between Keynes and Wang Anshi still continues. According to Kregel (1993), Keynes' specific policy proposal could be classified into the "offensive policy" and "defensive policy", namely, the policies drawing the economy back from depression, and the policies preventing depression from happening. Wang Anshi's reforming policies shared a lot of similarities with Keynes' "offensive policy" and "defensive policy": Wang's policies in rural economy

carried out by the Court of Agriculture were similar to Keynes' "defensive policy", whereas his improved tribute system and commercial policies run by State Trade Agencies and Commissions were more like Keynes' "offensive policy" in the commercial market.

In order to support the full employment reached in World War II in UK, Keynes proposed his "defensive policy". According to Kregel (1985, 38; 1995, 266), Keynes' "defensive policy" had the following features: full employment in the long term required government's control of investment; government's control of investment should be carried out through semi-autonomous public corporations and socialized joint stock corporations' independent "pork barrel" political controls; the government budget should be divided into a current account and a capital account, the current account should be in balance or in surplus, which is transferred to the capital budget, which serves to offset exogenous cyclical changes in investment spending, and although the capital budget may be in deficit, it should be balanced in the long term; the investment under the control of the government's capital budget should be 7.5 to 20 percent of the national income; government's investment spending should be countercyclical relative to private investment; if the full employment is maintained, the government budget should be balanced; services provided by government should be "technically social" – namely those that the private realm is either unwilling or unable to provide; services provided by government should cover all costs and should not include on-or off-budget subsidies.

This proposal was similar to Wang Anshi's reforming policies in agriculture in many aspects. Wang Anshi established his "capital budget" in government – the Court of Agriculture independent from the normal fiscal system. And the duty of Wang's Court of Agriculture was to retrieve the control of investment and interest rate from rural Plutocrats and to countervail the lack of inducement to invest in private in contemporary depression. The investment projects of the Court of Agriculture were "technically social": it provided the Green Sprout Loan with a tremendously lower interest rate than the private loan and invested in land reclamation and water-conservancy project construction through that loan. In this aspect, the idea of Wang's Green Sprout Loan accorded with the essence of the modern development bank, which is that the government should provide financial service where the private financial service does

not fully cover the promotion of capital development to increase the real productive capacity and wealth-producing ability of the economy (Minsky and Papadimitriou 1993, 9-10).

Keynes's "offensive policy" was the emergency measure of using government expenditure to pull the economy out of depression and restore the normality, of which the theoretical base is believed to be the "short period equation" Keynes proposed in *A Treatise On Money* about how to bring the fall in prices in commercial market to a halt (Kregel 1995, 263-265). According to the "short period equation" (Keynes 1978, 125-127), the fall in the prices in a market with excessive stocks could be halted by reducing the carry costs of excess stocks, increasing the consumption of the excess stocks or reducing the annual production, so the policy proposal based on this equation included lowering interest rates, storage and insurance cost, giving away the excess stocks, increasing consumption above normal, and, in the commodity market, the international buffer stock schemes after World War II (see Keynes 1980, 112-122), which should set the basic price for the commodities, buy the commodities at a lower price, hold, store, and sell them at a higher price, in order to stabilize the price of commodities and cure the trade cycle. In this aspect, Wang Anshi shared the same idea with Keynes. Wang Anshi was well aware that "purchasing the unsalable goods on the market and selling them when there is shortage", was an effective solution to stabilize the market and prevent trade cycles. And one could see in Wang's Equitable Transport and Distribution of Tribute Measure and State Trade Measure mentioned *supra* that the essence of these measures were the buffer stock for market stabilization: the reformed tribute system allowed the Commissioner of Supply to satisfy the state's demand through acting as a national buffer stock (*Ji Gao* 2014, 3121-3122), and the State Trade Agencies and Commissioners set the even price for commodities, absorbed the excess stocks in market, held and sold them in shortage all at the even price to stabilize the market (*Chang Bian* 1986, 5623).

6. Conclusion

Wang Anshi aimed at drawing on the economic principles of Confucianism to establish a set of principles establishing a permanent economic order, as well as to solve the fiscal and economic depression in Northern Song. The economic depression he faced was mainly the massive unemployment. Under the guidance of Confucian economic principles, Wang Anshi forged the state into a countervailing power to the private sector in controlling investment, interest rate and consumption in the commercial market to increase government's spending in investment and consumption and to support the inducement to invest and propensity to consume in the country to realize full employment. And all these endeavors and the thought behind them reached a consensus in the state's function in economy and how to deal with the depression featured by massive unemployment with John Maynard Keynes' economic policy doctrine and the "conventional Keynesianism" based on that doctrine. Because of this, Wang Anshi well deserves the title of a "Keynesianist in Medieval China" without a doubt, even perhaps that of "medieval-Chinese proto-Keynes".

And this resonance reached by Wang Anshi and Keynes, despite the gap in time and space between them, makes it more clear what really is the context and the paradigms that confined the function of Keynesianism and its prototype in medieval China – "Wanganshism". This made it more clear that the factors influencing employment talked about by Keynes were fundamentally the psychological factors, the propensity to consume and the inducement to invest, which had no **direct** relationship with the technology, specific institutions, or the feature of times, namely, whether it's capitalism enough or not. The unemployment caused by that people's will to save and hoard becomes stronger than undertaking the risk to boldly invest and consume and therefore charge very high price in lending the money to those who dare to make those endeavors happen in the richest country in the 20th century, but this also could happen in 11th-century agrarian society, so do the essentially similar solution to this unemployment. Keynes's words in *General Theory* – "the weakness of the inducement to invest has

been at all times the key to the economic problem” (Keynes 1936, 347-348) – could be regarded, in some degree, as Keynes’ own admission that the problem he faced has certain ahistorical feature. In this way, since the mutual problem they faced will not be essentially degenerated just because of whether it happened in capitalism or agrarian society, and since their solutions shared so many essences, it will not be far-fetched to give Wang Anshi the title of proto-Keynes, or, in a China-oriented context, to give John Keynes the title of later-Wang Anshi. And also in this way, it naturally turned unreasonable to belittle Wang Anshi and his Confucianism-based economic theory just because it happened at a time when there was no modern capitalism.

However, the credit for this foresight should not be given to Wang himself alone, as he would have been the very first one to insist. This thesis has shown that Wang’s reform should not be taken as his own individualistic-heroist endeavor, but as an attempt to translate Confucianism into a set of permanent practical policies to administer a newly-emerged but laissez-faire-leaning market economy. This was part of the socio-intellectual movement of reshaping Confucianism into a useful tool to organize the Chinese Empire in a changed world in the mid-11th century. The “ancient great rulers”, namely the Confucianism principles, could be seen in nearly every step of Wang’s policies.

And there were other economic reforms and economic policies with the same essence in Chinese history. Wang Anshi himself mentioned Sang Hongyang (桑弘羊, 152-80BC) and Liu Yan (刘晏, 716-780AD) as his precedents in administering economy. Wang Anshi believed Sang Hongyang and Liu Yan were the reformers inheriting the essence of ancient great rulers’ economic policies in “restricting engrossing, relieving the poor and optimizing wealth circulation” (*Shi Bu* 2004, 156). Some modern studies also classified Wang Mang’s *Zhouli*-based economic reform as similar to Wang Anshi’s economic reform.⁴¹

In final conclusion, this thesis has made it clear that, far from today’s prevailing understanding, Wang Anshi was not a spark of a badly utilitarian politician who managed to extort the people. On the contrary, he was a talented economist who

⁴¹ About Wang Mang’s, Song Hongyang’s, and Liu Yan’s economic reform, see Franke 1931 and Williamson 1935, Vol. II, 233-242.

discovered the factors influencing the wealthiness of the people and the state which basically no one else in his time did in the same way, and he designed a set of policies to manipulate these factors for public interest, which made him resonate with one of the greatest economists in the Western world who lived eight hundred years later; he was a competent leader of the government, who put his thought and designs in reality, cured the fiscal and economic depression and brought remarkable benefit to the people and the state; and most of all, he was a faithful Chinese Confucian who deeply believed that the only viable solution to overcome the political and economic difficulties of his time was to make the Confucian principles work, just like he himself admitted. When Wang Anshi had just been appointed as the head of the government, the emperor said to him: “those who don’t understand you all think you are only good at the knowledge in Confucian classics rather than practical affairs.”

“The knowledge in Confucian classics is exactly for handling the practical affairs.” Wang Anshi replied, “Just because most of the scholars after Confucius were too lousy, thus the public opinions started to believe that the knowledge in the Confucian classics can’t be applied in the practical affairs” (*Song Shi* 1977, 10544).

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