

## DISCUSSION PAPER SERIES

No. 8791

**POLITICAL INSTITUTION AND LONG  
RUN ECONOMIC TRAJECTORY:  
SOME LESSONS FROM TWO  
MILLENNIA OF CHINESE  
CIVILIZATION**

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*INTERNATIONAL MACROECONOMICS*



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Discussion Paper No. 8791  
January 2012

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January 2012

## **ABSTRACT**

### **Political Institution and Long Run Economic Trajectory: Some Lessons from Two Millennia of Chinese Civilization\***

Based on a reconstruction of a weighted index of political unification and a time series of incidences of warfare for the past two millennia, this paper develops a narrative to show that the establishment and consolidation towards a single unitary monopoly of political power in China was an endogenous historical process. Drawing on new institutional economics, this article develops a historical narrative to demonstrate that monopoly rule, a long time-horizon and the large size of the empire could give rise to a path of low-taxation and dynastic stability co-evolving with the growth of a private sector under China's imperial system. But the fundamental problems of incentive misalignment and information asymmetry within its centralized and hierarchical political structure also placed limits to institutional change necessary for modern economic growth.

JEL Classification: H50, N4 and O11

Keywords: incentive and information, political institution, unification and fragmentation and warfare

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\* I want to thank the financial support by the Global Price and Income Project funded by NSF under the leadership of Peter Lindert.

Submitted 15 January 2012

## **Political Institution and Long Run Economic Trajectory: Some Lessons from Two Millennia of Chinese Civilization**

Why did China, given her economic and technological leadership in the 14<sup>th</sup> century or even in the 18<sup>th</sup> century as some have recently claimed, fail to become the first industrial nation? A multitude of hypotheses ranging from cultural and scientific traditions to factor endowments or natural resources have been proposed.<sup>1</sup> One long-standing thesis to account for China's long-term stagnation, made from a European comparative perspective, is the absence of dynamic inter-state competition occasioned by the precocious rise of a unitary and centralized state in historical China. This argument found numerous expressions in various academic and popular writings.<sup>2</sup> This thesis is not without challenge. Firstly, we have the recent revisionist claim by China historians that the Imperial rule of benevolence in traditional China provided an institutional framework that taxed the peasantry lightly, protected private property rights and interfered little in the operation of a well-established markets in land and labor (see Pomeranz 2000). Secondly, as pointed out by S.R. Epstein, the inter-state competition thesis also faces challenge on the European front. Political or jurisdictional fragmentation, as he emphasized, may have actually acted to shackle long-term growth in the Medieval and early modern Europe by way of massive coordination failures caused by the absence of undivided sovereignty over the political and economic spheres. This line of logic led him to surmise that England's rise to global eminence in the 18<sup>th</sup> century had more to do with a conducive institutional environment emanated – not from jurisdictional fragmentation – but from her precocious institutional unification and centralization due to her initial weakness of entrenched “corporate” interest (Epstein, 2000, pp. 36-7).

The Chinese imperial political structure, marked by a centralized and unitary state and evolved in relative isolation, offers a fascinating test case on the relationship between political institution and long-economic growth. This article draws on the insights of new institutional economics to delineate

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<sup>1</sup> See Ma 2004 for a summary of these hypotheses.

<sup>2</sup> The latest rehashing of this thesis appears in Niall Ferguson's, *Civilization, the West and the Rest*, see chapter one.

the political logic of Chinese empire and dynastic cycles.<sup>3</sup> In the spirit of Olson (1993), I develop a historical narrative and empirical evidences to show that given ruler' monopoly of power and long time-horizon, an absolutist regime with total power as in imperial China could achieve a relatively stable path of low fiscal extraction co-evolving with a relatively free private sector. While these merits of political centralization had brought the China imperial stability and extensive growth, they also gave rise to a long-term institutional inertia, a trajectory sharply distinguished from early modern England, where political centralization were simultaneously conditioned by vigorous inter-state competition in Europe and the expansion of political representation within England.

This article illustrates the above thesis through a reconstruction of an index of imperial unification and times series of incidences of warfare for the past two millennia. It then develops a narrative to show that the establishment and consolidation towards a single unitary monopoly of political power in imperial China was an evolutionary and endogenous historical process achieved through long gestation of cultural and institutional assimilation and the shaping and reshaping of property rights and factor markets. I divide the paper into four sections followed by some conclusive thoughts.

### **I. Absolutism with Chinese Characteristics: the Origin of a Model**

In the era of disintegration following the collapse of the legendary Zhou dynasty in the Northern Chinese plain around the 7<sup>th</sup> century BC, thousands of marauding and competing states were slowly absorbed and consolidated under a handful of rulers who excelled in mobilizing for warfare through the adoption of administrative reform (see the Appendix Table for China's dynastic chronology). Du Zhengshen's in-depth study encapsulates the rulers' winning strategies of the Warring State period in the classical Chinese phrase of "Bianhu Qimin" (编户齐民) which could be literally translated as "registering the household and homogenizing the people." These measures - that culminated in China's first unification by the state of Qin in the second century BC - included the replacement of local feudal control with direct administrative rule under the prefectural system (郡县制), the establishment of military-based meritocracy in place of hereditary nobility (hence "homogenizing the

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<sup>3</sup> For new institutional economics literature related to state, see North 1981, Olson 1993, North, Wallis and Weingast 2009.

people”), the allocation and registration of agricultural land and households for direct taxation and military conscription and the promulgation of standardized legal codes under a system of collective punishment. Du traced the origin of the prefectural system at the local level to the organization of military infantry.<sup>4</sup>

In this model, the dominance of a single imperial household over all social or political groups is essential. At the founding of the Qin empire, China’s First Emperor Qin Shi Huang (秦始皇), followed the advice of his Legalist (法家) chancellor, Lishi (李斯) and opted against a feudal (封建) type of political arrangement where the imperial power would co-exist with various regional elites or aristocrats often with hereditary status. Instead, they implemented an empire-wide prefectural system and household registration (“bianhu qimin”). In this new regime, only the status of the imperial throne is hereditary. With the elimination of aristocracy or self-contained political units, the administration of the empire – tax collection, suppression of violence and some provision of minimal public goods – would be governed by direct imperial rules and orders (律令) executed by an impersonal bureaucracy.<sup>5</sup>

From the founding of the Chinese empire in Qin (221 – 206 BC) until the fall of the last Imperial Qing dynasty in 1911, both the concept and practice of centralized rule with a hierarchical bureaucracy had been indisputably her most distinguishing and enduring characteristics. We start with a description of this political model of governance or, to borrow a terminology from Max Weber, its ideal type before we turn to its historical evolution. In this model of absolutist regime, ultimate power was vested in the emperor who commanded property rights over all factors of production including land and labor. At the other or lower end of the spectrum are the people or masses (farmers or peasants in an agrarian regime) who are nominally the tenants and cultivators of land and resources owned by the emperor.<sup>6</sup>

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<sup>4</sup> See Du 1990. Also see Greel, 1964 for an in-depth description of the origin of the prefectural system in China.

<sup>5</sup> The stand-alone nature of Chinese rulers was consistent with countless historical examples of the rulers turning against the landed or commercial elites as well as bureaucrats. For Ming emperors’ brutal punishment of landlords and bureaucrats see Huang 1974. For a critique of how this important distinction between Chinese and Western political regime had been blurred by the dogmatic application of Marxist ideology in China, see Feng 2006.

<sup>6</sup> The imperial ownership of land is expressed by the traditional notion of ‘Wang-tu wang-min (王土王民, king’s land, king’s people)’, which appeared in The Book of Songs compiled during the age of Warring States (403-221 B.C.) and persisted throughout the imperial period; see Kishimoto 2011.

The Imperial household is entitled to rents from agricultural output, the bulk of which went into the supply of external defence and internal security.

We illustrate the logic of the tri-part political model in the words of the great Tang Confucius scholar, Han-Yu (韩愈) (786-824): "... rulers are meant to give commands which are carried out by their officials and made known to the people, and the people produce grain, rice, hemp, and silk, make utensils and exchange commodities for the support of the superiors. If the ruler fails to issue commands, then he ceases to be a ruler, while if his subordinates do not carry them out and extend them to the people, and if the people do not produce goods for the support of their superiors, they must be punished." (de Bary et al, 1960 pp. 432-3).

This Chinese concept of the state, as recognized by generations of scholars, is in many ways an extension of the Chinese concept of a patriarchal household. With the elimination of hereditary aristocracy, the transition from feudalism to central rule extended the stand-alone imperial household (家) into the national sovereign (国). The literal translation of the Chinese character for nation-state (国家) is really "state-family" or what Max Weber termed as a patrimonial or "familistic state". Etymology used by Qian Mu reveals what was the equivalent Chinese term of "chancellor" (宰相) for the empire derived from titles that denoted managers of private royal households in the pre-Qin period. Thus, for Qian Mu, the rise of central rule also marks the beginning of a separation between ownership (the Imperial ruler) and management (the bureaucracy).<sup>7</sup> Indeed, the unity of individual, family and state is encapsulated in the enduring Confucian adage that one needs first to cultivate himself, then his household, then his own state, in order to finally realize virtues for all under the heaven (修身 齐家 治国 平天下).

This model of Chinese autocracy is founded on a ruler-centered model, with no formal or external institutional constraint placed against the powers of the Imperial rulers and their agents over the

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<sup>7</sup> See Qian, 1966, pp.8-12. Also see H. G Creel 1964 and Du 1990 for arguments on the clan and kingship origin of the Chinese state.

general populace except perhaps the vaguely defined "Mandate of Heaven" (天命).<sup>8</sup> There was a system of checks against bureaucratic abuses of power or dereliction of duty or to redress grievances of the general populace but only strictly within the administrative hierarchy in a top-down fashion with the emperor being the final arbiter. There is of course the so-called insurrection constraint: if pushed below subsistence by excessive imperial or bureaucratic abuses, masses might resort to violent rebellion to overthrow imperial power. Indeed, rebellions and insurrection had been an enduring feature of Chinese history marked by periodic political fragmentation and dynastic strife. The well-known admonishment to the Tang Chinese emperor that that water can float as well as overturn a boat, just like masses do to their rulers, is an alternative characterization of the insurrection constraint.

## **II. Unification and Fragmentation: a Chinese Record**

Qin's bloody unification did not mark the end of all violence or political fragmentation in Chinese history. On the contrary, its violent collapse under the weight of rebellion after a mere 15 years in existence taught a lesson on the fragility of political rule by brute force alone. Indeed, the ruler that founded the new Han dynasty was forewarned at the outset that he could conquer an empire on horseback but not rule on it. The partial restoration of feudal rule within the Han empire and the subsequent reinstatement of Confucius teaching as the orthodox – an ideology whose preaching of imperial rule of benevolence and patriarchal social hierarchy was once persecuted under the Qin – all aimed at correcting the excesses of Qin despotism rooted in the harsh Legalist principles of punishment and discipline (see Fukuyama 2011 chapter 8).

The demise of the Han empire in 3<sup>rd</sup> century AD heralded in China's most prolonged phase of political fragmentation often broadly grouped as Wei, Jin, Southern and Northern Dynasties (AD220-589). It also marked the beginning of what the Japanese scholar Konan Naito referred as China's age of aristocracy when Confucius learning were monopolized by ruling elites who practiced endogamy,

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<sup>8</sup> The problem of the absence of formal constraints on the emperor is succinctly summarized by Ray Huang's study of Ming imperial system, the heyday of Chinese imperial despotism: "...Final authority (was) rested in the sovereign, bureaucratic action was limited to remonstrance, resignation, attempted impeachment of those who carried out the emperor's orders, and exaggeration of portents as heaven-sent warnings to the wayward emperor. When all these failed, there was no recourse left." See Ray Huang, 1974, p. 7.



dominated the imperial court and conducted state affairs within closed cabinet meetings. Indeed, many of these aristocrats claimed more illustrious lineage than the emperors. As the post of the emperor was the property of these aristocratic families and relatives, the emperor could be dethroned or even murdered if the interests of the aristocracy were violated. Dynastic struggles were largely the business of aristocrats or lineages unconnected to the lives of the commoners.<sup>9</sup> Adding to these centrifugal force was the incessant incursion of non-Han nomadic tribes and the shifting rivalries and alliances among regional military powers. Indeed, even the ensuing greater unifiers of China of the Sui and Tang dynasties were partially nomadic in origin. Similarly, the introduction and diffusion of alien religions such as Buddhism and the resurrection of various indigenous heterodox ideologies such as Taoism constantly challenged the orthodox Confucianism.

Chinese absolutism even in the powerful Tang dynasty was tempered. In Tang's central government, the wing of bureaucrats that reflected the opinions of aristocracy had the right to challenge or even veto (封驳) imperial edicts drafted by the imperial secretariat. And the chancellor, the head of the ruling bureaucracy, had considerable power and shared final decisions with the emperor. But from the Song dynasty onwards the balance of power had decisively tilted towards the imperial throne with the emperor taking over all state functions and commanding submission of his bureaucracy like a master to his slaves. The right of challenge or veto disappeared from the Ming dynasty onwards and even the post of chancellorship was abolished by the first Ming emperor (see Miyakawa 1955)

Clearly, China's path towards a unified and centralized rule was neither linear nor pre-determined. Indeed, as argued by China historian Ge Jianxiong, the two millennia of Chinese history since the founding of the Qin dynasty had actually seen more years of political fragmentation than unification under one ruler. Using the geographic size of unified Ming China as the criteria (shown as the shaded area in the map, sometimes also referred to as China proper, the largely agrarian part of China), I reproduce Ge's calculation as summarized in Appendix Table. It reveals that out of the 2135 years since Qin, China was unified for only about 935 years. Meanwhile, warfare is a constant theme running through the Chinese dynasties, fragmented or unified. Calculated from a detailed recording of

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<sup>9</sup> This narrative and below follows largely the line of Naito thesis expounded by Japan's China scholar Konan Naito. See Miyakawa, 1955 for an English language summary of the Naito thesis.

incidences of warfare compiled by China’s Military History Committee, Appendix Table shows a total of 3752 incidences of warfare in the span of 2686 years, giving an average of 1.4 incidences of warfare per year throughout the period.

Figure 1 plots an index of Chinese unification against the incidences of warfare within each century between 7<sup>th</sup> century BC and 19<sup>th</sup> century AD. The index of unification for each century is constructed

as  $\sum_{T=0}^{100} N_i T_i$  which is the sum of the product of two items denoted as  $N_i$  and  $T_i$ , with the subscript  $i$

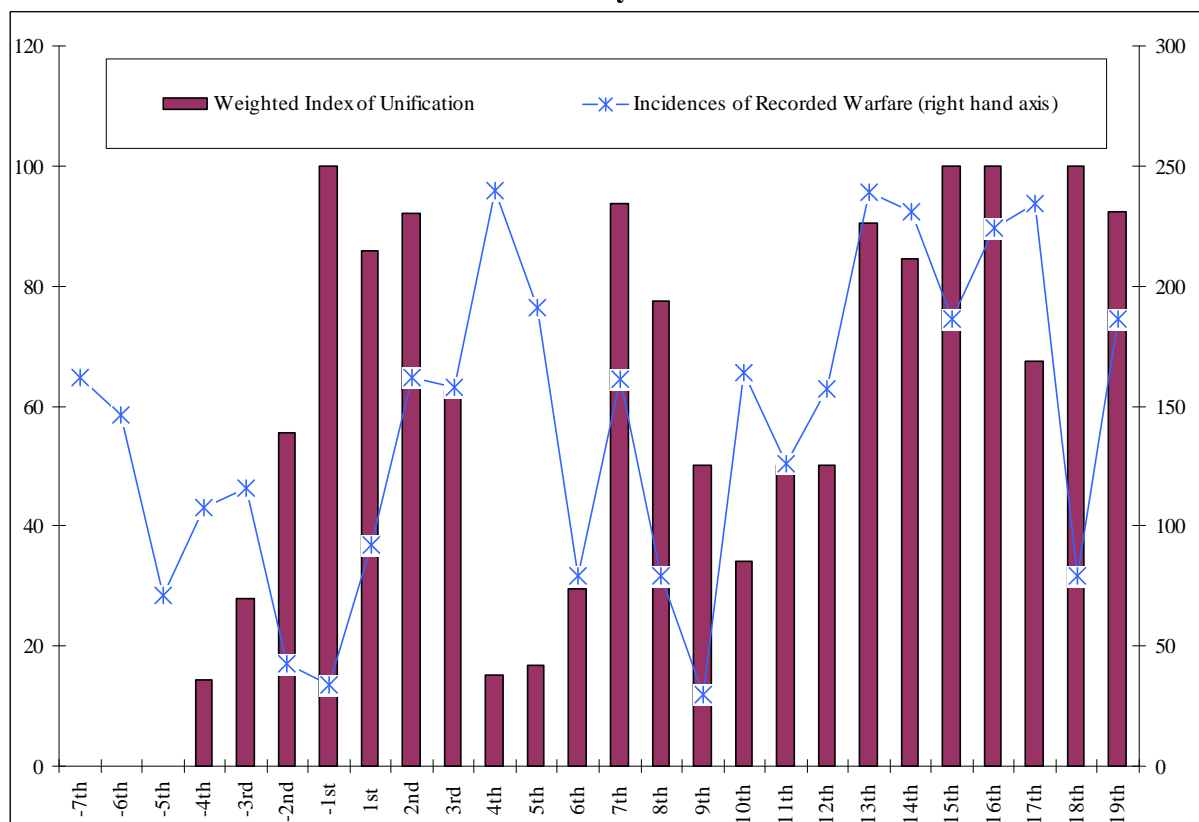
denoting the  $i$ th century between 4<sup>th</sup> BC and 19<sup>th</sup> century.  $N_i$  is set equal to the inverse of the number of polities ruling over the Chinese territory (defined by the territory of Ming in the map) while  $T_i$  is equal to the number of years those polities were ruling over China within that  $i$ th century. So an index of 100 means the dominance of a single dynastic ruler in China for the whole of the  $i$ th century. The closer the index is to 100, the higher the degree of unification. By taking account of the number of polities within

**Map: Chinese territory under Ming and Qing**



Notes: The area in shade roughly corresponds to territories under Qin and Ming or the so-called China Proper. I want to thank Ma Fengyan, Yan Xun and Helena Ivins for assistance with this map.

**Figure 1. Number of Recorded Warfare and Number of Years China was Unified per each Century**



Sources: For Incidences of Recorded Warfare, see Appendix Table and the text.

For the weighted index, the number of political entities are calculated as follows:

Number of entities are set equal to 7 in the Warring states period (-4<sup>th</sup> century), 3 in the Three Kingdoms Period (220-265), 2 in the Western Jin period, 7 in the Eastern Jin, 6 in the Southern and Northern dynasties, 5 in the Five dynasties and ten kingdoms, 2 in the Northern and Southern Song period. For periods of dynastic breakdown but a unitary dynastic rule continued to exist in name, I assign the number of entities all equal to 2. For the number of territories and dynastic governments, we consulted the China Historical Atlas (8 vols.) edited by Tan Qixiang and Annals of East Asia by Fujishima and Nogami.

each century, our weighted index of unification captures the degree of unification and fragmentation, which is not properly reflected in Ge's binary criteria of either just one ruler or none at all.

Our unification index shows that the drive for unification proceeded in roughly three phases, beginning with the rise of the Qin and Han dynasties between 3<sup>rd</sup> BC and 3<sup>rd</sup> AD, then the surge of Sui and Tang dynasties between 6<sup>th</sup> and 8<sup>th</sup> century and the final consolidation towards a single unitary empire under the Yuan, Ming and Qing dynasties starting with the 13<sup>th</sup> century. Fragmentation was most prolonged between the 3<sup>rd</sup> and 6<sup>th</sup> centuries in China's age of aristocracy when competing polities or dynasties, often with shifting territories and transient tenures, jostled for geo-political power. Fragmentation re-emerged following the collapse of the Tang in 907. But with the founding of the

Northern Song in 960 up until the Mongol conquest in 1280, political fragmentation in China proper took the form of sustained rivalry usually between two large political entities pitting Northern and Southern Song against the non-Han rulers of Liao, Jin and later Mongol consecutively. Hence, our unification index reflects a trend of progressive consolidation of Chinese states towards a single unitary rule from the tenth century (or Song) onward with periods of disintegration becoming shorter and the number of competing states smaller but their sizes larger.

Figure 1 also links the unification index with data on the incidences of warfare. While warfare persisted throughout the history, the centuries of important dynastic change (marked with circles in figure 1) in 3<sup>rd</sup> BC, 6<sup>th</sup>, 7<sup>th</sup>, 10<sup>th</sup>, 13<sup>th</sup>, 14<sup>th</sup> and 17<sup>th</sup> AD (corresponding to the Qin and Han, Sui, Tang, Song, Yuan, Ming and Qing respectively) generally corresponded to a upsurge of incidences of warfare, usually followed by a moderation of warfare in the following century as the new dynasties managed to consolidate their hold on power.<sup>10</sup>

A major sustained threat to Chinese unification came from the repeated nomadic incursions originating in the northern frontier outside China's Great Wall where the Chinese system of governance based on sedentary agriculture halted before the steppes and dry-lands.<sup>11</sup> Figure 2 reveals the relative importance of the nomadic conflicts with Han Chinese as a share of total warfare incidents throughout Chinese history. Indeed, except for the earlier period of Chinese empire in the 2<sup>nd</sup> and 1<sup>st</sup> century BC, the number of conflicts between nomads and sedentary Chinese always exceeded the internal rebellions within China, marked by a sharp surge from the 9<sup>th</sup> century afterward. The importance of Han-nomadic conflict has been long noted (Lattimore 1989, Turchin 2009, Bai and Kung 2011). Despite being fewer in number, the nomadic population derived a comparative advantage in violence from their mobile settlements and the availability of horses. Peter Turchin noted that all but

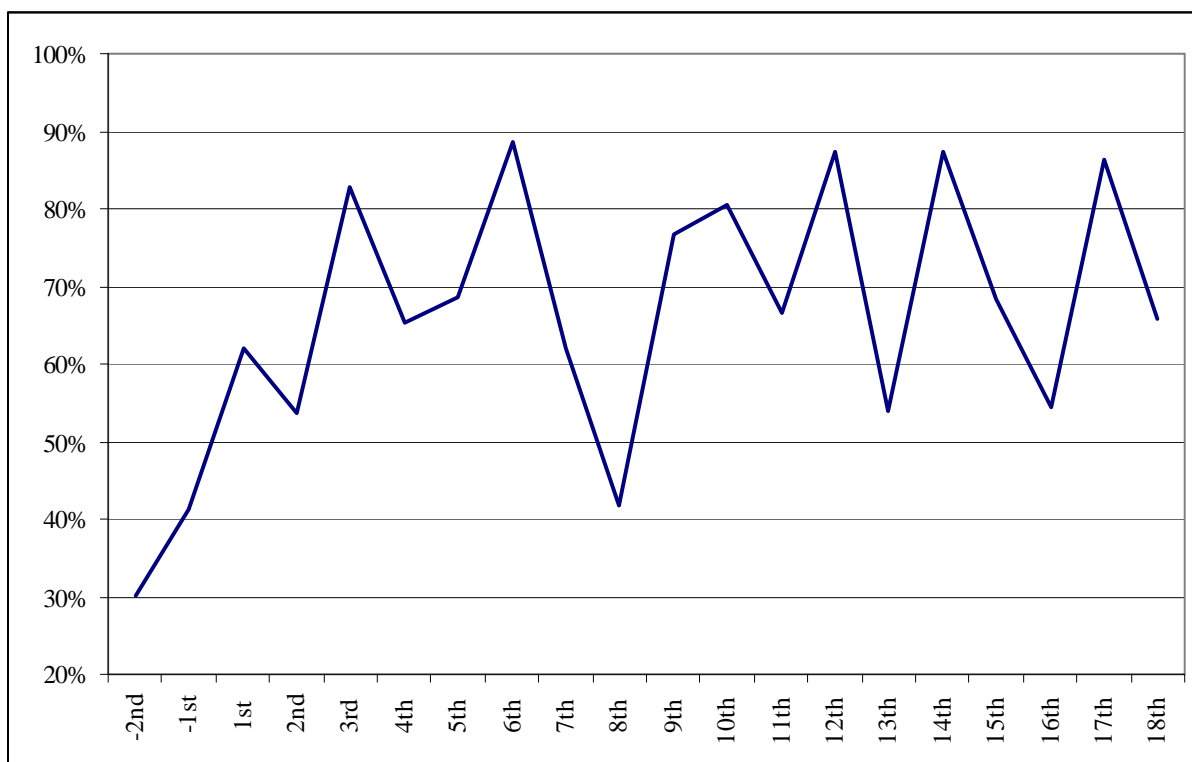
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<sup>10</sup> Clearly, one needs to exercise caution on the interpretation of the warfare data culled from the two volume work compiled by China's Military History Committee. According to the brief introductory notes, the two volume works are largely based on the laborious team project that compiled incidences of warfare mostly from the twenty four historical annals with some additional sources. Although brief narrative was provided for each incidence of warfare recorded, the records do not capture the scale, duration or intensity of each incidence of warfare. Nonetheless, we believe it is very useful information to give broad quantitative indication of the historical narrative or at least the official or prevailing perceptions of the magnitude of warfare in Chinese history. For a cross-check on the validity of this data source against another independent work for the Qing dynasty (1644-1911), see Bai and Kung 2011.

<sup>11</sup> For the classification of non-Han Chinese regions in Manchuria, Mongolia, Xinjiang and Tibet, see Owen Lattimore 1940.

one of the fifteen unifications that occurred in Chinese history – the establishment of the Ming c. 1368 – originated in the North and almost all the Chinese capitals were located in the north even after the economic centre shifted south to the Yangzi valley after the first millennium (p. 192). Indeed, China’s northern frontier demarcated by the Great Wall witnessed a progressive escalation in the scale of warfare and the size of political units mobilized for warfare between the Han-Chinese and nomadic Chinese. The massive construction of the Grand Canal in the 7<sup>th</sup> century, for example, provided the logistic capacity to escalate the military build-up along China’s northern frontier by feeding on grain shipped from the economically ever-important South, but this was successively matched by the scaling-up of imperial confederations of semi-nomadic tribes such as Xiongnu, Turks and Mongols (See Quan Hanshen 1976 for the role of Grand Canal).

**Figure 2. Incidences of Warfare fought between Nomads and Han Chinese per Century as a share of Total Warfare (in percent)**



Source and notes: same as Figure 1. Number of warfare between Han Chinese and nomads are calculated by Bai and Kung 2011. I express my special thanks to Bai Ying and James Kung for sharing their datasets on nomadic-Chinese Warfare.

Charles Tilly’s pithy account of “how war made states, and vice versa” for Medieval and early modern Europe turns out to be an equally apt depiction of the rise of Chinese empire. The striking

degree of synchrony and feedback loops between the rise of the steppe's imperial confederations and the Chinese empire in driving up the size of both wars and those states engaged in it produces a Chinese prequel to Tilly's tale of war and state formation in Europe, but on a scale much larger and a time frame much earlier. But equally remarkable is the Chinese record of imperial unity and dynastic tenure in spite of warfare and phases of fragmentation. Tracing the number of political entities in the Latin West and the Muslim World on a century-by-century basis for a millennium, Bosker, Buringh and van Zanden (2008) show that they proliferated to as many as several hundred and 20 respectively during the 14<sup>th</sup> century, and both only started to consolidate from the 15<sup>th</sup> century onward – almost five centuries later than the Chinese empire (see figure 3 in Bosker et al). Indeed, measured by the standard of imperial unity and dynastic longevity – not to mention the scale – the performance of the Chinese model of political absolutism remained unparalleled among major world civilizations. Below, we turn to the historical evolution of Chinese absolutism as a key determinant to this performance.

### **III. The Triumph of an Institution**

China's pivotal turn towards a more complete form of absolutism between Tang and Song - now more popularly known as the Tang-Song transformation – formed the core of the so-called Naito thesis, originally expounded by Konan Naito in 1922. The thesis premised that the ascendancy of Chinese absolutist rule, despite its attendant dire implications, marked the beginning of China's modern era. It freed the commoners from the yoke of the aristocracy and took them in as tenants of the state, ushering in a series of institutional transformations ranging through fiscal and monetary regimes to ultimately the property rights regimes for man and land (see Miyakawa 1955).

The first transformation came in the recruitment of bureaucrats. Although the civil service examination system started in the Sui and Tang dynasties, it was largely restricted to the graduates of official schools already monopolized by elite lineages. From about the 8<sup>th</sup> century, the civil service examination system evolved towards a three-tier (county, province and capital) nationwide system open to the majority of male commoners, well beyond the pupils of the official schools. The opening-up of the examination system and civil service recruitment weakened the pre-existing social structure rooted in the hereditary control of the aristocratic lineages over Confucian learning and provided an

institutional basis for social mobility among the commoners. The Neo-Confucianism school of thought developed by Zhuxi (1130-1200) of the Song dynasty partially absorbed and integrated the influences of Buddhism and other heterodox ideologies to become a new state-sanctioned orthodox officially incorporated into the Civil Service Examination. The use of a unified hieroglyphic written script that transcended regional dialects and the widespread diffusion of paper and block-printing during the Tang and Song dynasties also turned the examination system into a potent imperial tool of cultural integration to shape a shared cultural identity. Hence, Confucianism and Sinification went hand in hand.

The empire-wide system of appointing successful examination candidates to bureaucratic posts based on a system of 3-5 year empire-wide rotation and the rule of avoidance (which precluded appointees from serving their home county) created a class of career officials having no autonomous territorial or functional power base.<sup>12</sup> By granting life-long privileges of tax-exemption and legal impunity of some degree to varying levels of civil service examination candidates, the system generated a class of non-hereditary elites, the so-called gentry. Those gentries with no official posts often resided in their home villages or countries extending the informal power of imperial rule beneath the official bureaucratic structure (see Chang Chung-li 1955 for the role of gentry).

Meanwhile, the imperial fiscal system began a transition from the triple-tax system (租庸调) to the dual tax system (两税制) as proposed by Chancellor Yang Yan about 780. The crux of the tax reform was to consolidate various forms of labor corves and contributions into direct taxation on land. The shift towards a land-based system of taxation enhanced the monetization of the fiscal regime, which then saw the adoption of standard monetary units of account such as copper cash, paper notes in the Song, and silver tael from the middle of the Ming. Monetization in the fiscal regime also made possible a central level budgeting system based on a fixed target of annual taxation (定额主义) and a system of cash reserves or savings as cushion for shocks (Ray Huang 1974, Iwai 2004). These monetary and fiscal infrastructures made possible a military recruitment system in the Song period based on a paid professional standing army (募兵制) to replace the peasant-soldier military recruitment

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<sup>12</sup> Qian Mu 1966. Hou Ping-ti, 1967, pp.17-19 describes the limited extent of hereditary aristocracy in Ming and Qing China.

regime (府兵制) or military commanderies (藩镇) often with an independent fiscal base founded on some form of tax-exempt land grant.

A more profound and long-lasting consequence of fiscal restructuring was on the Chinese property rights regime over man and land in imperial China. Traditionally, in order to ensure state revenue, Chinese imperial rulers throughout the dynasties had actively engaged in the allocation of land to peasants who would in turn cultivate and contribute taxes. The well-known equal-field system (均田制) as practiced in the Tang dynasty (618-907 AD) allocated land (授田) to male adults according to their productive capacity, upon which the state levied the so-called triple tax. Depending on the category of land title, some of the allocated land could be returned back to the state once the cultivator left or was deceased. But with the adoption of the dual tax system that shifted taxation onto land irrespective of its ownership status, the state could relinquish control and regulation of property rights over land, leading to the de-facto recognition of private property rights and private land transactions which had only existed informally during earlier dynasties. Hence, the *de-jure* imperial property rights in land and people began to transform into *de-facto* rights to taxation. Indeed, the Song became China's first dynasty with no explicit state policy on land allocation. The government's retreat from direct management or regulation of property rights in land gave rise to a system a free-standing, family-based owner-cum-tenant system of agricultural cultivation (Qian 1966, chapter 2).

The land-based dual-taxation system was to become the hall mark of Chinese fiscal regime all the way down to the 20<sup>th</sup> century, while the policy of fixed revenue targets was to become the cornerstone of the ideology of the rule of benevolence. To certain degree, they granted the private sector the fruits of economic expansion brought about by rising productivity, growing territory and population, which in turn generated the enormous population expansion in the Malthusian setting of Ming and Qing. These transformations in fiscal policy and bureaucracy came to form what Wang Yanan claimed as the dual pillars of traditional Chinese polities, and are important in understanding the extensive growth from the Song dynasty onward (Wang 1981 chapter 8, Elvin, 1973, Seo 1999, Qian, chapter 2).

We can now reinterpret the institutional triumph of Chinese absolutism using Mancur Olson's benchmark framework based on the analogy of stationary and roving banditry. The crux of his



argument is that monopoly political rule given a long time horizon (especially with throne being hereditary across generations as in dynasties) is more likely to lead to a “virtuous” equilibrium of relatively low level of predation or extraction and relatively high level of provision of public goods under a stationary bandit type of ruler. The longer the time horizon, and the more stable the imperial rule, the more likely the ruler’s interest could become, in Olsonian terms, “encompassing.” Hence, under conditions of monopoly rule, and a long time horizon and low discount rate, rulers’ high valuation of the stream of future tax income over one-time or short term extraction constitutes a self-enforcing constraint on the grabbing hands of the autocratic rulers in the absence of any formal constitutional constraint.<sup>13</sup>

The remarkable coincidence between the Naito thesis on the “modern” features of Chinese absolutism and the Olsonian theory of autocracy had in fact been foretold by Chinese intellectuals themselves more than a millennium ago. The most well-known and enduring defence of centralized absolutism came from the renowned Tang scholar-bureaucrat Liu Zongyuan (773-819). He argued that while a decentralized feudalism served the “private” interest of the feudal rulers and their relatives, only a prefectural system under a centralized rule created a common public interest even though this creation itself was motivated by the private interest of the autocrat to strengthen his own power and subjugate his officials. According to Liu, the prefectural system contained gems of impartiality by allowing the worthy rather than the hereditary nobles to govern. One could easily replace a bad prefect or magistrate but not a bad feudal lord. Hence for him, the founding of the Qin marked the birth of a “public under the heaven” (公天下) in China. He went on to point out that the prefectural system outperformed feudalism by what may be termed “the insurrection test”: history shows that rebels against crown had come from the masses, the principalities, or the commanderies but none from the officials and prefectures (Yang 1969, pp. 7-8, Feng 2006, pp.60-63). As we can see, Liu Zongyuan’s insight on the merits of centralized absolutism turned out to be remarkably prescient even on a global scale.

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<sup>13</sup> See Olson 1993. See Besley and Ghatak forthcoming for a simple reputation-based game-theoretic model that establishes a positive relationship between the ruler’s rate expropriation and his political discount rate, leading to the rise of what they refer to as a case of endogenous property rights (private property rights protected without formal institutional commitment).

#### IV. The Problems of Incentive and Information

The Olsonian equilibrium of a virtuous autocracy assumed away the principle-agent problem within the regime, an assumption, interestingly, is consistent with the idealized Confucian construct of the state as an extension of a patriarchal family where the incentives and interests of family members are convergent by default. But with the expansion of the empire and imperial bureaucracy, the reality is often far from this ideal: the incentive schemes and information structures of the three actors – the emperor, the bureaucrat/gentry and the masses or peasant farmers – were more likely to diverge, giving rise to potential double principal-agent problems. Indeed, the system of centralized administrative rule whose merits so lauded by Tang scholars such as Han Yu and Liu Zongyuan may have merely replaced the problem of conflict and concession among feudal power magnates by a set of principal-agent problems within a centralized hierarchy, which tended to increase with the rising scale of the empire given the pre-modern monitoring technology.<sup>14</sup> The continuous co-optation of heterogeneous or alien political units into the centralized administrative hierarchy (through force or other means) traded off risks of external threat for those of internal insurrection.<sup>15</sup>

The problem of incentive misalignment between the ruler and his agents helps explain the prevalence of corruption and bureaucratic abuses at different levels of the Chinese society and may account for the apparent contradiction of the very low rate of Central government tax extraction and the sometimes rapacious image of Ming and Qing regimes.<sup>16</sup> These problems were difficult to resolve under the existing political institution as efforts from the centre to monitor bureaucrats only multiplied the problem of monitoring the monitors. Indeed, internal staffers sent initially as imperial plenipotentiaries to control the outer layers of administration often found themselves turned into a new layer of formal bureaucracy superimposed on the external bureaucratic structure stationed outside the imperial capital. The subsequent dispatch of another layers of inner court personnel to monitor the

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<sup>14</sup> See Sng Tuanhwee 2010 for a model on informational diseconomies of scale in Chinese empire.

<sup>15</sup> In this light, the Tang-Song transformation – the homogenisation of the vast empire through the institution of a standardized bureaucratic recruitment system, the rise of a relatively dispersed but homogeneous small-holding peasantry and the widespread diffusion of Confucian ideology – can be viewed as institutional innovation to alleviate the incentive and agency problem in a growing empire.

<sup>16</sup> See Tables 1 and 2 of Ma 2011 show Qing central fiscal extraction on a per capita basis in 18-19<sup>th</sup> centuries were a small fraction of most Western European states and as low as less than 10% of England for that period. For endemic corruption and bureaucratic abuses in Imperial China, see both Ma 2011 and Zelin 1985.

previous monitors could end up repeating the process, leading to what many historians referred to as “externalization” of inner staff. Indeed, the post of provincial governorship originated as imperial plenipotentiary sent to oversee local bureaucrats. (Qian Mu p.44, Liang Qicao, p.28, Wang Yunnan pp. 48-49).

A more explicit expression of this problem can be seen in the anomalous but enduring presence of eunuchs as a distinct political class throughout Chinese dynasties. With a low formal status and no heir to pose a potential challenge to the imperial throne but with abundant access to the emperor’s inner court, the eunuchs often wielded enormous power in the name of the emperor; and at times took de-facto control of the throne, often in connivance with the courtesans. Despite being warned against throughout history, the threat of the eunuchs to formal imperial rule and governance never went away (Yu, Qinhua 2006).

The faults of Chinese absolutism in imperial China are best summarized by Liang Qicao, one of modern China’s most celebrated intellectual reformers. Writing in 1896 at a time of ideological crisis in the face of Western imperial challenge, Liang summed up the weakness of the traditional Chinese system as rooted in distrust. As rulers cannot trust their officials, they set up multiple layers of bureaucracies to check up on each other. In the end, nothing gets accomplished as no one takes responsibility for anything. Moreover, the lower level officials were more interested in pleasing their superiors than serving their people. By taking wealth from the people to bribe their superiors, their posts became more secure even though their constituents were mistreated. Although in China’s age of antiquity, local officials were appointed from the local people, imperial distrust led to the rotation of officials and by Ming times they were rotated across North and South with appointees incurring debts and travelling thousands of miles to take up their posts. Not understanding local dialects and customs, their posts became a mere facade with real power vested in entrenched clerks and runners. By the time they learned they could accomplish a thing or two, their tenure there was up and they would be on the move again. Separated by multiple layers of bureaucracies and living deep inside the court through

eunuchs and courtesans, the emperor hardly knew of events outside. Hence, a regime, as Liang concludes, that did everything to guard against itself was also self-weakening (pp.27-31).<sup>17</sup>

Liang's critiques followed the eminent tradition of an earlier generation of independent Chinese intellectuals in Ming and early Qing. Writing in the 17<sup>th</sup> century, independent scholars such as Huang Zongxi and Gu Yanwu lamented that the emperors and public officials had too often subsumed the public interest to their own private interest. Gu in particular reminisced about the advantages of decentralization under feudalism in China's antiquity, where the right of veto acted as some form of constraint against imperial power and the autonomous princes or lords were more caring of their constituents than the rotating bureaucrats (Xiao, pp.404-411).

The Chinese model of absolutism contrasts with the Western European political structure where co-existence of inter-state competition and political representation may have helped resolve the fundamental incentive and information problems that beset a unitary and centralized empire like China. The much more unstable political structure in Western Europe may also have provided more dynamism to allow the emergence and evolution of institutions conducive to contract and information intensive sectors and possibly a high-wage, low interest-rate economy by the early modern era.<sup>18</sup>

The development of a Chinese institutional trajectory under a single and unitary polity precluded the possibilities of autonomous political and institutional experiment under a system of inter-state competition. Indeed, the ideology of unitary rule conditional on the elimination of inter-state competition gave rise to a peculiar Chinese form of political legitimacy which substituted cross-dynastic competition for inter-state competition. Often historical lessons on the rise and fall of Chinese dynasties served as mirrors to reflect on the legitimacy of the current and future imperial rulers. Imperial compilation of dynastic annals itself became an essential exercise of political legitimization (see Yang Liang-sheng 2005, pp. 30-42). Hence this particular ideology of legitimacy developed under a stable unitary imperial rule in China tended to be both inward and backward looking. Even the most ardent critics of imperial rule like Huang Zhongxi or Gu Yanwu could only look through China's age of antiquity for better models of governance.

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<sup>17</sup> For a full analysis of the incentive and information problem, see Ma 2011.

<sup>18</sup> See Ma 2011 for a comparison with the West.

### **Conclusion: the Long-Term Legacy of Chinese Absolutism**

In sum, the very long-run view of two millennia as presented in this paper reveals political centralization under a unitary rule of monopoly in China as an endogenous historical process driven by the escalation of warfare and warfare mobilization. Geography based explanation of China's centralization (as opposed to the polar case of European fragmentation), as Jared Diamond famously surmised, seems insufficient (see Diamond 1997, chapter 16). Momentous institutional transformation as occurred in China's Tang-Song transition era laid the political foundation for China's superior historical record of imperial unity and dynastic longevity. This historical process is endogenous in the sense that monopoly of rule with a long time horizon, once established, predisposed the imperial rule towards a path of low-extraction co-existing with a relatively free private economy, which itself would then further reinforce political stability.

The onslaught of mid-19<sup>th</sup> century Western imperialism, this time descended from China's coastal fringes in the South rather than from her Northern frontier of steppes and deserts, became a sustained challenge to the traditional Chinese rule of legitimacy through the imposition of a new global system of inter-state competition. Not surprisingly, the unitary and centralized political structure of the 19<sup>th</sup> century Qing turned out to be a major obstacle to respond to the challenge, a sharp contrast to Tokugawa Japan where regional daimyos and lords took advantage of a decentralized feudal governance structure to build up their autonomous military and political bases to overthrow the Tokugawa shoguns in Tokyo. But curiously, it was partly from the fountain of traditional ideology of centralization that sprang the intellectual ideology behind Meiji Japan's swift and aggressive institutionalization of a centralized prefectural system over a fragmented Tokugawa feudal order.<sup>19</sup>

The rise of a strong and powerful a state as a unified response to Western imperialism formed the inspiration behind the subsequent modernization or Westernization movement in China. The Nationalist movement in China's Republic era in early 20<sup>th</sup> century deemed unification and centralization as the cornerstone to counter Western and later Japanese imperialism. Mao Zhedong, the

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<sup>19</sup> For Meiji Japan's direct appeal to the Chinese ideology of centralization to legitimize its drive for political centralization in the second half the 19<sup>th</sup> century, see Feng Tianyu, chapter 4.

founding father of Communist China drew as much intellectual inspiration from the first emperor of Qin, and Liu Zongyuan's theory of centralized absolutism as from the Stalinist Soviet (Feng Tianyu p.65). Even in the contemporary era of reform and open-up, institutional features strikingly reminiscent of a centralized and authoritarian administrative system in traditional Chinese political order - the central appointment of officials, rotating system of bureaucratic posts or decentralized fiscal discretion- are remarkably resilient and even hailed as the institutional foundation behind China's economic miracle of the last three decades (see Xu, Chenggang 2011). In this new global world order marked by inter-state competition, China's long tradition of centralized bureaucratic rule turned into a powerful tool for achieving the state objective of economic catch-up with the West, and Japan, or even the East Asian tigers. How far will this catch-up sustain in the continued absence of any concrete political representation remains to be seen.

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**Appendix Table. Chinese Dynasties, Years of Unification and Incidences of Warfare**

Chinese Dynasties	Years	Number of Years per dynasty	Years China was Unified	Number of years Unified	Number of recorded warfare	Average number of warfare per year
Spring and Autumn Period 春秋	770 BC — 476 BC	294			395	1.34
Warring States Period 战国	475 BC — 221 BC	254			230	0.91
Qin 秦	221 BC — 206 BC	15	221BC - 209 BC	15	10	0.67
Western Han 西汉	206 BC — AD 24	229	111BC - AD 22	132	124	0.54
Eastern Han 东汉	25 — 220	195	50 - 184	134	277	1.42
Three Kingdoms 三国	220 — 265	45			71	1.58
Western Jin 西晋	265 — 317	52	280-301	21	84	1.62
Eastern Jin 东晋	317 — 420	103			272	2.64
Southern and Northern Dynasties 南北朝	420 — 589	169			178	1.05
Sui 隋	581 - 618	37	589-616	27	88	2.38
Tang 唐	618 — 907	289	624-755	131	193	0.67
Five Dynasties and Ten Kingdoms 五代十国	907 — 960	53			73	1.38
Northern Song 北宋	960 — 1127	167			255	1.53
Southern Song 南宋	1127 — 1279	152			294	1.93
Yuan 元	1280 — 1368	88	1279-1351	72	204	2.32
Ming 明	1368 — 1644	276	1382-1618	236	578	2.09
Qing 清	1644 — 1911	268	1683-1850	167	426	1.59
Total		2686		935	3752	1.40

Source: Number of Years China was unified one rule was calculated from Ge Jianxiong, 2008 pp. 218-224; Number of warfare calculated from China's Military History Editorial Committee (ed.), *A Chronology of Warfare in Dynastic China (Zhongguo Lidai Zhanzheng Nianbiao)*.