

CONFUCIAN ECONOMICS: THE WORLD AT WORK

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Abstract: Chinese have their school of economics. Not recognized as a discipline, it can be extracted from Confucian doctrine. Called here “Confucian economics,” it is a form of ethics. Its seven consecutive principles are identified for the first time. They differ from and overlap with the corresponding principles of liberal economics. People are assumed to seek posterity rather than care for “instant gratification.” Physical resources they need are not viewed as scarce but as abundant. To survive under abundance, people rely on their work effort rather than try to take resources away from others. “Work ethics” and not a “profit margin” is a key motive. People work not for themselves but for others, basically families. As a source of moral rules, family is viewed as the main “work unit” and not the individual. Equality of income is paramount for retaining social peace, which precedes economic efficiency. Built on Confucian principles, economic system is basically a market system. However, it is animated not by individuals but by families. This design is called here “Confucian system.” Rather than to build based on liberal economics “capitalist system,” recent China is rebuilding “Confucian system.” Drawn from ancient teachings, “Confucian economics” is China’s modernity.

Key words: Confucian economics; family structure; work ethics

Love is man

—Confucius (551–479 BC) (H. Chen [1911] 1974, 2:485)

China’s economic successes are stunning, particularly when contrasted with the faith of other countries that used to operate the command or the Soviet-style system. During the last two-and-a-half decades, almost simultaneously all these

countries have reformed their state-based system by bringing market forces in. Out of this group of roughly 30 countries from 1989 until 2014, China's national product grew by eightfold. With this rise, during this period China delivered the greatest miracle in modern history and the surge continues. In 1989, almost the entire rest of the group immediately fell into the world's worst recession with losses up to two thirds of their national product. The luckiest few, like Poland, emerged from the slump to double national product by 2014. But after these 25 years, the most damaged countries are still stuck below the 1989 benchmark; e.g., Ukraine is down by one third. Many others managed only to restore the pre-recession level, most notably Russia. In 1989, China's national product was less than half of the Russian, but in 2014 it was five times bigger than the Russian.

The following question arises: why is there such a striking difference? The answer is that the countries that have failed to dismantle the state-run system and did not fully take advantage of it, forgot a key lesson of history that modifying their societies' systems should be based on the ideas that spring out of their accumulated experience, particularly when changes of the institutional setting happen on such a large scale as in this case. Ignoring this lesson, they have fully adopted a blueprint provided to them by the advanced Western economies, called the *Washington Consensus*. Informed by the classical (or liberal) economics, this program was centered on introducing the Western concept of *free markets* leaving only a marginal role for the state agency to play in fitting reforms into local conditions. The same majority of reforming countries have also agreed to the liberal preference for a radical, also called a "shock-therapy," approach, which left little time for the states to tailor reforms to their particular needs (Poznanski 2012).

As a rare exception, China chose to pay no attention to this liberal *master plan* and designed economic reforms on the basis of her alternative economics. As vibrant and exciting as it has been, the economic debate on the reasons for China's producing of the greatest miracle ever makes no references to Chinese economics, as if there was none. No such economics is recognized as a formal discipline, and not only Western but also Chinese economists are silent on this issue. However, while Chinese economics does not exist in a formal sense with specialized journals and academic degrees, it exists informally as a mode of thinking by the Chinese people. This informal status does not make Chinese economics unimportant for the operation of China, since China has been of this mind for as far back as the ancient times when Confucian teachings were formed. These teachings represent the very roots of Chinese economics. For this reason, I call this alternative to classical economics, *Confucian economics*.

Being a permanent feature of human societies, markets come in many versions that address different needs. Rather than to accept the idea of "free markets" by shifting economic authority from states to individuals, China decided to reduce

excessive state controls in favor of the family—and clan—units. This was in accordance with the Confucian belief that economy is as strong as the families that constitute the most essential “work units.” The leaders also expected that by reviving families in their traditional Chinese form, they will strengthen people’s sense of responsibility or ethics. This belief was also in line with Confucian thinking, namely that economic motivation comes from “work ethics.” Like morality in general, “work ethics” originates from a family setting. In short, rather than following the liberal concept of “free markets” that is absent of morality as a variable, the Chinese followed the Confucian idea of *embedded markets* that are constrained by a moral code, which in this case is Confucian. Rooted in the Chinese antiquity, this code, and thus the related “Confucian economics,” has been further extended through Chinese modernity.

The purpose of my inquiry is to dissect from the Confucian thought its basic economic ideas and arrange them in the order of modern economics to match the complexity of classical economics as a formal discipline. Judging by the structure of classical economics, to be complete each approach to economy needs to address certain lineup of assumptions, or—as they are sometimes called—*building blocks*. Based on the classification of alternative Western schools of economics by Gilpin (1975, 1987), my reconstruction of Confucian economics distinguishes a sequence of seven of such “building blocks” and adopts it as a road map. At each turning point of my complex examination of Confucianism, references are made to the corresponding assumptions made within the classical economics. This is only to highlight the extent to which the two kinds of economics differ from each other but not to thoroughly probe the relative worth of both as “recipes” for the conduct of economic life.

Introduction: Traveling to the “End of History”—Without Chinese

There is a wide-spread assertion among Western scholars that since there is only one world to analyze, there could be only one “recipe” for any economy to enjoy a measure of success, and it is by no means Chinese. The recipe is said to be British and brought in over 200 years ago by liberal—also called “classical”—economics, with Smith (1723–1791) as its father. This economics is credited with launching led by Britain of the *Industrial Revolution*. It started the replacement of the feudal system with capitalism, having the so-called “free market” at its very core. Britain being a pioneer in building the capitalist replacement is taken as a material proof of intensely researched Britain’s “exceptionality” as a nation (Smith 1776). As the classical argument goes, once this historic path has been embarked upon, all countries must eventually join it. Locked in for good, the whole world will reach

what many liberals call the *End of History* (Fukuyama 1989, 1992), with a singular classical thought and universally capitalist.

As far as the reasons for China's recent success are concerned, liberal economists have a fitting argument. They claim that what is taking place in the recent China is just another example of the triumph of liberal ideas. It is asserted that after over a 100-year long failure to join the capitalist breakthrough by Britain, China started in 1978 economic reforms aimed at building or better imitating the capitalist system from the Western early comers. But if the post-1978 success of China is a reward for taking this turn, why would imitating of Britain credited with "introducing" capitalism to the world allow China outperform all others, Britain included? The liberal answer is, while China is already capitalist, her capitalism is not a carbon copy of the ones existing in Western Europe or America. It retains Chinese "characteristics" that apparently make her version of capitalism such a potent engine of growth.

The facts are that so far China had made only attempt to become capitalist and just once to quickly abandon it. It was during the 1911 Revolution, when feeling humiliated by the colonial intrusions by the Western powers, Chinese urban elites put an end to the discredited dynastic system. They proclaimed the country a Western-style Republic using pages of the European constitutions and "free market" regulations. The unexpected result was an utter chaos, with scores of lawless warlords fighting over control of Beijing's budget, national currency crushing, and financial system falling into ruins. Weakened by the adversities, China was invaded in 1933 and nearly lost its sovereignty. The lesson was not that China was not yet ready to be capitalist but that capitalism is not for China. This lesson was grasped by communists, who in 1949 restored order in China and reversed the haphazard spread of capitalism by installing Soviet-style system that put economic control in the hands of a one-party state.

When in 1978 the leaders decided to reform the 1949 system by reducing state controls, they didn't turn for guidance to classical economics again. They had at hand an alternative—Chinese economics, as part of the ingrained in their minds belief system provided by Confucianism. I witnessed to the power of these beliefs when in 1993 the American delegation I was part of was received by the minister of China's economic affairs, and later the prime minister, Zhu. We met him to discuss best ways to deal with the deficit-making state firms. We brought to the table top-of-the-line classical theories of bankruptcy and sat proudly in a huge wing of the former imperial palace with a bunch of red-dress hostesses. But this buoyant mood lasted only until our host—with a tea cup up—took the floor. He complemented us for the effort and explained, he can't adopt the proposal, since for this he would have to fire five million people in the coal mining alone. As I

discovered later, what he said was that, in the spirit of Confucian ethics, state's moral responsibility to people comes before market efficiency.

What then exactly is the Chinese thinking on economy like? To answer, one is basically confined to the ancient records left by Confucius himself (551–479 BC) and the body of writings by his many followers, among them the most renowned Mencius (372–289 BC). There is virtually no more contemporary literature analyzing economic contents of Confucian thought except for a single but major work, namely a 1911 treatise written by a Qing dynasty civil servant. His name is Chen and the book title is *The Economic Principles of Confucius and His School* (H. Chen [1911] 1974). He is most likely the first to argue that Confucianism contains a bunch of well-articulated economic ideas but stopped short of stating that combined they constitute a complete school. The focus of the books was the relationship between Chinese economics and the liberal school. His task was to demonstrate not so much how the two differed but rather how Confucian principles resembled classical ones. Incidentally, Chen cleverly used these claimed affinities to ensure that the radical 1911 reforms don't replace the immense Confucian tradition with modern—by comparison almost fresh from the drawing board—Western economics.

Some Chinese thinkers at the time were not so confident that the Confucian economic thought would be resilient enough to withstand the march of liberalism. Among them was the Confucian scholar by the name Lin (1938). While Chen had a very tiny following, Lin's publications became instant bestsellers, at least in America where he migrated to. Like Chen, Lin was also educated both in China and America. Similar to Chen, he wrote much of his books in the midst of the Republican period. Lin wrote widely on Confucianism but less about its economic principles. He was actually best known for his inquiries into differences between Chinese and Western mentalities, or psychology. Like Chen, he fought to preserve Confucianism from the Western advances, but he didn't think that Confucian economic thought had much future. In his English translations of Confucius mixed with personal comments, he wrote,

Confucianism will probably be put out of date by the developments of modern political science and economics. But as a system of humanistic culture, as a fundamental viewpoint concerning the conduct of life and of society . . . it will still hold its own. (Lin 1938, 2)

My analysis, I trust, demonstrates that rather than providing some sporadic and/or esoteric pieces of economic ideas, Confucianism supplies an exhaustive volume of thoughts that is enough to feed a separate economic doctrine as complete as liberalism. It also reveals that examined point by point, Confucian teachings offer

a quite separate view of the economic world than liberalism does. This intellectual schism goes as far back as the ancient times when Chinese and Westerners simultaneously enjoyed the period of *Great Philosophers*. For a while, they both studied ethics as the *art of living* and logic as the *art of thinking*. Eventually a split emerged, which I prefer to call the “Great Divide.” Chinese chose to focus their worldview on ethics and Westerners centered on logic instead. China went along with her leading moralist Confucius, while Greece, as an unquestionable cradle of the Western culture, sided with her greatest logician Plato (428–348 BC). The division has continued, including their respective approaches to economics, with the Chinese brand molded by Confucius and the liberal one fitting in the framework left by Plato.

Studying “the art of living,” Confucian economics assumes that the nature equips people with the *will to live* and provides them also with adequate, even inexhaustible resources. All they need to survive is to work hard enough. Since work is a moral choice, Confucians consider “work ethics” the primary factor in creating national wealth. Within Confucian type of ethics, people are expected to work not for themselves but rather for the sake of others. This assumption puts Confucian economics in the category called *moral economics*. The reason why work is done collectively is that the basic “work unit” in any society is family, with work done either for family’s own sake or for the market. Family is said to be the unquestionable axis of economic life, since family is where the strongest impulse to work is located within. This leading impulse is a compassion for others, or more specifically the familial love. With this emphasis on family, Confucian “moral economics” can also be categorized as a type of *family economics*.

Following a different trajectory, liberal tradition assumes that material resources are inadequate for all to survive. For the winners to secure enough resources, losers have to give up their own resources, e.g., be forced into bankruptcy or deprived of them by some other means. The best chance of surviving this sort of struggle has an *individual* acting alone, since it is his/her preservation that is at stake. With this theoretical simplification, liberal economics can be branded—as I call it—a *solitary economics*. In this kind of analytical approach, minding own *interest*—or business—by individuals means having no moral concern for the welfare of others, not even one’s own family members. Actually, in the economic world as described by the liberal economists acting against morals is acceptable or even desirable if it enhances individual’s chances of survival. This particular assumption on the instrumental role of morals makes classical approach an *agnostic economics* (an extreme example being the treatment of morality by Friedman 1970).

It follows, in the liberal doctrine it is not *family* and *morality* but *interest* and *individual* that are seen as the two governing elements. This distinction is critical, since the choice of governing elements dictates the nature of the preferred

economic systems. Understood as a set of “rules of the game” for the agents, such systems are formed to assist individuals in meeting their economic goals. Predictably, the classical thinking is that the most suitable is a social system built around both *interest* and *individual* as governing elements. Confucian approach is that the most effective is a system built around *morality* and *family*. The former system is capitalism, so what would a system compatible with the Confucian beliefs be? Since at least on these two important points these viewpoints don’t match, such an alternative must be a reverse of “free-market” capitalism. In the Western classifications, this opposite is often identified as *state* (or *authoritarian*) *capitalism*, where markets are squeezed by the activist state.

But this is not necessarily a correct characterization, since the system compatible with the Confucian worldview might be a more extreme departure from capitalism, this kind or any other kind. This particular system might be “socialism” as the opposite of capitalism. Even the just mentioned few assumptions that Confucian economics rests upon seem to suggest that such categorization of China’s system might be more appropriate. Confucianism and socialism seem to share the same strong ethical outlook and a focus on the necessity of cooperation. Furthermore, they both seem to treat labor as the main source of wealth. Such a suggestion is made by H. Chen ([1911] 1974), who wrote that “. . . Confucians are more socialistic than individualistic” (2:460–61). Given the ancient nature of Confucianism, to accept such definition would make one conclude that the Confucian doctrine could be one of the earliest forms of socialism or a sort of prototype. Yet it makes much more sense to stay away from Western classifications. Since the Chinese economic system rests on “Confucian economics,” rather than on the widely used Western term *socialist system*, it makes more sense to call it *Confucian system*.

To be precise, the argument that *morality* and *family* are central for the conduct of economic life is also advanced by some Western schools. One of them is attached to liberalism *Austrian school*, also called *Evolutionary economics*. It is usually associated with the two Austrians, Hayek and Schumpeter, offering modified interpretations of capitalism. Like liberal economists, they believe that capitalism is the most efficient system of all. Sharing the same general approach, Hayek (1988) argues that there is no replacement for capitalism. But Schumpeter (1942), as the main inspiration for most of my own work, is of the view that while capitalism doesn’t have to be replaced by socialism, under certain circumstances it may have to. This may happen if people conclude that regardless of the relative levels of efficiency, they prefer state intervention under socialism to market competition under capitalism. Thus, systems are subject to moral choice between relying predominantly on one’s economic efforts as opposed to being largely dependent on the support from state (with “socialism” defined by him very

broadly as any system relying heavily on the state; and the Soviet-style system of command economy is only one case in point).

While to Hayek capitalism is not replaceable, it doesn't mean that it is indestructible. Actually, any economic system or even a whole civilization can fail, and many have failed in the past. This happens when based on false premises ideas regarding foundations of economic life do prevail. To him, these foundations are, respectively, "property" and "family," both understood by him as economic institutions. From its inception, these two have shaped the Western civilization. They have withstood movements to do away with them and watched these assaults repeatedly fail. Hayek (1988) wrote, "Among the founders . . . over the last two thousand years, many opposed property and the family. But the only [systems] . . . that have survived are those which support property and the family" (137). He refers to what he perceives as failings of socialism, but Schumpeter makes a similar statement regarding capitalism. In this theory, the primary forces of the possible demise of capitalism from a rumbling legitimacy are the erosion of property (due to separation of control from ownership) and collapse of family—as the main source of ethical motivation.

Ethical criticism of liberalism originates also from outside of the liberal circles, most notably from the Marxist economists. Among them is the widely recognized Austrian scholar Polanyi (1994). Similar to Confucianism, but with no direct references to its philosophy made, he assumes that "family" and "morality" are the main dimensions of economic life. He claims that literally for thousands of years until the advent of capitalism, societies were squarely based on these two principles. The one that relates to "family" is the principle of *house holding*, i.e., production of goods for family's own use. The other, related to "morality," is the principle of *redistribution* of wealth, e.g., through families and communities. By allowing capitalist "free market" to uproot both principles of economic life, as Polanyi writes, introduction of the capitalism system released—to use his phrase—the most "devastating destruction" in human history. It is not so much economic deprivation as a psychological one, relating to as he calls it "commoditization" of people and to the loss of their sense of humanity (dignity).

To Polanyi, while all traces lead to liberalism as the cause of this "devastating destruction," the single most critical role of this doctrine was to bring into the Western mind-set the theoretical or better fictitious concept of the *economic man*—or *rational actor*. Invented by Smith, this concept defined an individual as one who by birth—instinctively—needs "free market." People have no choice, since this motivation is a product of their innate "propensity to barter, truck and exchange," and should thus not be distracted even by ethical aspects involved. As Polanyi argues, as a product of rationalist logic rather than a study of man's experience, this speculative concept has been gaining ground until the need for

any sensible argument against has gone. Pointing to the massive dislocation caused by the spread of liberalism, Polanyi (1994) summarized his critical account with the following words: “. . . no misreading of the past provided [was] more prophetic of the future” (44). And, it is only because of the periodic reversals in the implementation of the liberal agenda that the world has been able to persevere.

Whoever is right in this broad discourse, an important question remains: how China’s state could turn to Confucianism and use it as a blueprint for 1978 reforms? Isn’t it true that the radical forces unleashed in 1911 and then in 1949 were openly hostile and called for its eradication? Return to Confucianism was possible, since this eradication actually never happened. The 1911 attempt was quickly aborted and so the Marxist offensive launched in 1949. While the offensive had lessened, Marxism in China has modified itself by bringing “Chinese characteristics,” mainly some selective inferences from Confucianism (Katzenstein 2012). These infusions should come as no surprise, since as just described Confucianism actually shows certain affinity with Marxism as a different force for socialism. Ironically, rather than to dissolve, under the pressures coming from the official circles, Confucianism greatly modernized its contents and increased its political appeal (Xi 2014).

As strange as it may sound, one of the most compelling pieces of evidence to how resilient to the 1949 change of fortune Confucianism has been is the Chinese painting practice. Unlike in Western tradition, where social ideas are mainly propagated by historians, in Chinese culture this has always been left mainly to the scholar—literati—painters and their lyrical scrolls (Binyon 1935). Their visual is completely filled with a symbolic reference to the Confucian concept of the world as a moral order. In 1949, universities replaced traditional-art departments with Western-art departments devoted to the so-called *social realism*. Almost as fast, the traditional painting departments were brought back to life, since too many political leaders were fond of classical painting and interested in collecting scrolls. While two departments continue, classical painting is thriving today. There is practically no social realism practiced anymore. It has given in to the Western “conceptual painting” but with a clear moral message to share (Kuspit 2004).

The facts are China’s amazing growth can be linked to various Confucian threads of her reform approach. For sure, there is a proof that it paid off for China to make families and their clans the backbone of economy again. The miracle had begun with the 1978 transfer of land control (but not of legal ownership) from the state collectives to family-based farms (Naughton 1996). The boom was extended when peasants took advantage of relaxed regulations and began investing profits in the local industry. Over the entire duration, the economy was helped by the fact that the family sector pushed China’s saving rate to the highest level worldwide. Rather than to seek money for investment through the “free market” and, say,

use bank credit, family start-ups relied almost exclusively on cheaper—lower cost—means of financing. They turned to the traditional ways of pooling together savings set aside by the tightly linked family—or clan—members.

There is also ample proof that family units were able to deliver the recent miracle due to the invigoration of traditional “work ethics,” where work is considered a source of satisfaction rather than an unavoidable hardship. This is why the mushrooming firms are mostly parts of households with fronts used for business and backs serving as living quarters. And this is why regardless of age, all family members are busy and most firms are open all day with no fixed business hours, and taking vacations is still rather rare, even in the state—public—sector. What stands behind this recent rise in the work ethics is the revival of a unique Chinese family structure that seems to provide exceptionally strong motivation. This family structure is built around the Confucian concept of *filial piety* that requires children to take complete responsibility for their parents’ well-being.

As documented by studies in China and Taiwan, the strong sense of filial piety is remarkable. It is common for children nowadays to transfer as much as one third of their income to retired parents. Following tradition, parents typically live under one roof with their children, a fact which explains why in China most of the new apartments for young couples are designed with extra rooms for parents. But it would be incorrect to view Chinese-type family as one where only children are required to sacrifice. In fact, it is to the contrary. As much sacrifice is expected from parents with respect to children. The major help for children is provided by parents through sharing the burden of raising their grandchildren, which further explains why three generations tend to live under one roof. By taking care of their grandchildren, parents allow their own children devote more time to work and contribute to overall wealth. Importantly, it is this family practice that allows hundreds of millions of migrant workers—mostly as married couples—to assume urban jobs.

That during the recent reforms China has again “missed” capitalism fits into a broader pattern, since earlier China had also “missed” feudalism, at least in its European form. If one is to believe liberals, feudalism should arrive in China before capitalism, punctuated by “Industrial Revolution.” The question of whether China is already capitalist is still hotly debated, but on the fate of feudalism in China historians are closer to a resolution. By and large, they agree that China has never been feudal. Examined against the findings by medieval historians, China lacked the principal feudal institutions, such as the manorial economy, serfdom (e.g., “ascription” to land), or the system of vassalage. The facts are that with these two “misses” during the several centuries, China has been steadily moving along her own path of history, which is unrelated to the European trajectory. As China’s experience indicates, the liberal idea of the world reaching the “End of History”

with the uniform mind seems a utopian vision. As practical as they are, like with any other utopia, Chinese can't take this prediction seriously.

The further evidence that counters the liberal vision of the “End of History” is that many economies of Asia have also deviated from the presumed path leading to the domination of “free market” capitalism. It is of great importance that this is the case of countries where Confucianism has spread from China, i.e., Japan, Korea, and Vietnam. Despite her economic superiority stretching over centuries, China has never really tried to use force to impose her Confucian vision upon the world or even just Asia. She has preferred to be left alone, and as long as other countries presented no military threat, China let them copy from her at will. Like China, these economies (with the possible exception of Japan) have also “missed” feudalism, and (jointly with Japan) they all have “missed” capitalism as well. And it happens, in our post-war times, with China included only this group of nations delivered “economic miracles.” Adding China, all these exceptional country cases represent a big chunk of the world, that with their own Confucian path of history that—in the view of their people—has no unified end.

With these facts on Asia at hand, some proponents of the “End of History” theory have qualified their pronouncements. Among them is Fukuyama (2011), who made this concept of change into a “global” conversation. He subsequently modified his carefully reasoned position by admitting that, used as an archetype for judging world trends, British history is “. . . a weird experience [and] shouldn't be regarded as a model.” He still argues that successes of Britain may confirm benefits of the “free market” but adds that China has no need to jump on the bandwagon. It doesn't, because it became the greatest recent “success story” by seriously limiting “free markets” for the sake of the state. To him this is the most efficient state nowadays, one with roots in the first form of the *modern* (or *bureaucratic*) *state* invented by China back in the third century BC. Impressed with the recent Chinese state, Fukuyama continues to praise benefits of “democracy” but doubts whether at the “End of History” all countries will rely not only on capitalism but also on democracy. As another British, rather than Western, invention “democracy” might not be applicable in other places in the world.

Assumption # 1: Individual's Sense of Purpose—Seeking Continuity

Similar to classical economics, Confucian economics is a behavioral science concerned with management of wealth, i.e., anything that allows an individual to meet its economic objectives. Judging by how the Western mainstream economics is structured, the first “building block” for any economics to settle is the assumption on the primary objective of economic actions, i.e., the sense of purpose (see Table 1). Ultimately, it is individuals who act, so the actual question is what motivates

them the most. The choice for economists is that either individuals aim at “instant gratification” or that they are preoccupied with “posterity.” Simply speaking, it is about whether individuals are impatient and living day by day, so to say, on food alone, or if they are deliberate and thinking primarily about what sort of legacy they will leave behind. While classical economics assumes that individual—as the so-called “rational actor”—is in pursuit of “instant gratification,” the Confucian assumption is that the major concern is a “legacy.”

Since the whole content of Confucian doctrine is determined by references to nature, for Confucians to justify their assumption nature must be examined first. And because people are an integral part of nature, their purpose must be the same as that of nature. In the Confucian approach, the view of the nature is that each creation is imprinted with a *life code*. It consists of two elements—*yin* and *yang*—former referring to female and latter to male. They don’t relate to genders, since female doesn’t mean here woman, and male doesn’t mean man. These constitutive elements are contained in each woman and man. Being a living whole, the universe is animated by a vital energy—*qi*. And since the nature consists of female and male elements, the energy comes always in two forms, *qi-yin* and *qi-yang*. They have to be two and not one, since there is no life—and no world—without differentiation, with each side of the “equation” having the same principal goal.

Table 1 Basic Assumptions: Confucian and Western Economics

| | <i>Confucian economics</i> | <i>Classical economics</i> |
|------------------------|----------------------------|----------------------------|
| 1. Principal objective | Continuity (procreation) | Consumption (existence) |
| 2. Resource condition | Abundance (excess) | “Scarcity” (deficit) |
| 3. Survival strategy | Earnest work | Resource acquisition |
| 4. Motivating force | Moral attitude | Property rights |
| 5. Basic institution | Family unit | Free market |
| 6. Income distribution | Equality (no poverty) | Inequality (with poverty) |
| 7. Preferred method | Common sense | Theoretical models |

What then this purpose is? Since, as just stated, Confucian philosophy claims that nature presumes life, or simply speaking is life itself, there can be only one principal purpose in nature, namely, “life itself.” To be more precise, this purpose is the ensuring of life’s continuity by giving birth and therefore being survived by your own blood. For this reason, the nature can be equated with birth. As Chinese often say, the nature is “pregnant with birth” (or life). Life must be such an ultimate purpose of all creatures, since without propagation the world would vanish. Actually, the nature as such won’t even ever emerge. This primal drive represents the true meaning of the “will to live” that nature equips people with, together

with their reproductive capacity. To assume, the above makes Confucianism a *philosophy of life*. As its derivative, Confucian economics is an *economics of life*.

Confucians understand that what comes first in life is the satisfaction of basic needs, such as food and shelter. Such needs fall in the category of “instant gratification,” since hunger can’t be ignored for long. While “instant gratification” is seen by Confucian economics as a precondition of life, what matters even more in the scheme of life is the continuity of family’s blood. To have children is not a form of “instant gratification.” It is a lifetime experience from the day of child’s birth to the day of parent’s departure. Actually, having your own children goes beyond one’s lifetime, since children may have their own children and then again, in a sequence that is stretched ad infinitum. Thus, the actual purpose of an individual as an economic actor is not so much a one-time reproduction but rather a projection into eternity, as in a form of securing the *eternal life* that—if I could say this—Chinese are obsessed with.

Concern for biological continuity is not the only alternative to seeking “instant gratification.” Another one is the seeking of appreciation by fellow citizens for doing “good” things for a community. Importantly, this happens to be a major quality of a model—virtuous—administrator as defined in the Confucian thinking. Seeking social acceptance is identified as an alternative to “instant gratification” by Smith, though only in his early writings. Before inventing “economic man,” not yet as an economist but rather as a philosopher, Smith (1759) argued that the proper—and God-given—motivation for individuals is the so-called fellowship, i.e., earning “recognition” among one’s fellow citizens. Or, as philosopher Arendt (1958) argues, there is an option to move beyond the private—basically family—life and join political life for the common good (like in the ancient democratic Greece that she finds historically a superior mode of body politics).

With the above distinction of two human objectives comes the Confucian separation of goods into material (or physical) and “spiritual.” “Instant gratification” involves mainly the former, and pursuit of posterity relates basically to the latter. On the “material” goods, Confucians call for showing a restraint, like in this quote from Mencius:

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

On the “spiritual” needs, there are no limits, since they mostly involve human relations (e.g., comfort of one’s household or familial love). “Spiritual” are thus superior to “physical” goods, a point made by Mencius whose standing

was captured by Norden (2009) in the following quotation: “The best life is characterized by simple, everyday pleasures and rich relationships with family, friends, and members of one’s community” (xvii). Incidentally, this view on superiority of “spiritual goods” reveals the Buddhist influences on Confucianism.

As a rule, there is no perfect information, but in the case of “instant gratification,” transactions are frequent and predicting can be relatively easy. The risk of missing an optimum solution is thus not excessive. In these situations, risk-averse individuals can act like liberal “rational actors.” But in the case of seeking continuity, information required for “rational choice” is simply not available. In this pursuit of, call it, *distant gratification*, couples would have to have access to costs and benefits for the remainder of their life. Of course, this is not possible, so if couples were acting like “rational actors” and avoid risk at any price, they would be discouraged and would never choose children. In real life, as we all well know, people have children, so they can’t be “rational” in the strict—classical—sense. That this is a different kind of rationality does not mean that continuity as an objective is not an economic issue, i.e., not for economics to seriously analyze.

Going further, for the “rational choice” to lead people to “equilibrium,” a fine-tuned “free market” will generate full information, i.e., “free prices.” While this condition can be met, though imperfectly, in the market for goods satisfying instant gratification, there is no such thing like a market for procuring children as a way to achieve posterity. Attempts have been made in Western economics to model such a market by assuming that children are tradable like any other goods (e.g., Becker 1981). Of course, there can be no such markets, though in places like traditional China there were some—limited to relatives—“exchanges.” Children are not tradable since there is no sizable supply of them; nor is there a demand for them significant enough for a market to operate. If legacy is a common objective, disincentives for selling ones’ offspring must be enormous. Buying is also rather out of question, since people want children of their “blood” which they can ensure only by breeding their own.

The lack of such markets doesn’t mean that seeking continuity is an issue outside of the parameters of economics certainly not for Confucian economics. Actually, all its “building blocks” relate to reproduction. The right way to look at this doctrine is to view it as a “recipe”—and agitation—for ensuring that people multiply. In this pro-natal doctrine, procreation is seen as an imperative, throughout the society, with demographic expansion being a prime indicator of economic success. At the family level, perpetuation of the lineage is the main obligation of the man, as a family head. Having as many subjects as possible is the greatest concern for emperors and their bureaucracy, so their policies are to be calibrated accordingly. Interestingly, because of its advocacy of withdrawing from active life to search for “inner harmony,” Buddhism was found as a threat

to Chinese demography. It is on this ground that, after reaching its peak of power under the early Tang dynasty, Buddhism was eventually marginalized by the Confucian philosophers (Waley 1939).

Given this preoccupation with the continuity of life, one wonders how China came up with the 1979 one-child policy. Mao himself was “Confucian” on demographic issues and vigorously supported large-size families. The 1979 change of course was a response to the academic prophecy on *population explosion* published separately by two Western scholars, predicting that if birth is not controlled, the earth will “collapse.” The selling fast books impressed one Chinese mathematician who built a model to calculate that “equilibrium” population should stay close to the existing level. That he hoped he could master such a complex issue is a mystery. Another mystery is how, based on this study, the leaders adopted a harsh birth control, though without the calculated plateau. No other country went along, and the two bestsellers were quickly forgotten and so the names of their authors. Mysteriously, there is barely any talk today about the “population explosion.”

Undeniably, restricting consumption by reducing the number of children helped China to push upward the share of investment in the national product and accelerate economic growth but not without an economic cost. Aging of the population has accelerated, so that welfare payments became an increasing drag on the economy. But there is a more relevant negative consequence, possibly a historic one. As long as China’s history goes back, Confucianism has been China’s history, and it is Confucianism that suffered most from the official ban on going beyond one child. To be relevant, Confucian ethics has to be practiced, but how can it be practiced if the objective of continuity through expansion of family can’t be pursued. This whole ethical system is predicated on the pursuit of family’s enlargement. But with one offspring allowed, people have had to accept a systematic shrinking of family and thus extinction of their lineage (keeping in mind that since Chinese lineage is paternal and on average half of the children born are males, under the one-child policy only half of families could have male heirs).

As serious as the above threat to Confucianism is, as serious has been the societal response to it. At the current stage of development, this is still a society with a strong drive to have children, where males, for instance, try to marry only if a woman is already pregnant with their child. Though being draconian on paper, the restrictive one-child policy has never been fully implemented due to public sentiment. It proved especially hard to enforce in rural areas that even today still dominate China’s economy. The more conservative outlook of peasants compared with urbanites had to be a factor. Under pressure, at all levels the state started relaxing the regulations, so that by 1995, about half of the couples were excluded from the limits. Payments for having a second child have been phased in. The remarried were allowed to have an additional child as well (probably for the reason

of increased frequency of divorces disallowed by Confucianism). Couples with a higher level of education have been proposed to have a second child. Recently, the state has declared preference for a two-child policy, and abandoning the policy altogether is considered.

The Confucian claim that the principal objective of individuals is to ensure the family's continuity has some potentially important economic advantages. The point is that the image of individual pursuing legacy, provided by Confucian economics, encodes a special sense of time in individuals. Focus on continuity blurs the difference between present and future, or to put it differently it brings the future closer to the individual when he/she is in the process of deliberating a course of action. When individuals view future as close by, they are more likely to pay attention to the distant consequences of their actions. To put it differently, since there is a cost to future reward, they must sacrifice their current—"instant"—gratification, with the feeling that future is less distant, and a greater willingness by individuals to make present cuts and save harder to raise future wealth (the focus on future when rewards are greater has also the effect of making people work harder, see Harrell 1985).

The way Confucian economics encodes time corresponds to the rules of Chinese language, whose grammar equates the future with the present events under consideration. In fact, there are no tenses in Chinese—Mandarin—language, so there is no distinction between the past and the present either. In all cases, the timing is inferred from the contents of what is written. Chinese are not restricted in using tenses, but in a daily practice they don't use markers of time (M. K. Chen 2013). Grammatically equating the present and the future makes users also equate in their minds the present and the future. This way of encoding time differs, for instance, from the British (as well as the French) practice, where users are expected to make distinction between the present and the future. These grammatical rules of Chinese language follow a special Chinese concept of time, and thus history. In Western tradition with its linear concept, each moment brings events closer to an end. But in Chinese tradition, time is a continuum, with no beginning and no end; all activity caught in cyclical returns, exactly like it is in life.

Assumption # 2: The Underlying "Economic Condition"—Inexhaustible Resources

After determining what the objective function of individual is, each economic doctrine faces a choice of assumptions on what sort of *economic condition* individuals face while pursuing such a goal (see Table 1). The issue here is the availability of resources needed to create wealth seen as the only way of economic survival. One choice, that of classical economics, is to assume that universally,

the resources are “scarce,” meaning that they are insufficient to meet all human needs. To put it differently, natural resources are assumed limited, and the needs of people are unlimited or insatiable. This definition can be found in most of the textbooks introducing classical economics, or actually almost any type of Western economics. Interestingly, while the notion of “scarcity” is what is said to give rise to economics as a separate discipline of social sciences, not much ink is used to elaborate on this concept.

While there is some ambiguity about what liberals exactly mean by “scarcity,” there is one thing that is absolutely certain, namely, that liberal economists categorically reject the opposite to resource “scarcity,” namely, the “abundance” of resources. It would be impossible to find any endorsement of the notion of “abundance” written by a classical economist, going back to the first of them in line—the founders. How then do the Confucians view the resource conditions? The straight answer is that the liberal notion of “scarcity” is totally foreign to them and not even comprehensible. Confucian economics assumes that, as another manifestation of the goodness of nature, resources required for human beings to meet their needs are actually in “abundance.” To Confucians, it is incomprehensible that, as grand as it is, nature would give people a gift of life not furnishing all of them with resources needed to hang on to life. Deeply ingrained in Chinese mentality, this wisdom is captured by a popular proverb: “Always have children, providence which brings them to light, will not let them perish in hunger.”

Predictably, the exact message is projected by the scrolls of the “literati” painters. They present nature as an overwhelming whole to be captured by vague impressions rather than renditions of the physical reality as it is perceived. Invariably, nature is pictured as imaginary gigantic mountains with streams of water all composed of vast vistas with no detectable end. To achieve such an artistic effect, in their—dreamy—minimalist landscapes, they created an illusion that there are many or infinite horizon lines, and, thus, there is actually no strict demarcation. Unlike Western paintings, where objects are in a complete form, Chinese works of art show each object with only partial depiction, so that the viewer is left with a section of a tree branch or with few flowers from a bunch (Rowley 1959). The objects are painted as if they were too big to fit the paper—or silk—of a scroll. To further amplify a sense of the limitless, painters leave much of the painting voided, untouched by paint, and water as its base. And, the meager presence of people, as tiny shapes put in paintings’ remote corners, further suggests the vastness of nature—offering to people all in excess.

The most elaborate philosophical treatment of the issue of availability of resources comes not from Confucius but from Mencius. He argues that nature provides for people without ever pushing them to the brink of extinction. It doesn’t matter what the absolute population size is, since nature can support any number

of people under the single condition. Namely, resources nature provides are not wasted. The issue at hand is not the potential waste by failing to make more efficient use of resources. It is simply about avoiding mistakes—human errors—that interfere with nature as a supplier. Mencius wrote,

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

Mencius adds that even during the worst of times with any sort of adversity—flood or draught—there should be enough for people to avoid death from starvation. When people have to die during such unfavorable times, it is not for the lack of food, but for the deprivation of food by the more fortunate individuals, in these instances—meaning speculators. To follow the seasons also means to be prepared for harsh weather conditions that leave people with less food than usual or even with none at all. If during regular seasons adequate portion of supplies is stored for the future, when floods and droughts arrive, people can draw adequate supplies from what was stored to sustain them. This storing is considered the primary obligation of kings, and only when kings fail to provide relief through public and/or private sources, poor harvests become deadly: “Not to release grain from granaries people die from starvation is killing, not the harvest is responsible but people” (Norden 2009, Book 1A, 3.3–3.4).

Not only that the resources are found exuberant, the liberal notion that there is always scarcity (or shortage) because human needs are limitless is disregarded by Confucians. What comes with the notion that needs are unlimited is that people are forced to substitute one product for another rather than enjoy benefits of both—or all—goods equally. Confucians admit that individuals always make choices within their finite budgets, but they don't accept the notion that this itself makes people's situations “dismal.” It would be a “dismal” situation only if ethical behavior were excluded as an option for individual. However, as Confucian economics claim, if ethical dimension is added, there is an easy practical solution to this spending dilemma. People can simply show necessary moral restraint and prioritize spending without any “pains.” Mencius explained this point plainly:

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

Designed to deliver the Confucian vision—or image—of the living world, Chinese pictorial language shows no need to convey that there might be such a thing like inadequate resources. As already stated, there is a word for this condition in Western language, and this word is “scarcity.” But as ancient as the Chinese language is, there is no special ideogram for capturing any notion of *scarcity* (or *shortage*) of resources. If during millenniums that have passed the Chinese have felt no need for such an ideogram, it suggests that there was nothing in their daily life experience that called for such a character to be ever invented. True, quite recently, a separate ideogram has been created in the Chinese language for the English word “scarcity.” But this is not due to some sudden belated realization by Chinese that there is such a thing as “scarcity.” The purpose of adding such a character was to facilitate translation of economic articles from English into Chinese. Interestingly, this and other such characters that were more recently adopted from Western language were produced not by pictorial representation but by mimicking the foreign sound—a transliteration.

One wonders whether there was in the history of China as the longest lasting civilization any memorable experience with “scarcity,” meaning excess of people relative to resources of land and water. Certainly, the Chinese could not have experienced a lack of resources while living on what they gathered at a primitive stage with endless resources—actually the whole green planet—available for small pockets of people to rely upon. Resources were not a problem when they turned to farming either, with two major rivers and splendid soils that helped China to become the earliest great agrarian society. Since then, China has retained the same borders, not excluding Tibet, which is not known for offering much soil for the farming anyway. If “scarcity” is not a term but a reality, then this reality should at some distant point force the population to stagnate, but as we well know, it has almost continuously multiplied. In the later centuries, China even went through some sort of *demographic revolutions* like those during the period 1740–1940 when the total head count increased from 150 million to 450 million or three times..

Let’s turn to Britain, where after 1740 huge numbers of Brits immigrated, mainly to America, which happened to be also a magnet for similar in size immigration from Germany. The numbers of Brits leaving their households for unknown future abroad were so high that the whole demographic phenomenon was given by historians the name of *Great Migration*. Many Western economists have concluded that this unusual mass relocation was primarily due to a mounting land shortage. But this migration, despite her enormous size, provides no proof of the effects of “scarcity,” since at the global level there was none. In fact, this historical development proves the opposite, namely, that at the time in question the total—worldwide—resources provided by nature were in excess. What else, if in America, where British and other farmers with families went to settle there

were areas of virgin land, representing at least a quarter of the total arable soil in the world? Given the relatively tiny number of locals, with only a fraction of them involved in farming, migrants certainly had no economic reason to battle them.

Various econometric methods have been used to measure whether there is any correlation between availability—supply—of land and migration abroad by using prices of land in various areas as an indicator of “shortage.” Mainly done for Europe, these calculations produced no empirical support for the argument on excess population. No measurable evidence was found for China either, who experienced her parallel and almost equal in absolute numbers outflow of people abroad, call it her own *Great Migration*. In addition to the internal migration to the almost deserted Manchuria, multiple of farmers went abroad, mainly to South Asia. Half of them originated from a single and rather small province named Fukien. Like elsewhere in China, people left not out of economic desperation but to become richer. And they came mainly from this province since it was a coastal one and thus offering cheap travel. In addition, as the family records indicated, the majority of those leaving boarded ships with an intent to go home when elderly. In Fukien, the most affluent will settle on a tiny most picturesque Gulangyu Island near the garden city of Xiamen that is so deep in my memory.

Returning to Britain, there is more material evidence that migrations through the whole human history were not about efforts to save lives in the face of shortages, but mainly opportunistic. Migrations were about the betterment of life by those who were adventurous enough to leave for “greener pastures.” Demographic statistics demonstrate that at the time of her “Industrial Revolution,” Britain witnessed the just mentioned population boom. At the time, migration greatly accelerated reaching about 4 million. This could be taken as a proof of “scarcity,” if not for the fact that the size of migration paled in comparison with the additional population that was absorbed by Britain herself. While about 4 million migrated, the total British population increased from 17 million in 1851 to 30 million in 1901, meaning 13 million. It means that Britain had enough resources to support the additional 13 million inhabitants. To make it perfectly clear, to accommodate the outflow of 4 million migrants, Britain certainly didn’t need more than another island of her size. Yet Britain still engaged in colonizing the majority of the world to create a “naval empire.”

Assumption # 3: The Winning “Survival Strategy”—Importance of Work

The third “building block” (see Table 1) for any economic doctrine is the issue of best strategy for dealing with the “economic condition (or problem)” that individuals encounter while trying to meet their needs. Arguably, the circumstances that individuals are confronted with determine the choice of most efficient type of

responses. Turning to liberal economics first, to address this question we need a more precise sense of what sort of hardship comes to individuals because of “scarcity.” It can’t be a trivial one, since otherwise it won’t be sufficient as the rationale for creating a separate discipline to study the economy. By saying that universally—across the time and space—there is “scarcity” due to limited resources, liberal economists are actually proclaiming that resources are always insufficient to support all the living. Under the circumstances, the pursuit of wealth becomes the so-called *struggle for survival*, where only the fittest survives. The classical idea of “scarcity” of resources is thus inseparable from the idea of the life-changing “struggle for survival.”

The concept of the “struggle for survival” had been given a theoretical form already by the first liberal thinkers, who came up with the concept of oversupply of people that—for the sake of global balance—must be removed. The prominent predecessor to Smith, Hobbes (1588–1679) wrote, “When the world is overcharged with inhabitants, then the last remedy of all is war . . .” (Hobbes [1651] 2012, pt. II, chap. 30). Partly overlapping with Smith, reverend Malthus (1766–1834) proposed a model to explain this apparent phenomenon, and that harsh remedies are a must (Malthus [1798] 1993). Called *Malthusian Trap*, this model claimed that due to their inborn instinct, people strive to multiply and have as many children as women are capable of delivering. When for whatever reason material wealth increases, the gains are used disproportionately to have—meaning feed—more children. Related rise in population will outpace the change in production level. Historically, as the theory goes, the resultant surplus of people has been dealt with either by starvation or by war. The only way to avoid brutalities is a moral way, namely, the voluntary reduction of the birthrate.

Admittedly, Malthusian theory was almost immediately put in question by the classical economists themselves, and it is still widely treated as a failed theory. It has been debunked for misrepresenting both sides of the equation, men’s fertility and land’s (or soil’s) fertility. But for a dismissal by the profession as categorical as in this particular case, Malthus is still doing quite well. Certainly, he still enjoys great “name recognition.” As the first economics professor ever hired, he is regularly mentioned in the contemporary literature. While his demography is dismissed as counterfactual, the liberal concept of a “struggle for survival” is not gone but is kept alive by the voices of scholars such as Dawkins (1978). In the spirit of his economic predecessors, this British biologist proposed a most widely received theory that in the world of “scarcity,” genes—that animate the robot-like people—try to maximize their replicas by making individuals engage in a ruthless *struggle for survival*.

Since economic life is understood by classical economists as a ruthless “struggle for survival,” the winning strategy for individuals is to concentrate on

“transfers,” or better “acquisitions” of resources from each other. It is through this strategy that the winners have at least sufficient resources to support themselves and continue living in the never ending conflict over resources with cohabitants. Since Confucians don’t believe in the liberal notion of “scarcity” or that of related “struggle for survival,” squeezing natural resources from others can’t be a strategy of choice for individuals. Convinced that natural resources are in abundance, Confucians assume that the true winning strategy for individuals is not to secure “transfers” from each other but to labor hard enough. Not to forget, for this reason the same nature provides them with physical and mental abilities—hands for manual and brains for mental jobs. As Confucian economics argues, wealth is a fruit of *work*, or *labor*, as the prime, if not the only factor of production that counts.

But isn’t it evident that any kind of work may be viewed by people as some sort of hardship since at least comparatively speaking, there are more desirable—rewarding—ways of allocating time, e.g., various forms of leisure. If this is how people feel, then wouldn’t nature condemn people to hardship of work anyway by bringing them to this world? This inference would be inconsistent with the Confucian view of nature as extremely generous in her—if I could use this word—“attitude” to people. If nature spares people from “scarcity” of resources, why would it not save them from the hardship of work? The truth is that Confucians view work as a source of satisfaction or enjoyment. Work is such a source the same way as the fruits of work—material goods—are. As Confucius apparently said, “Choose a job you love and you will never have to work a day in your life.” This shouldn’t be difficult, since as already stated in Confucian ethics people work for others—and do it out of love. The focus is not on “choice” but on “love” that one brings to work. It must also bring joy to people that by doing work one makes use of nature-given talents. All this explains why, as Confucians posit, people work more than they need.

There is no escape from labor, since whether focused on profit or not, people hate laziness. Accordingly, they have no need for anyone to work for them, certainly not as a slave used by masters for cheap labor. As an extreme form of exploitation, slaves survive by receiving subsistence (usually in kind) remuneration and with no formal rights to protect them. Slavery is not uncommon in history, particularly under tropical climate conditions, where work is said to be exhausting and posing danger to human health, even life (see Landes 1998). However, this geographic argument on proclivity of tropical areas for slavery doesn’t hold ground for China, since if climate is a critical factor in determining the use of labor, how it is that in Southern China that is very hot and humid, there has never been any slavery. In fact, no part of China has put in use a slavery system like this found in ancient Greece, Rome, or America before the Civil War. The only and rather rare instances of enslaving people in China have been for criminals who were sentenced to *slave*

for the families they have caused some kind of harm to (and typically “integrated” into this very family circle).

In the Confucian approach, those who don’t work are not seen as privileged and those who work are not seen as condemned to hardship. It is also not that those who don’t work are superior in some fashion to those who perform work, or, going further, that somehow those doing physical (manual) work are lesser people than those who are engaged in mental work. Therefore, there is no justification for the stratification of society according to people’s work status. And, as a logical extension, Confucian economics does not provide any excuse for other kinds of slicing of society into unequal groups having different rights from the others, even being left without protection. For Confucians, there should also be no room for social classes, with a division between working and leisure classes or separation according to their ownership status (e.g., proprietary capitalists and property less workers as distinguished by Marx in his theory of capitalism). There is also no place for casts based on religion, ethnicity, or otherwise—with some pushed into walled ghettos, etc.

Social differentiation is recognized in Confucian economics, but only with respect to occupations. The lowest of the hierarchy in a society are merchants and bankers representing the commerce. In the Confucian view, the latter move money that they *store* for people who saved it, i.e., capitalists. Their contribution to the overall wealth creation cannot be major, since it is the users of money—credit—that create most of wealth. Bankers don’t have knowledge to manage how money is used, and their risk can’t be higher than this taken by the money users. Banks are like storages for money to be picked up by the owners and for storage there should be a flat low fee. Merchants don’t produce much wealth either, since they merely move items from one place to another, and they don’t even transport as this is left to the shippers. The only usable service provided by them is that they bring sellers and buyers together. Merchants are at best like a moving company using rented equipment to safely relocate someone’s belongings.

Merchants are put at the bottom of this hierarchy not because Confucians have contempt for making money and profit. Western economists often make this assertion to argue that it was this contempt that explains why Chinese economy was so late in joining British “Industrial Revolution.” Isn’t it correct—as liberals argue—that there will not be any “Industrial Revolution,” if not for the society-wide acceptance of money and profit that allowed a power takeover by merchants or “bourgeoisie”? The reality is that Confucian economics is not against money making or profit seeking. In fact, both are paramount for wealth creation and something in which Chinese excel (Brandt, Ma, and Rawski 2014). Confucian intention is only to prevent the levers of power to be handed over to merchants. With their pecuniary interests, they can easily turn to practices that are subversive

of morality. Power should stay only with those who strive mainly for moral excellence, e.g., the so-called “gentlemen”; even more so the enlightened “sages.”

Assumption # 4: Source of Economic Motivation—Role of the Moral Attitude

Each economic school must also decide on the fourth issue of great importance, namely what motivates the individuals in their pursuits of wealth (see Table 1). The liberal assumption is that an individual’s motivation is a function of the protection of its personal wealth by the so-called *property rights*. They are the customary—informal—or legal—formal—types of rights that ensure one’s exclusive control over the application of resources as well as of the appropriation of derived benefits. According to the liberal leaning neo-institutional theory (see North 1981; Levy 1988), the less enforceable these rights, the higher the *transaction costs* (e.g., contracting, policing) to be incurred and thus smaller benefits collected by the owner. At the extreme, when the “transaction costs” are prohibitive, the owners will have no motivation and leave their resources idle. Conversely, the lower the “transaction costs,” the stronger the interest in expanding wealth. The case in point is that the “Industrial Revolution” happened when “transaction costs,” as North (1981) argues, declined since intellectual property gained its first legal protection.

The Confucian economics sharply departs from liberal economics by assuming that in their economic endeavors individuals are motivated basically by their ethical attitude to work as a source of wealth. This characterization of prevailing motivation follows from the Confucian assumption that, as already explained, within the rules that govern nature the pursuit of legacy is the principal objective. It is so, since meeting this objective can’t be ensured unless people take responsibility for others, as the true expression of individual’s moral attitude. It is for this very reason that people tend to work for others; meaning here mostly the blood-related family members whom they live with. Confucius put this cardinal assumption behind Chinese economics in the following words: “You live for others not for yourself” By this, he largely meant, “you live for your family,” but he clearly extended this rule to a society at large. This is also the correct meaning of Mencius’s related general point on the ethics of life: “To use the world to care for someone is the ultimate in care” (Norden 2009, 4.3)

People are given by nature the gift of life with resources to provide for what they need to stay alive, but they also come to this world equipped by nature with morals to guide them to embrace work—labor—for what it is. They are called by Confucians *moral laws*, because by disobeying them even for a brief moment life is not possible anymore, more precisely it won’t continue. Moral laws consist of a single set of rules that are not subject to any change, since there is only one way of

upholding life continuity. Included in this law is the principle for people to assume responsibility for each other. In other words, nature provides individuals with *natural goodness*, though they can choose to deplete it, or in extreme situation even abandon it. As Confucius said, “Man are born upright . . . with faculties to be good, but through habits they may differ,” meaning that through bad influence—example or teaching—people can lose this force of *natural goodness*.

Thus, the following question arises: what mainly drives individuals’ behaviors? Is it the sense of “security” over resources in his/her possession, or rather is it the moral obligation toward others that implies sharing of wealth? Within the classical assumptions on economic agents, one can intelligently deliberate on the issue of property rights, their economic meaning and practical consequences. But one wonders how within this framework, one could successfully deal with the moral aspect of economic life. How can we explain this aspect if, as classical economics does, individuals make no decisions on procreation—or birth—and thus lack the experience from which, as Confucian economics claims, a human experience morality originates? As defined, the “rational agent” of classical economics is self-interested, so it won’t squeeze its “scarce” resources to support a child or anybody else. Such, seemingly fictitious, agent is also assumed to be acting autonomously. But it is not possible to bring new life—child—autonomously, since for this to happen people need mating partners.

As described, with such a preference list, the “rational agent” of the classical doctrine is actually a childless (better family-less) adult in a productive age, who pursues “instant gratification.” Under such assumptions, the moral aspect of economic life can’t be successfully debated, certainly in the context of the universal experience of bringing a child to this world or/and maintaining family as a reproductive unit. To address these moral dimensions, it is necessary to step away from the classical approach and recognize that in reality, all people are subject to a *life cycle*. At the initial stage of existence, one is a child, later becoming an adult, and finally turning into an elderly. Let’s then address individual’s motivation in the context of a family where there are these three generations—adults as parents on one side and their children plus the elderly (or grandparents of the children) on the other.

To make my general point on the role of morals, I will use some “stylized facts.” I will assume that only adults can work and create wealth to support themselves but children and the elderly can’t. For this reason to go on living, children and the elderly need adult family members to support them with transfers of wealth. I will further assume that each stage of the “life cycle” is of the same length. With these assumptions, it turns out that only for 1/3 of their life when they are adult people can be “autonomous,” but for the remaining 2/3 of their entire life people must rely on wealth transfers. The implication is clear, the economic survival of people

is mostly a function of the moral attitude—compassion—of the adult members of the family that all people are at assumed length during their lives. The above fraction $2/3$ is a quantitative indicator of the superior role of moral outlook for the management of wealth, the issue which economics is preoccupied with (and thus how much liberal school is off the mark by abstracting from morality).

I will now assume that adults—husband and wife—who make wealth need 100 units each to provide for a comfortable life. They will be satisfied with the 200 total and seek no more goods. Let's also assume that adult or not, each person in a family needs the same amount of 100 units to have a comfortable life. If the two adults are a couple with two children that they have to support, they will have to increase their work load by 200 units, which raises the total to 400. But if they care also for their two parents, they need another 200 units of wealth, so the total needed is 600. In this arrangement, of the total 600 units of wealth produced, only $2/6$ of the units will go to the active—working—adults who made them, and as much as $4/6$, or twice as much, will go to the dependent family members. It follows, $4/6$ of economic life is about sharing wealth that is instigated by morality. And, as high is the fraction of the economic life that liberal economics ignores (this fraction also measuring its “poverty” as a discipline).

The other important lesson from this discussion of generational transfers of wealth is that—contrary to classical economics—in real life, under the regime a “life cycle” morality doesn't have to interfere with economic rationality, i.e., increasing wealth. As offered above my simplified “model” of family transfers implies, if not for the morality there won't be any transfers coming to the dependent members. The important question is how “rational” is it for the working adult to withdraw a “life line” from family members? It would be irrational, since the economic consequences of such behavior for the working members can be truly dire. When the adults enter the retiree stage, they will now need assistance from their children. But if they refuse to support their parents, this will set a bad example for their own children. Not feeling any obligation, children will abandon their parents and let them perish. This would make them waste $1/3$ of their life span. And, how “rational” is it for anyone to lock itself in this sort of predicament?

However, this is not to imply that property rights don't matter in Confucian economics. Confucians see a need for property rights and historically, China has been quite adept in mastering property rights. At the advent of “Industrial Revolution,” China's ownership system was by no means less advanced than the British (see Pomerantz 2013). But this need for protection of claims over resources is not viewed by Confucian economics as most to essential economic life, and certainly not with regard to the generational redistribution. As just demonstrated, such transfers possibly constitute the greatest facet of economic life, but nevertheless they are not regulated by the property rights. In fact, almost

no internal relationships that hold families together are regulated by property rights (except, for instance, wife's "dowry"). And not in the patrimonial model adopted in Chinese society, where as the head of a household, the father holds legal papers. But in reality, he is only a nominal—rather than a factual—owner of the family assets.

Going further, the Confucian doctrine makes it clear that if there would be no attempts to violate protection of the owners, legal protection would not be necessary. To accomplish this by fear through purely legal means would be cost prohibitive, and thus detrimental to wealth creation that the legal system is supposed to enhance. In this context, North (1981) mentions morality—but also ideology and religion—as a way for reducing the costs. This is also the Confucian position, except that according to Confucians, the purpose of societies should be to base interactions not on legal but rather on moral rules and ideally avoid any costs at all. If there is moral harmony and all people are morally disposed, they will voluntarily comply. Confucius said, "The thing is we should make it our aim that there may be no lawsuits at all, so that people who have actually done wrong will be too ashamed of themselves to indulge in words of self-defense" (Lin 1938, 129). Thus, as the highest value in Confucian ethics the moral harmony will stop litigations, which will bring in the *End of law*.

As said earlier, in Confucian economics, wealth is primarily a function of work, with work as a function of ethics, which makes status—condition—of morality the principal engine of national economy or nation. Given this sequence, it is necessary to qualify the earlier made statement that Confucians recognize only one factor of production, i.e., labor. As it transpires, what comes first is not so much labor but morality instead. Confucians argue that there is no wealth in the absence of morality. Meaning, work doesn't generate wealth and it is morals that generate it; therefore, morals are wealth. In the words of Confucius, ". . . the material prosperity of a nation does not consist in its material prosperity, but in righteousness" (Lin 1938, 136–37). He expressed this idea also in a shorter line: ". . . doing the good is our only treasure" (135). This idea is echoed by Mencius who interpreting Confucius stated, "Virtue is the root, and wealth only the result" (see H. Chen [1911] 1974, 1:375–81).

Assumption # 5: Principal Economic Institution—Family Unit

The next, fifth, issue of great importance is that to be viable, each approach to economics must resolve what sort of institution plays the principal role in facilitating morally driven economic behavior (see Table 1). Institutions are defined in economics as the *rules of the game*, which are designed by individuals during their pursuit of wealth. The purpose—and benefit—of such rules is to

help people in freeing themselves from deliberating various aspects of economic choices that given the accumulated experience don't need much reflection. When so much experience is accumulated, lacking a visible pattern action by individuals turn into—predictable—routines. This is how institutions become a reality. The patterned rules emerge through trial and error experimentations. Such evolution takes a considerably long period of time. Once institutions are formed, they become a structure that shapes individual behavior. Routines that serve individuals best in their use of resources are kept and passed from generation to generation as a treasure to cherish.

The departure point for the classical argument on the principal institution is the premise that the most efficient allocation of assumed “scarce” resources can be ensured only by an individual, as a principal player. For an individual to play this role, the best institutional arrangement must be the one that ensures conditions of greatest autonomy for a solitary individual to act. Saying “autonomous” is the equivalent of saying “rational,” since according to this theory one cannot be rational without autonomy or “economic freedom.” To be able to identify optimal solutions and reach “equilibrium” positions, an individual must be able to go over the entire menu of options and ignore concerns other than the “bottom line.” The institution that is said to provide the greatest autonomy is the liberal “free market,” with “free access” for all and choices guided only by “free prices” set for players by the supply/demand “balancing act.”

In Confucian economics, the assumption on the principal institution is very different—it being a family or a clan. Given the logic of Confucian economics to be the principal institution family would have to be the best arrangement in ensuring life continuity—to repeat—through birth. Since the pursuit of posterity depends on the sense of morality, it further follows for the family to play a leading role among alternative types of institutions, it would have to be able to provide a stronger commitment to others than any competing agency. Furthermore, since Confucian economics emphasizes that the moral attitude is a function of love, for a family to be legitimately assumed a principal economic institution it would obviously have to be the source of the ultimate love. And what the manifestation of the ultimate love would be if not the act of giving birth? Love and life are thus a unity, meaning that the energy *qi*, which animates the whole world, is this ultimate form of love behind the subsequent cycles of life.

It follows from the above reasoning that the experience with giving birth must provide insight into the secrets of ultimate love. One of them is that each child is born completely helpless and must rely exclusively on his/her mother to survive even for a day. The mother must feed the child, but the child has no idea whether or not the food is actually eatable or safe for the child to eat. Somehow, the mother has to convince the child that she is carrying and that she will not hurt her child.

They cannot communicate through words, since the child is unable to process language. The only way to communicate is through gestures of “love” (see Morse 2001). Fortunately, love doesn’t need words to be revealed. Feeling mother’s love, the child will accept the food he/she needs. So, in this very sense, love is life, and life is love. This could be the meaning, or one of the meanings of the three-word line taken from Confucius that *Love is man* (see H. Chen [1911] 1974, 2:485) to open this essay.

The strongest love—that is ethical in nature rather than a form of desire—is claimed by Confucian thinkers to originate from within the family. This is because the individual family members share the same biological ties or roots. Of the various relations within the family unit, the most important in terms of love is the relation that involves parents and children. And it is not so much about how parents treat their children but rather the reverse. What mainly holds families together is the unconditional commitment of children to parents, called *filial piety*. This is actually the highest of all the virtues that according to Confucians constitute the nature-given *natural goodness*. In this uniquely Chinese concept, the dominant position of parents within the family is not any reflection of the power balance but of the feelings, since “filial piety” is primarily based on feelings. This wisdom is preserved in the following passage from Confucius: “Filial piety is about pleasing parents—by understanding them—to achieve ‘peace of mind.’”

This Confucian approach goes against the Western conventional thinking of expecting parents to make sacrifice for their children. Due to their more advanced age, their chances for having children are lower than it is for their own children to reproduce. This is clearly true in physical terms. However, this being true, it doesn’t necessarily follow that for the continuity of life children must be given priority over the elderly—there another side to this equation being the willingness to have children. This is the aspect that Confucians find decisive, since it is up to a couple to sacrifice their own needs that this act requires. For them to accept it, and give birth, they need children to be completely obedient. The main purpose of obedience is to allow parents to teach children about their “obligations” to care for parents, particularly when they need it most—as the elderly. Even more critical is the need to teach children the sense and power of love—for the parents, and also beyond.

Being so essential, the moral construct of “filial piety” needs utmost protection. Across various societies, the reinforcement of morality is often brought by religion through the introduction of the *sacred*. When a social rule is made sacred, it is harder for people to question it on some rational basis. In the Chinese case, there has never been a religion as understood in Western societies, one in the public domain, with universally accepted god and church doing a gospel. Instead, there is the so-called *cult (or worship) of ancestors*, which is a private—family—

affair, adding another form of love, this for the ancestors. According to Confucius, “When the . . . memory of remote ancestors is kept alive, a people’s virtue is at its fullest.” To love ancestors, means to meet their wishes for the living to procreate and ensure or extend family’s fortune (Mote 1971). Being in a way a form of superstition, this cult brings the notion that to deny these wishes will inevitably bring *bad luck* upon the trespasser.

The question is that which institution is of greatest importance, the “free market” of liberalism or the family of Confucianism? Historically, the market might be as old as family, but the role of family as a source of wealth has been far more prominent for thousands of years. Through history, most of the economic activity has concentrated in farming, which was in the hands of families. Since members worked to meet their own needs, the unit costs—and profits—were not the make or break issue for families. And family resources—land and water—were not for sale since farms were a *sacred* inheritance from the ancestors. Mobility of resources was limited to transfers related to marriages that required woman to bring in a dowry. It took not an economic pressure but a use of force—politics—to subject family farms to market dictate, like in Britain through the so-called *enclosures*. This happened at the time of her “Industrial Revolution” and was its main novelty (Braudel 1979).

Nowadays, though farming has largely given way to industry, as well as services, the family unit is still the most important economic institution. To prove this, one can look at the importance of the supply of goods coming from family firms that operate in the “market sector” relative to what comes from other firms. Statistics show that though not as extensive as in the less developed countries, at least half of the national wealth (income) in the advanced economies originates from family-owned firms. Among these are large-scale corporations, especially in the economically thriving Germany or South Korea. This is what official statistics about national income reveal, but the data are skewed against family-based production since under the adopted methodology, statistics cover only wealth from family firms active in the “formal sector,” where goods are priced and traded. But in their households, families also generate wealth for their own sake. Calculations based on *proxy prices* for such family-made goods, as a rule, show that this non-monetized—call it *informal sector*—contributes much more to the overall wealth than the monetized “market sector.”

The evidence of the greater role of the “family sector” also comes from the comparison of efficiency of production in family and market sectors. These sectors are best seen as complementary rather than substitutes, since the family sector produces one kind of goods for family use and market sector provides other goods that are made for sale. Importantly, these two types of goods happen to be of unequal value in terms of contributing to the individual’s utility or satisfaction.

In classical economics, there is a distinction between “inferior” and “superior” goods. When the price for an “inferior” good goes down, rather than increase the demand goes down, and for the “superior” goods it is the opposite, the higher the price the higher the demand. It so happens that “family” goods are disproportionate in the category of “superior.” Among these “superior” goods is, for instance, affection that market cannot deliver, as well as teaching of most of the various skills—collectively called *human capital*—that prepares for life.

There is actually a strong quantitative evidence that indeed the family sector is tilted toward production of “superior goods.” Speaking of the “market sector,” historically, economies increase labor productivity. As a consequence, when workers are given higher wages, if they act as “rational actors” they should elect to work more. But the trend has been for people to reduce their supply of labor to the “market sector,” i.e., work less (e.g., France is down to a four-day workweek). What people “buy” with increasing productivity is the increased time spent with their family. As said, the time spent with family is not just about leisure, but also about production of various “family” goods. With increasing productivity in a “market” sector, their alternative cost of such family-provided goods goes up and so the price, but as mentioned here, data show that demand for them goes up. There is indeed one explanation of this paradox, namely that the goods that are produced in the “family sector” are economically superior.

Speaking of institutions, Confucians don’t dwell on the family/market nexus. The question that is relevant to Confucian economics is whether family or rather state is at the base of society. The answer is that, for reasons already mentioned—it cannot be state, but family. Almost each time when the state is mentioned, it is stressed that the strength of the state is a function of the strength of family, and not the other way around. This observation is captured in a quote from Mencius: “The root of the world lies in the state; the root of the state lies in the family; the root of the family lies in oneself” (where “oneself” meaning—a family member; Norden 2009, Book 4A, 5.1). What is meant by this specific hierarchy of power, with family overriding the state, is that only a virtuous (uncorrupt) state can succeed, and that the state is virtuous only when families are virtuous. This critical point was made by Confucius himself: “when the family life is regulated, then national life is orderly, and when national life is orderly, then there is peace in the world” (see Lin 1938, 106).

Assumption # 6: Economic Wealth Distribution—Imperative of Equality

The sixth “building block” to be settled by each school of economics refers to the principles of wealth distribution or equality (see Table 1). The classical economics’

answer is that nobody can firmly establish what pattern of distribution is “socially just” and redistribute wealth to raise the overall level of welfare. The only solution is to let the impartial “invisible hand” of the “free market” determine appropriate outcomes. The role of the market is to enhance efficiency, so, left to itself, the market will produce income differentiation. The advantage of inequality is that there are higher stakes for individuals to play for. As long as work effort is a function of the expected pay-off per unit of time, the broader the range of rewards the greater efforts by individuals can be expected. Consequently, there is no need for economics of distribution and economics of production will suffice. But this proposition can be correct only if “free markets” could ensure that rewards are proportional to individual’s efficiency.

The Confucian position is that the moral aspect of distribution cannot be ignored. To address the question of optimal distribution of wealth, it is necessary to look at the potential impact of inequality on the strength of moral attitude. Inequality should be prevented since it can be the cause of moral erosion by encouraging corruption. Driven by greed rather than necessity, corruption has a detrimental impact on the overall growth of wealth since undeniably people have their sense of *social justice*. The less fortunate will find accumulation of wealth in the hands of few as evidence of unjust practices. With the resentment comes social instability that, as stated, is identified by Confucians as the worst enemy of wealth creation. In Confucius’ carefully spoken words, inequality is a bigger problem than poverty: “When wealth is equally distributed, there is no poverty . . .” and adds that when there is equality of income among people “. . . there is no dissatisfaction, [and] the country is secure.”

Dating back to early China, Confucian economics has never called for the complete equality of income. Exceptions were allowed but mainly to a rank occupied within the imperial bureaucracy. This kind of differentiation of income had to be engineered by the allocation of land. Given the imperative of equality, supply of land had to have been uniform for average families, even though the more fertile land should have been given to families burdened with more children. For the people of higher ranks, the allocation had to be larger, even going to multiples of the average. It should be also graduated, with more land provided to those of the higher ranks. This wealth advantage is to be provided not because the people of rank are more deserving, but because officials must administer government affairs and pay for staff members to execute their duties. Among them is the duty to collect taxes for the central government and keep some to pay for their part of the job of governing.

Importantly, taxes are envisioned by Confucian economics as the only source of income for providing state services. Taxes are set as a function of the amount of services provided to tax-payers. The proper taxes are low taxes, since officials are

only expected to take care of basic services that others can't provide at the right cost. Except for tending to their land, like regular folks, the higher ranked people cannot engage in any economic activity for personal enrichment. This principle forbids conflict of interest to interfere with official duties. To further prevent corruption, the Confucian economic doctrine prohibits also inheritance of offices. With the release of office, land must be returned. This made it difficult for an exponential increase in the fortunes by the rank people. These types of restrictions have been a practice throughout China's history. By rigorously applying these rules, the Confucian doctrine precluded the formation of an aristocratic class. Without aristocracy, there is no feudalism, and it is by following these egalitarian rules that China "missed" the stage of feudalism.

Confucian economic doctrine of strict equality includes also the principle that any form of monopoly is unacceptable. The doctrine calls for the complete ban on monopolies as a source of particularly strong social resentment. It is so, since monopolies lead to jacking-up prices through artificial shortages. With this comes impoverishment of lacking-choice buyers. Since people of rank—bureaucrats—are forbidden to engage in anything else but tax collection, public monopoly is strictly forbidden. But so is true about a private monopoly that similarly leads to undeserved profits, i.e., rents. It is condemnation of inequality as a source of moral erosion that makes Confucians resent profit making in general. Importantly, at the time of Confucius, the rate of profit was particularly high, commonly threefold and thus represented an extremely explosive issue. To safeguard even against lesser price distortions, Confucian economics considers market interventions through official price controls as imperative.

While a general rule—not only in the historic times in China—is that the state should collect low taxes, not higher than a tenth of farmer's income earned, an exception to this rule was made when monopoly abuse is involved. Confucius says, "Riches . . . are what men want. But if they are obtained in an improper way, they should not be held" (see H. Chen [1911] 1974, 2:166). Mencius captured the same consideration in the following quote:

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

Utmost concern for equality is also reflected in the already mentioned Confucian call for the "social consumption," i.e., sharing wealth with others.

Position of wealth—riches—is equated with taking responsibility for others, with giving to others that is proportional to what one is taking in. This was one of the reasons for the never widely tried in practice ancient Confucian idea of the eight-household entities—collectives—as the foundation of what Confucius saw as ideally organized agrarian economy for China. The practical justification was to make it easier for households to assist each other in time of economic stress. There will be also a need for only one—common—well. And, it was expected that such a collective arrangement will facilitate learning from the most advanced households. The idea was that this will create competition between families, but without elimination of the higher cost units and “acquisition” of their resources by the lower cost ones.

A perfect illustration of the role of “social consumption” today is the fate of a British investor captured on an instructional video that one day crossed my hands. He was trying to set up a firm in a remote part of Northern China. He got into a formal agreement with local bosses and wired a hefty amount for the construction costs. When he arrived there a few months later to inspect the progress, there was a banquet to his honor held in the party headquarters, but there was not a single wall erected for him to see. He was appalled only to hear that to make money in the town, he had to take care of the community’s needs first. He was shown a new stretch of road in the town plus a recently finished school building, swimming pool included. He didn’t complain about the broken contract, nor did he pack and leave. He eventually got his factory running, and apparently made a lot of money for himself, aware that “social consumption” is not a one-time deal but an ongoing one.

Similar stories can be told about Chinese investors doing business in the country, since sharing resources—or wealth—through “social consumption” is also required of the locals. I can bring in here my own experience from Chengdu, Sichuan. Many years ago, I befriended there a secretary in charge of culture and a prominent traditional painter, Laizhong Qian. He introduced me to the Chinese ink/paper painting and the philosophy behind this. Eventually, as a painter myself I managed to exhibit my Chinese-style landscapes in three different provincial capitals, Chengdu included. During one of my stays in the city, I was invited to a ground-breaking ceremony for a museum of calligraphy with a noisy band and crowd of farmers. Standing on a podium, I spotted that at a good distance from luxurious government vehicles there are three ordinary cars with a low-key man and a few other people looking like his associates. When I asked about him, I was told, he is a “big time” businessman, who covers all the costs of the construction. He was spending his money for the benefit of the community, since the party won’t let him do so otherwise.

With their appreciation for markets, Confucians are concerned that by its design, “free market” can easily, if not inevitably loosen up, if not break up the relation between reward and efficiency. The “free market” enforces efficiency by shifting resources through bankruptcy from higher cost to lower cost producers. According to liberals, with such “acquisitions” as the ultimate reward for the more efficient producers, the total wealth of the society will increase as well. But, to keep in mind, such “acquisitions” lead to concentration of production, and perfect competition turns into a monopoly competition or even monopoly. Under the latter, rather than being taken, prices are given—or dictated—by the dominant producer and rather than earning profits the *hard way* through higher efficiency, monopolies take a *lazy way*. Rather than live by cutting costs, they may restrict their supplies to fix prices above the “free market” price level and collect above-equilibrium *rents* by draining their buyers.

The “free market” with “acquisitions” leads to monopoly, but based on different designs, markets can operate without bankruptcies and thus are not prone for monopolization. These kinds of markets are compatible with the principles of Confucian economics that envision an efficient economy where strong markets operate but run mainly by families, like in the once agrarian China. Such a family-based system precludes proliferation of monopolies, since family resources—land and water—are the only source of their livelihood, and thus no family would ever allow an “acquisition” of its resources by others without retaliation. Fear of retaliation is enough of a deterrent for more fortunate families not to forgo seeking dispossession of the weaker. Not having this option, the more fortunate are more likely to extend a helping hand to the less fortunate. This is why, when statistics of almost any village in China are examined, the same names of families reappear from generation to generation, all living on the same piece of land they cultivate.

A very famous—900 years old—painting from the Song dynasty illustrates this Chinese concept of the harmonious market place. Copied many times under different dynasties, this work is also known under a more appropriate title “Peace Reigns over the River.” The gigantic scroll—on which this painting is produced—indeed depicts such a place. It is a scene in an urban setting but with a pastoral appeal, since everything looks so idyllic. It is a packed market, where everybody is doing something useful. There are crowds of vendors with their joints and dozens of craftsmen with their workshops. Buyers are offered unimaginable varieties of goods, such as foods, baskets, and tools. Some merchandise is moved around, including through a majestic bridge. The only reminder of the state presence is the tax office. In this image, no one is dominating the market by outselling others. There are no monopolists present but only small—presumably—family businesses, where everybody is given a breathing space. A strong impression

one gets, that already this far back in the past China had a thriving market—as a “market economy.”

Leaving art aside, even if not fully followed, the Confucian principles of distribution make difference today. During the post-1978 period, income inequality has increased sharply, but no social group has been left out and took no share of the phenomenal increase in national production. The real—corrected for inflation—wages have not been directly linked to the growth in real national income per capita, i.e., labor productivity (Poznanska and Poznanski 2015). But on average, for at least the last 30 years, real wage raises that were fewfold kept with the increases of the overall rate of labor productivity growth. This pattern is consistent with the trends found in other Confucian economies located in East Asia that went through their own economic miracles, the difference being that China seems less egalitarian, especially when compared with richer Japan, whose state was the first to adopt the economic model of the so-called *shared growth*. In this model, to ensure harmony all stakeholders in a society share both the pains of busts and gains of booms.

The picture for other reforming economies that followed the liberal “Washington Consensus” is strikingly different in terms of division of productivity gains. Their lackluster product growth has been combined with even more disappointing real wage increases. In Eastern Europe alone, the highest increase during 1989–2012 was in Czech Republic, namely, 50% (a strong recovery from 35% cumulative decline by 1992). This rate was slightly less than her rate of increase of the Czech real national product (Podkaminer 2013). But in Poland, where the product rose by nearly 120%, the real wages grew only by about 25%. Otherwise, during this near 25-year-long period, wage raises in other countries hovered around 10% and as a rule were less than increases in production. One example is Slovenia, where national product rose 90 points but real wages 10 points. At the extreme are Bulgaria and Lithuania where after this long period in 2012, real wages were 25% below the 1989 level (while their national products increased at this time by a bit over 20%).

Assumption # 7: Preferred Method of Inquiry—Common Sense

The seventh and the last “building block” on the list is the preferred methodology that each school of economics comes equipped with (see Table 1). This is a sort of “tool box” that is provided to define the proper agenda for studying economic life as well as explain how analytical arguments can be validated or proven “true.” As already established, from the ancient works of Confucius the principal, if not the only relevant, agenda—theme—for scholars to focus upon is the moral aspect, i.e., ethics. It can’t be otherwise, since as stated according to Confucians, the ultimate

source of wealth is the moral attitude, which mainly originates from the family unit. Therefore, Chinese economics can be equated with Chinese ethics or a sense of responsibility. It also follows from this preposition that the proper methods of studying the principles of Confucian economics must be the same as the methods that are suitable for studying its ethics.

To be precise, in the Confucian thinking, the ethical agenda to study is narrowed down to the general question of threats to the basic principles of morality, called “moral laws.” Coming as a birthmark, these “moral laws” can’t be learned by individuals but can be damaged, even irreversibly lost. Representing what is best in every man, or the “natural goodness,” these moral laws are under threat from two directions. One is the failure by individuals to cultivate virtuous behavior, which is a task that can’t ever be finished. The other, by far more important, is the submission to the ideas that are subversive to the “moral laws.” Mencius states it clearly in the following quotation: “Moral capacity can be threatened by ‘pernicious doctrines’” (Norden 2009, Book 4A, 4.9). In his writings, he also uses a more aggressive wording, repeatedly calling such adverse ideas *evil doctrines* (e.g., the theory of “egoism” of Yang Zu [440–360 BC]). In Mencius’ view, “Evil doctrines and cruel practices . . .” lead to political chaos, which, as said earlier, Confucians treat as the main cause of economic misery.

According to Confucians, the method of choice for separating “benevolent” from “pernicious” ideas is for individuals to use “common sense,” i.e., examination of personal experience, without turning for help to specialized—theoretical—knowledge. This follows from their belief that studying morality is fundamentally an empirical (or factual) issue, since what is “good” in moral terms can be determined only by checking what secures “good,” in terms of being virtuous. Life can’t continue unless ethical dilemmas are immediately, if imperfectly, resolved for actions to be continuously taken to sustain life. People thus have to be able to easily comprehend the nature of moral dilemmas at stake without much deliberating. At least the core of the ethical rules must be absorbed for life not to reach indecision. It follows, even with a native—raw—intelligence, that people should be able to figure it out.

Preferring inductive methods, Confucians take an openly anti-scientific stand. They seem to have no stomach for Western-style deductive speculation on economic fundamentals by creating “categories” and building models. Adhering to Plato, these are rules of logic, though to Confucians, logic doesn’t guarantee “truth,” even less “pure truth.” There should be no room for speculation or “metaphysics,” since logic may lead to multiple conclusions that contradict each other. Search becomes then a contest of fancy or oratory, where theories are judged in a superficial way. Or, it becomes a clash in which one side gains the upper hand and becomes a “mainstream.” The other is automatically questioned and becomes

“tangential.” And when all this happens, there is no interest in further discussion of merits anymore, and the winning arguments are accepted on the face value. All of this is unacceptable to Confucians since it leaves the door wide open for the moral damage by “evil doctrines” enjoying undue popularity.

To most Westerners, this anti-scientific standing is a sign of China being in a “pre-scientific” stage ruled by superstition. This opinion was expressed by sociologist Weber (1951), as one of the first major figures to venture into Chinese tradition. He decided to explain why China failed to instantly join “Industrial Revolution” to offer an indirect proof of British exceptionality. In his view, Britain gained advantage by switching from superstition to “science.” China failed to engineer this shift, since “In spite of the logical qualities of the language, Chinese thought has remained rather stuck in the pictorial and the descriptive” (Weber 1951, 125). And he continues,

The power of logos, of defining and reasoning, has not been acceptable to the Chinese . . . Chinese philosophy did not give birth to scholasticism because it was not professionally engaged in logic . . . based on Hellenistic thought. The very concept of logic remained absolutely alien to Chinese philosophy . . . oriented to purely practical problems. (Weber 1951, 127)

But no amount of arguing would make Chinese economists accept, for instance, the invented by classical economics category of the “economic man” that is lacking functions as vital as reproduction. They would be intrigued to hear that classical economics took inspiration for this “fictitious character” straight from the “classical physics” crafted by Isaac Newton, a Brit. At the very time, they were drafting their “liberal” doctrine; the prevailing sentiment among economists (as well as other social scientists) was that the highest scientific standards are provided by “classical physics.” It was praised most of all for its ability to discover *iron (or fixed) laws* of nature that are both universally applicable and rigorously verifiable. Accordingly, future states of the universe can be predicted with a remarkable precision. The hope of liberals was that by imitating physics, economics will discover similar kinds of “iron laws” to explain how the economy works and the direction in which it is heading.

In the classical physics, the world is not an organic whole with reproducing cells that can mate, but rather a physical order where all parts—whether planets or atoms—perfectly fit in. Each material component that the world is built with behaves deterministically with each part reaching an optimal position within the general order. To emulate classical physics, the early liberal economists assumed that there is an analogy between the world as defined by Newton and the economic sphere that they were dealing with. These scholars elected to treat individuals as

undifferentiated atoms in a society that works like a sort of grand mechanical clock. But a clock cannot replicate itself, so in a world of people that operate like the building parts of a clock there can be no life at all. The price to be paid for taking this particular road was that liberal economics became *lifeless* and remains so.

Another—second—methodological choice in protecting “moral goodness” in a society from “evil doctrines” refers to the utilization of history as a heuristic tool. The Chinese clearly have a great sense of history, and they greatly appreciate their past as a source of wisdom from which to learn. Importantly, in his teachings, Confucius himself frequently uses details and examples from history to highlight his “ethical philosophy,” but this is not where the strength of his doctrine rests upon. And, neither he nor his followers turned their doctrine into a “school of history” of some kind. To them, it is the present that actually weighs most heavily in judging social reality, since what is happening now is closer to our experience. Mencius stresses this idea: “The best teachings are those that discuss what is near but with significance that is far-reaching” (Norden 2009, Book 2A, 37.12).

With their distaste for “science,” when Chinese turn to history, they choose a descriptive approach. Among Western scholars, the preference is not only for heavy reliance on history but also for a theoretical approach. Rather than treating history as a preservation of facts, Western historians pursue history by and large to seek “iron laws” that with an “iron hand” govern history (Popper 1988). This is a reflection of the same influence of physics that, as already mentioned, from the outset shaped classical economics. Undeterred by the fact that most of the past is indeed “shredded” by material decay and fading memory, they have a tendency to link the past as they see it with the future as it seems to be approaching inevitably. Since the details of the past are murky or inaccessible, arbitrary interpretations of the past are easy for historians to generate support for some “evil doctrines” and risk damage to “natural goodness.”

For the record, Confucians believe in the improvement of people’s life over time, but without claiming, like liberals, that the world heads toward uniformity, where there is a single “mode” of life, in their case—Western. Confucians distinguish three stages, starting with a primitive stage when all people live in chaos so there is no distinction, or differentiation in terms of civility. This is followed by the second stage, where there is only one distinction, between the primitive and civilized (see H. Chen [1911] 1974). And at the final, third stage, there is no distinction again, since the whole world becomes civilized. However, this concept doesn’t imply that one civilization—of a specific design—will prevail in history. Instead, the Confucian argument is that the world will eventually be run by civilized people, with their multiple civilizations. And, in this Confucian concept, the world won’t

ever stop, at some “End of History,” since, “pregnant with life,” the world is dynamic and there is no limit for human versatility.

The final—third—method for safeguarding against threats to “natural goodness” is to ensure that the ideas on ethical questions come from people who have a proven record of meeting the highest moral standards. In Confucianism, this role is assigned to the already mentioned sages, as ones that are the most important source of knowledge. Sages are rigorously selected from among the brightest that went through rigorous—imperial—examination, which is both a lengthy and solitary process. As sages, they are versed in many disciplines, but definitely not meant to be scientists. It is their personal experience that makes them special and not their vocational skills. Since their underlying quality is their reputation as being virtuous, their objective as thinkers is to “seek truth for the sake of virtue.” They are guided by the same sense of mission as their teacher—Confucius. He was a sage, and it was the perception of him as “morally pure” that brought scores of followers to listen to his teaching and then proselytize.

This explains why Confucius argued that only an emperor (or king) who is a sage possesses an authority to rule a nation (Bell 2008). The ultimate of the sages is a sage-emperor (king), a kind of ruler that due to exemplary moral behavior is accepted—even loved—by his own people. Only then does the emperor deserve the *Mandate of the Heaven*, bestowed on him not by the “heaven” but by the people or subjects. The mandate does not make emperors a law, nor are they above the law of the land. The same rules apply to all, since there is one “moral order” under which life may continue. Confucius said, “Loving what people love, and hating what people hate: this is he who is called the parent [emperor] of the people” (see Lin 1938, 77). Throne is not subject to inheritance, since the “Mandate of Heaven” can be withdrawn, if necessary through rebellions (possibly the main source of political “havoc” in China’s millenniums long history).

The general principle that interpretation of nature—and its implicit moral rules—should be left to those representing the highest virtue applies also to the “literati” painters. As indicated, their primary role as painters—as well as calligraphers and poets—is to turn into images the words of Confucian philosophy. Their artistic works are less for viewing and more for “reading” their moral content. To be precise, each painting consists of also words, namely, an obligatory poem, mostly copied from or referenced to Confucian writings. To play this role of a conduit, literati—like sages—must prove with their lives their moral purity, meaning that art is categorically not for money. They can’t engage in utilitarian painting, such as portraits of officials. Doing this will put them next to merchants at the bottom of social hierarchy. In a gesture of humility, they can offer their artworks only as gifts.

Conclusion

The main point of this exploratory essay is that Chinese have their economics that can be derived from ancient Confucian philosophy. Given the origins, this ancient economics should be called “Confucian economics” The incredible success of China today is not another triumph of Western liberalism. No doubt, the recent economic surge is the result of a near 40 years of expanding market forces. However, this fact alone doesn’t prove China endorsed liberal economics that gives primacy to “free markets.” This time again, China followed her own historical path. The reforms were based not on classical thinking, but on her own *Confucian economics*. This particular way of thinking on economy is deeply ingrained in Chinese minds and operates like a “second instinct.” But as powerful a force it is, “Confucian economics” is not recognized as a formal school by the Western and Chinese economists alike. As long as Chinese economics is not taken to a formal stage, the underlying reasons for exceptional growth by the recent China’s economy will not be fully understood.

To rectify the situation, this essay has distilled from Confucian thought the principal assumptions that constitute its own kind of economics. Western scholars often argue that there is nothing for others to contribute to the dominant Western thinking, since liberal economists already got all of it right. Mahbubani (1998) provocatively stated that through latest reforms, Chinese proved that they *can think*. But given what transpired from my inquiry, one needs to add that not only that they can learn from others but that they can *think differently* as well. The facts at hand are that Confucian economics is diametrically different from the classical economics. It is possible that “Confucian economics” is the one that got all of it right. Discussing consecutive assumptions behind Chinese economics, this essay explored the issue of how China’s recent economy could have been helped by her separate view of economic life. Based on this preliminary inquiry, the impression is that Confucian economics instills attitudes toward economic life that might be more conducive to the overall wealth than the classical alternative.

Since ideas shape behavior, it should matter for China’s economy how her home-grown “Confucian economics” defines an individual’s sense of purpose. While liberal economics asserts that individuals are driven by the demands of their daily life, Confucian position is that the actual goal is the continuity of family lineage. Confucianism focuses on procreation—multiplication—which can be advantageous, at least in part because it tends to make individuals more future oriented. With a greatly expanded time horizon, individuals will display a stronger propensity to save by discounting their “instant gratification” such as food in the pot for the “distant” gains, e.g., building a house for their family. By making the pursuit of continuity questionable, the 1979 introduction of one-child policy

turned out to be the single worst threat to the Confucian tradition and the reason for the policy being gradually reversed.

Confucians reject the liberal ideas of “scarcity” of natural resources and the related idea of an apparently severe if not plainly ruthless “struggle for survival.” Under the conditions of such understood scarcity, the best strategy for the pursuit of “instant gratification” is for individuals to divert “scarce” resources away from each other, and if necessary even by means of war (Wight 1992). In contrast, under the universal state of “abundance” of resources assumed by Confucian economics, to ensure their goal of continuity of life, individuals need only to work at an adequate level. This alternative assumption of excess of natural resources might give an advantage to the Chinese economy. It does not steer individuals toward forceful dispossession of resources that arguably on their own don’t create wealth. Instead, living with such an assumption encourages hard work that multiplies wealth for people to satisfy their needs.

With the Confucian emphasis on the extension—continuity—of family as the primary economic objective comes the crucial argument that not the solitary individuals as defined in the classical economics but the suitably structured families represent the primary source of wealth. This Confucian assertion of course elevates the perceived economic importance of family as a “work unit,” which might be beneficial to the economy. There is evidence that family production displays many advantages over an individual acting on its own. Family advantages include lower “transaction costs” for an internally procured labor and the cost-cutting impact of the *economies of scale*. And family produces most of a critical economic asset, i.e., the so-called *human capital*, including work skills and moral upbringing (this is the fact stressed by some China specialists, e.g., Rawski 2011).

Liberals identify economics with physics, but separate economics from ethics. In contrast, Confucian thinkers separate economics from physics but equalize economics with ethics. Viewing economics as ethics, Chinese see the rules of economy as those of ethics. The most critical of them is the principle of love. Love is not understood by Confucians as being “in love,” which is the modern Western way but as a relationship of “reciprocity” or “responsibility” for others (Fromm 1956). To accept the latter idea as something that matters could be advantageous as well, since it encourages demographic expansion, meaning that in a world of “abundance” of natural resources, people are not threatened with starvation. Confucians correctly argue that with all the sacrifices involved in creating life—birth—for this vital act to happen, love on the parents’ side is required. With each birth as an act of love, the size of the economy is ready to further expand into the future. And it does, since as Confucian economics posits, the flow of wealth is primarily a function of labor, i.e., its supplies.

For the liberals, the issue of wealth distribution is to be left to the “free market.” Such market ensures that those who contribute more to the overall wealth receive higher rewards, so that inequality is unavoidable. Confucian economics calls for people to have similar—but not identical—shares of wealth, or riches, but at the same time accepts liberal preposition that income should be linked to an individual’s efficiency. However, Confucians don’t expect this principle to result in substantial wealth differentiation. People do not range as much in their physical or mental capabilities for great enough differences to appear. At the same time, Confucians refuse to entrust the distribution of wealth to markets, for they can degenerate into a rent-seeking monopoly. On moral grounds, people will resent price manipulations by monopoly as “morally unjust.” To defuse related social tensions, the state would have to confiscate such gains and thus equalize income levels. In this narrow sense, even invasive redistribution will be beneficial for an economy, since as Confucian thinkers assert the greatest amount of work is expended during the times of social peace (or harmony).

Classical economists argue that morality obscures economic rationality, but for Confucians bringing morality into calculations on the management of wealth is rational. What they consider rational is what supports human existence and acting morally has exactly such a positive effect. Confucian economics reminds us in particular that being subjected to the “life cycle,” during most of one’s life, people are children and elderly. In these roles, children and elderly can’t survive economically on their own. They must rely on the wealth “donated” by the adult—working—family members. Such transfers of wealth are moral acts, meaning that economic life of each individual is to a larger degree or mostly driven by moral forces. This means of course that moral virtue comes before economic prosperity. How then the Confucian claim that an economy is driven by moral practice could not benefit an economy more than the liberal—agnostic—approach to economy that is abstracting from morality?

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