

Industrialization, State Control, and the Great Divergence: Jiangnan and England

Notes edited by Heng-fu Zou (World Bank)

June 25, 2024

1 Introduction

Kenneth Pomeranz's (2001) work conveys that the similarities between 18th century England and the Jiangnan region of China indicate that both were on similar developmental paths. However, it was largely due to fortunate external factors that England took the lead, causing the "Great Divergence."

When Pomeranz points out that both Jiangnan and England had similar levels of economic development and quality of life during the 18th century, he ignores the conditions and institutions that produced these were quite different. England's growth was supported by a dominant navy, a politically and ideologically autonomous bourgeoisie with highly institutionalized property rights, a consensus among elites on formal rationality and private goods-oriented instrumental rationality, and rapid advancements in science and technology—none of which occurred in China. China's prosperity was sustained by strong imperial rule with pragmatic commercial policies, controlling a vast population and territory, facilitating long periods of mid-dynasty prosperity. These conditions maximized the potential of China's imperial economy but were unable to usher in industrial capitalism in the 19th century or at any other time in Chinese history.

Today, China's current economic system is characterized by a unique blend of state control and market-oriented reforms. While it has indeed undergone extensive industrialization and shows many elements of a market economy, such as significant private enterprise and consumer choice, it is not a fully free capitalist system. The government maintains a strong presence in key industries and exerts considerable influence over economic decisions, including the strategic direction of both state-owned and private sectors. This model is often referred to as "state capitalism" or a "socialist market economy," reflecting the blend of government planning and capitalist market practices.

In fact, today's China is also called crony capitalism: Crony capitalism in China refers to the close ties between business leaders and the government, which often lead to favorable treatment for certain companies at the expense of others and the overall economy. This system can manifest through government

officials exerting influence over business operations, or entrepreneurs using political connections to secure advantages like contracts, licenses, and protection from competition. Such practices can hinder economic efficiency and innovation by prioritizing connections over merit and competition, potentially stalling broader economic reform and market liberalization efforts.

Today in China, the ideological, political, military, and economic powers of the crony capitalist class manifest in several concrete ways:

1. **Ideological Power:** This group often controls media narratives and influences public opinion through both state and privately-owned media conglomerates.

2. **Political Power:** Many members of the elite class hold significant positions within the government or have close ties with the political leadership, allowing them to influence policy decisions and legal frameworks.

3. **Military Power:** While direct control over the military is less pronounced than in historical settings, connections between the military and the elite can manifest through defense contracts and joint ventures.

4. **Economic Power:** This class controls vast portions of the economy through large state-owned enterprises and private corporations, benefiting from preferential policies, government contracts, and protected markets.

These elements combined ensure that this group maintains a strong grip on the country's resources and decision-making processes, reinforcing their status and power.

In the last decade, private enterprises in China have faced significant suppression, despite many of these companies having officials with governmental backgrounds. This crackdown reflects the complex relationship between the state and private sectors in China, where political ties and influence play a critical role in business operations. This environment underscores the challenges faced by private businesses in navigating a landscape heavily influenced by governmental priorities and interventions.

In China, private enterprises generally lack significant ideological, political, or military power. Their strength primarily lies in economic influence. However, their economic power is increasingly scrutinized and sometimes curtailed by state policies. The state exercises tight control over ideological and political realms, limiting the capacity of private businesses to wield these forms of power independently. Military power remains strictly under the control of the state, and private enterprises have no direct influence over military matters. Thus, while economically impactful, private enterprises operate under the constraints of state policies and lack broader powers that are common in some Western capitalist systems.

2 The governance model of today's highly industrialized China draws parallels to the Qin Dynasty in terms of centralized state control over multiple facets of society.

Both periods reflect a strong centralized authority controlling economic, societal, political, ideological, and military aspects. In the Qin Dynasty, this control was used to unify China, standardize various systems like currency, weights and measures, and script, which helped solidify the state's power. Similarly, modern China exercises tight control over its economy and society, emphasizing state-led development and strict regulatory oversight, with significant implications for political and ideological conformity across its regions. This centralization supports rapid industrialization and economic growth, while also maintaining a tight grip on the societal and political structure.

Indeed, the pattern of centralized control observed during the Qin Dynasty has echoed through several subsequent dynasties in China, such as the Han, Tang, Ming, and Qing dynasties. Each of these dynasties maintained a strong central authority that exerted substantial control over various aspects of life, including the economy, society, and governance. This centralized approach facilitated the implementation of uniform policies across vast territories, ensuring stability and continuity in governance, which was crucial for managing the empire's extensive administrative demands and diverse populations.

Although Chinese merchants did not have the political, military, and ideological powers of their European counterparts, the Chinese Empire never attempted to eradicate commercial activities; in fact, even if there was such an inclination, the empire lacked the capacity to implement it. Furthermore, since the Northern Song dynasty, commercial taxes became an important part of state finances, and some pragmatically minded scholars increasingly engaged in commercial activities, with the state providing certain non-institutional protections to property rights in some respects.

China's political system and culture allowed space for market development, and the political stability of the mid-dynasty period provided an opportunity for the market to thrive under oppressive political and cultural conditions. Most Chinese dynasties lasted over two centuries, including a relatively stable century-long mid-dynasty period. During such times, "the realm was expanded, theft ceased, the people were secure, and the population flourished"—and the population growth did not reach a limit that hindered Smithian economic growth. Such eras of commercial prosperity recurred throughout the Song, Yuan, Ming, and Qing dynasties. If there were opportunities for the development of indigenous industrial capitalism, it was more likely to occur during the Song dynasty than during the politically more despotic, culturally conservative Ming and Qing dynasties, where technological progress slowed. For these reasons, the prosperity of the 18th-century Qing dynasty and the prosperity that appeared in previous dynasties had no fundamental differences, and would not bring about industrial

capitalism in China.

Kenneth Pomeranz's work conveys that 18th-century Jiangnan in China and England were similar economically and in quality of life, suggesting both regions could have led the Industrial Revolution. However, he argues that due to fortunate external factors, England advanced first, resulting in the "Great Divergence." Pomeranz finds the similarities between Jiangnan and England less significant because, despite comparable economic levels, their underlying conditions and institutions were vastly different. England's development was driven by its dominant navy, a politically and ideologically autonomous bourgeoisie, highly institutionalized property rights, and a consensus among the elite on theoretical rationality and individualism aimed at private good. These elements, coupled with rapid scientific and technological invention, were absent in China. China's economic boom was sustained by effective imperial governance, pragmatic policies on commerce, and control over its large population and territory, maintaining mid-dynasty prosperity. However, these conditions did not foster industrial capitalism in China during the 19th century or any other period.

Assessing the potential for China and England to break through to industrial capitalism based solely on economic and quality of life metrics falls into economic determinism. Kenneth Pomeranz exacerbates this issue in his argument by not comparing China with Europe or England directly, but rather Jiangnan (China's wealthiest region) with England (the most developed European country). Comparing a single Chinese region with a European country to discuss the 'Great Divergence' overlooks the long-term economic impact of state and religious influences, almost contradicting current economic development theories such as neoliberalism, modernization theory, dependency theory, and state-centrism. Pomeranz's argument contains other issues; for instance, he suggests that if Jiangnan could alleviate its ecological pressures by colonizing the New World, it might have increased its chances of industrializing. However, Jiangnan was just one region within China, controlled by multiple administrative units with limited official power, unable to enact national policies or command armies for colonization, and had little say even in local policies. In fact, due to its significant contribution to the national revenue, Jiangnan was one of the most tightly controlled regions in late imperial China. How could Jiangnan's local government embark on New World ventures like the British government?

Despite apparent similarities between the economies of 18th-century England and Jiangnan, China, significant differences cannot be overlooked. Robert Li's research highlights that while Jiangnan's economy grew rapidly during the Ming and Qing dynasties, driven by agriculture and consumer goods, England between the 16th and 18th centuries experienced major advancements in technology and productivity, including in steel, building materials, and machinery. These changes were minimal in Jiangnan. The Industrial Revolution in England was propelled by steam engines and other mechanical technologies, areas where China lagged behind. This lag cannot solely be attributed to ecological factors, such as the coal shortages in Jiangnan Pomeranz pointed out, because the technological development needed to invent steam engines and related technologies

was far from being realized in China. Additionally, during the Qing dynasty, many coal mines, such as those in Zibo and Zaozhuang near the Grand Canal, and the Pingxiang coal mine accessible via the Xiang River to the Yangtze, were well-connected by water routes, indicating that if Jiangnan had a real demand for coal, transportation would not have been an issue.

3 The concept of the High-Level Equilibrium Trap (HLET) in ancient China was introduced by historian Mark Elvin in his book "The Pattern of the Chinese Past."

Elvin's theory seeks to explain why China, despite its early technological and economic advancements, did not experience an industrial revolution similar to that of Europe. Here are the detailed aspects of the High-Level Equilibrium Trap in ancient China:

Definition and Concept The High-Level Equilibrium Trap refers to a situation where an economy reaches a stable state with high output and efficient use of available resources but lacks the incentives or mechanisms to move beyond this state to achieve further technological or economic development. In ancient China, this equilibrium was characterized by a well-functioning agricultural economy, advanced artisanal production, and sophisticated bureaucratic governance.

Agricultural Efficiency and Labor Surplus: Ancient China developed highly efficient agricultural techniques, such as intensive rice cultivation, which supported a large population. This agricultural efficiency led to a surplus of labor, as fewer people were needed to produce enough food. This surplus labor was absorbed into non-agricultural sectors, particularly in handicrafts and artisanal industries, maintaining a balance between supply and demand for labor.

Technological Stagnation: Despite early technological innovations, such as the invention of paper, printing, gunpowder, and the compass, there was little incentive for further technological advancement. The existing technologies were sufficient to meet the needs of the population and the state, and there was no pressing demand for innovation to increase productivity. The economic system was able to maintain high output levels without significant technological change.

Bureaucratic Control and Market Limitations: The Chinese state, particularly during the Song, Yuan, Ming, and Qing dynasties, exercised strong bureaucratic control over the economy. The central government regulated many aspects of economic life, including taxation, production, and trade. This centralized control often stifled entrepreneurial activities and limited the growth of a free market economy. Additionally, the emphasis on maintaining social stability and order discouraged risk-taking and innovation.

Social and Cultural Factors: Confucian values, which emphasized social harmony, respect for authority, and the importance of agriculture, also played a role

in maintaining the equilibrium. These cultural norms supported the status quo and discouraged significant changes in economic practices. The social hierarchy and the examination system further reinforced the power of the scholarly elite, who had little interest in industrial or technological advancements.

Market Size and Urbanization: China's large and relatively self-sufficient internal market reduced the need for expansive trade networks that could drive innovation. Unlike Europe, where fragmented political entities and a competitive market environment spurred economic and technological advancements, China's unified state and extensive internal market provided fewer incentives for innovation. Additionally, while China had large cities, urbanization levels were not sufficient to create the kind of market-driven demand for industrial goods seen in Europe.

Therefore, the High-Level Equilibrium Trap explains why ancient China, despite its early achievements, did not progress to an industrial economy. The combination of agricultural efficiency, labor surplus, technological stagnation, bureaucratic control, and cultural factors created a stable but static economic environment. The system was effective in maintaining a high level of equilibrium but lacked the dynamism necessary for industrial transformation. Understanding the High-Level Equilibrium Trap offers insights into the historical economic development of China and the complex interplay of factors that can influence technological and industrial progress.

The demographic perspective might offer a better explanation. The lag in Chinese mechanical technology could be attributed to its large population and the low cost of labor. However, the population dynamics in Jiangnan and the rest of China during the Ming and Qing dynasties were significant. Mark Elvin, in discussing his "High-Level Equilibrium Trap," does not forget to mention that around the Ming-Qing transition, the Jiangnan area lost 35%-40% of its population. For instance, Zhejiang province had a population of 11 million in 1393, which increased to 23.6 million by 1630. Years later, following the Manchu invasion of Jiangnan, which met with fierce resistance, the Manchu army massacred many cities including Yangzhou, Jiading, Jiangyin, Suzhou, Kunshan, Jiaxing, and Jinhua. It is estimated that due to these massacres and subsequent epidemics, the population of Zhejiang decreased to 7 million by 1661. Over a century later, by 1776, the population of Zhejiang had recovered to 22.4 million. Despite such a drastic reduction in population, neither Zhejiang nor other parts of China experienced any significant changes in production methods or the invention of labor-saving technologies, unlike Western Europe after the 14th-century Black Death. Overall, the role of population in the economy is complex. Even excluding issues like gender relations or labor quality, population growth itself can trigger opposing effects on economic development through Smithian and Malthusian mechanisms. It is important to remember that the impact of population on the economy always occurs through the mediation of other societal conditions.

In some ways, the views of Philippe Huang and Pomeranz appear starkly different but are actually quite similar because both consider economic/population mechanisms as the key factors behind the Great Divergence. They merely debate

which specific economic/population mechanisms were influential at certain historical moments. The debate between Pomeranz and Huang helps clarify some issues but offers limited value for understanding the deeper causes of the Great Divergence. Focusing solely on economic indicators and quality of life metrics to understand the long-term dynamics of China's economy is too narrow. Factors beyond Smithian and Malthusian mechanisms likely played a deeper role in causing the divergence.

The key to the rise of the West lies in two crucial concepts: market economy and industrial capitalism. The market economy is defined as a production system where goods are produced for profit through trade. As societal productive capacity increases, making trade and profit-oriented production more significant, a market economy emerges. For instance, since the Northern Song dynasty, China's economy was highly commercialized, only briefly disrupted by wars during dynastic transitions and early Ming policies restricting commerce.

4 Industrial capitalism differs from a market economy

In industrial capitalism, private enterprises using labor-saving machinery for profit become the dominant mode of production. Preconditions for the rise of industrial capitalism include economic actors transforming from minor societal roles to major elite groups with political and military power and ideologies to justify their profit-oriented actions. The state must align with these economic actors for monetary gains and colonial expansions. There must also be a demand for profit-driven inventions crucial for industrial capitalism, such as the steam engine and spinning jenny.

This explanation isn't entirely new but emphasizes the characteristics of economic actors and the importance of mechanisms associated with military and economic competition, promoting industrial capitalism's rise. It highlights the role of private-interest-driven rationalism as a positive value in fostering industrial capitalism. This view sheds light on the complex interplay of political, military, and ideological powers shaping Europe's economic landscape, leading to modern industrial capitalism and nation-states shaped by intense competition but also cooperation among political and economic elites.

The concept of "the Rise of the West" encompasses five overlapping historical processes that shaped its development: 1. Continuous military and economic competition driving a rationalization trend and cumulative advancements, where both competitors needed to produce superior weaponry and goods, inadvertently fostering technological and organizational growth. 2. The collapse of the Catholic world and the rise of other religious and secular ideologies following Europe's strengthening state powers. 3. The deepening influence of the bourgeoisie in politics, military, and ideology. 4. The emergence of new political frameworks that increased state power but also placed it under the check of non-political elites, particularly the burgeoning middle class. 5. Alliances between

governments and merchants where governments relied on merchants for revenue and colonial management, while merchants depended on government protection to expand markets.

The focus of the explanation is on the competitive relationships among Europe's elite actors and their interactions. In other civilizations, elites competed for dominance without disrupting institutionalized elite relations. However, in Europe, elites including the state, nobility, church, and increasingly significant bourgeoisie never established stable relations after the fall of the Western Roman Empire. The unexpected emergence of industrial capitalism (and the nation-state) wasn't a "historical progress" but a byproduct of Europe's un-institutionalized elite competition. This competition continually altered the balance of power among elites, creating conditions favorable for the rise of industrial capitalism. Upcoming analysis will concentrate on two historical processes and their consequences: the rise of the bourgeoisie and the breakdown of the Catholic world.

While humans have an inherent "capitalist" tendency, conventional economic activities in traditional societies couldn't fully capitalize on this due to three main weaknesses. First, economic activities produce dispersed power, creating multiple centers of power and encouraging mobility, which undermines the state's control, especially in pre-modern states with limited societal penetration. Second, typical economic actors aim for profit, relying heavily on instrumental rationality guided by personal interest. This form of rationality, viewed by traditional religions and ideologies as selfish, challenges the economic actors from moral perspectives. Third, economic power is expansive, unlike other forms of power, even military. This expansion can prompt linear societal changes that disrupt traditional states focused on maintaining the status quo, leading to a general distrust of merchants by traditional rulers, despite their involvement in profit-driven activities.

Theoretically, economic elites could overcome these weaknesses by integrating themselves into the political, military, and ideological elite, thereby becoming multifunctional societal actors. However, due to the inherent weaknesses of economic power, such transformations are nearly impossible in traditional societies but were partially achieved in Europe through interconnected developments. These include the formation of a competitive multistate system, the emergence of chartered towns and semi-independent cities, the Reformation and Renaissance, and the rise of philosophies and new religions advocating for instrumental rationality oriented towards personal interests and individualism.

The system of multiple sovereign states along with the powerful presence of the Catholic Church in Europe led to a tradition of weak national governments and continuous warfare. Unlike economic competition, military competition was always oriented towards public rather than private interests. Wars not only fostered accumulative development but also stimulated the rise of instrumental rationality oriented towards public interests, which in turn facilitated the development of the state and its bureaucratic structures. This tradition of weak states in Europe allowed for the rise of chartered towns and semi-independent commercial cities, which not only stimulated economic competition but also en-

abled the middle class (bourgeoisie) to manage and defend their cities, thereby gaining political and military power. The economic competition also promoted the rise and accumulative development of private-interest-oriented instrumental rationality, while the semi-independent cities granted economic actors significant political and military means, protecting the presence of a powerful bourgeoisie within emerging nation-states. This is why modernity has two complementary basic elements: the rise of the nation-state and industrial capitalism, both products of intense political and economic competition. However, there is also a complex relationship of cooperation between political and economic elites (the basis for Western parliamentary democracy).

The Protestant Reformation shattered the unified position of Catholicism, weakening the power of religious elites and allowing European political elites to exert more control over religious matters within their territories. Accompanied by the Renaissance, the Reformation also sparked a wave of rational thought across Europe. The revival of theoretical and formal rationality, part of the Greco-Christian tradition, was crucial for various reasons. First, it allowed intellectuals advocating for the bourgeoisie to develop theories validating profit-driven instrumental rationality as rational and positive values. This led to the emergence of concepts such as natural law, social contracts, liberalism, individualism, Protestant ethics, and even the "invisible hand." Gradually, instrumental business activities, once viewed as selfish, gained acceptance as a legitimate moral force, essential for fostering freedom and prosperity. This process (the valorization of private-interest-oriented instrumental rationality) legitimized profit-seeking activities and provided an ideological foundation for industrial capitalism, becoming a key component of modernization. As this valorization progressed, industrial capitalism became increasingly inevitable. Secondly, the rise of theoretical/formal rationality, along with the emergence of private and public interest-oriented instrumental rationality, stimulated scientific development. Although science's "progress" initially had little direct impact on technological invention, it fostered a rational mindset and provided elements conducive to technological advancement. As science advanced and inventions motivated by commercial profit increased, the relationship between science and technology grew closer.

The notion of "the Rise of the West" encapsulates five overlapping historical processes: 1. Intense rationalization driven by continuous military and economic competition, which inadvertently fostered social advancements in technology, production, and organizational capabilities. 2. The decline of the Catholic world and the rise of other religious and secular ideologies following the strengthening of European states. 3. The deepening influence of the bourgeoisie in politics, military, and ideology. 4. The emergence of new frameworks for political power sharing, where state power increased yet was balanced by non-political elites, particularly the rising middle class. 5. Alliances between governments and merchants, where governments relied on merchants for revenue and colonial administration, while merchants depended on government protection for market expansion. These elements, essential for the rise of industrial capitalism, were products of fierce political and economic competition but also involved

cooperative relationships between political and economic elites.

In this analysis, the focus is on two intertwined historical processes crucial for the breakthrough of industrial capitalism in Europe: the collapse of the unified Catholic world and the rise of bourgeoisie power. Correspondingly, this section highlights the late Ming's heterodox Neo-Confucian movements and the status of Chinese merchants during the Ming and Qing dynasties: why the heterodox Neo-Confucian movements in late Ming China could not destroy the unified status of Neo-Confucianism like the Reformation did to the Catholic world, nor did the commercialization in the late imperial era produce a bourgeoisie with significant political, military, and ideological power capable of defending and expanding their interests.

The failure of a "Chinese-style Reformation" during the late Ming period highlights the resilience of Neo-Confucian orthodoxy. Heterodox Neo-Confucian movements and unofficial scholar groups emerged, akin to Lutheranism and Calvinism in Europe. If successful, these movements could have fragmented the Neo-Confucian world as the Reformation did to the Catholic Church. However, they did not substantially disrupt Neo-Confucian dominance, demonstrating the political system's resilience and the improbability of industrial capitalism arising in China before Western influence. These heterodox movements did not lead to long-term impacts due to the centralized power and the lack of a multi-state system as in Europe, where figures like Martin Luther received protection, allowing religious and ideological diversity to thrive and eventually lead to significant societal shifts.

The economic actors in pre-modern China lacked the autonomy that their European counterparts enjoyed, which significantly shaped their strategies and opportunities. Chinese merchants did not possess political, military, or ideological power, unlike European bourgeois who often controlled city-states or had significant influence in large nations. While the Chinese empire pragmatically engaged in and protected commercial activities, the absence of real property rights and autonomous political status meant that Chinese merchants often aligned closely with government officials, invested in Confucian education for their children, and integrated themselves into the bureaucratic elite to secure their interests. This lack of autonomy limited the potential for an indigenous emergence of industrial capitalism prior to Western influence.

Despite high living standards in affluent regions due to commerce, technological innovation in China lacked encouraging rewards, and theoretical and formal rationality was underdeveloped. Crucially, the Neo-Confucian ideology faced no significant challenges, and merchants could not leverage their wealth to gain political, military, or ideological power against the state. Unlike Europe, where the decline of feudalism and the rise of the bourgeoisie fueled industrial capitalism, China's commercial success was sustained by its large territory, huge market, and political stability during mid-dynastic periods. When Europeans arrived in the 19th century with modern weapons, China did not move toward industrial revolution but instead toward dynastic decline, being pulled into industrialization and modernization by Western and Japanese imperialism.

5 Gu Zhun's Analysis

The bourgeoisie, or middle class, is a unique product of European civilization, whose formation and development profoundly influenced the social, economic, and political structures of Europe. The emergence of this class is closely tied to the social changes of the late Middle Ages and the Renaissance, marking a significant turning point in European history.

Origins of the Bourgeoisie

The origins of the bourgeoisie can be traced back to the late Middle Ages when European cities began to rise from the feudal system. With the flourishing of trade and commercial activities, towns and cities became centers of economic activity, attracting artisans, merchants, and professionals. These individuals did not rely on land ownership but accumulated wealth through commerce and crafts, gradually forming a social class distinct from the feudal nobles and peasants.

Development of the Bourgeoisie

During the Renaissance, the bourgeoisie further developed, particularly in regions like Italy, the Netherlands, and England. This period saw significant changes in Europe's economic and cultural life, with the bourgeoisie being the primary force driving these transformations. They achieved success not only economically but also played crucial roles in political and cultural spheres.

Influence of the Bourgeoisie

1. **Economic Impact**: The bourgeoisie promoted the development of a capitalist economy. Through commercial activities, they accumulated capital, invested in new technologies and production methods, and fostered economic diversification and prosperity. Their wealth and economic power enabled them to challenge the feudal system and advance market economy principles.

2. **Political Impact**: The rise of the bourgeoisie disrupted the traditional feudal power structures. They demanded more political rights and freedoms, pushing forward the democratic processes in Europe. For example, the English bourgeoisie played a pivotal role in the 17th-century revolutions, which ultimately led to the establishment of parliamentary systems and the limitation of monarchical power.

3. **Cultural Impact**: The bourgeoisie were key patrons of the Renaissance and the Enlightenment. They funded artists and scholars, promoting cultural and scientific advancements. The values of the bourgeoisie, such as individual liberty, rationality, and secularism, significantly shaped European thought and culture.

Thus, the bourgeoisie is a unique product of European civilization, whose formation and development not only changed the economic and social structures of Europe but also propelled political reforms and cultural prosperity. The rise of the bourgeoisie marked Europe's transition from a feudal system to a modern society, providing an essential perspective for understanding European history and civilization.

"In Italy...the towns, for the most part, as legacies from the Roman time."
This quote from "Capital, Volume 1" highlights the enduring influence of Roman

heritage on Italian cities.

The Roman Republic was well-known for its city-state structure, with each city in Italy organized in a manner similar to Rome itself. This tradition of urban organization persisted well into the Middle Ages. By the mid-medieval period, cities like Venice, Genoa, Pisa, and Florence had evolved into commercial republics or city-states focused on trade and craftsmanship. These cities fully inherited the spirit of the Roman era, maintaining the legacy of city-state governance and economic activity.

Historian Edward Gibbon, in his seminal work "The Decline and Fall of the Roman Empire," noted that Venice was initially a coastal village in ancient Roman times. During the barbarian invasions that marked the decline of Rome, many wealthy Romans fled to Venice to escape the chaos. Over time, Venice expanded and transformed from a refuge into a bustling commercial city-state. It became a powerful republic with a significant merchant fleet and navy, influencing the course of the Crusades and becoming a dominant force in the Mediterranean.

The concept of city-states and commercial republics was deeply rooted in the traditions of ancient Greece and Rome, with origins predating the Middle Ages by centuries. This aspect of Western tradition is significant, yet often overlooked in Chinese historical discourse.

In contrast, many in China tend to view the emergence of cities and the bourgeoisie (or capitalist class) in Europe as phenomena of the Middle Ages alone, leading to a misinterpretation. This interpretation, influenced by Marxist theory, suggests that the development of cities and a capitalist class in medieval Europe is a universal law that should apply unconditionally to China. As a result, there is a tendency to assert that China also had the seeds of capitalism during its own medieval period. This view implies that, if not for certain historical disruptions, Chinese society would have naturally evolved into a capitalist system.

This comparison overlooks the deep historical roots and unique evolution of Western city-states and their enduring legacy from ancient Rome, which profoundly shaped the development of European capitalism. The Roman influence on urban organization and the continuity of commercial city-states in Italy exemplify a distinct historical trajectory that does not have a direct parallel in Chinese history.

European civilization's heritage is deeply rooted in ancient Greece. The socio-economic structures and intellectual legacy of Greece were almost entirely inherited by Rome. Although the barbarian invasions left a Germanic imprint on European civilization, the Roman traditions were largely preserved through the Christian Church. The Renaissance, beginning in the 13th century, revived the joyous, secular life philosophy, democratic political philosophy, and rationalist academic thought that had been obscured by Christian theology. It is widely recognized that the Renaissance was a crucial factor in the modernization and capitalization of the world. Acknowledging this, both Western scholars and Chinese historians agree that modern Western civilization can be traced back to Greco-Roman roots. However, some Chinese scholars limit their perspective

to the Middle Ages, neglecting the classical heritage of Greece and Rome, which leads to various misunderstandings. Therefore, a brief discussion is necessary.

Originally, the Greeks were northern barbarians who settled in the Greek peninsula and the Aegean islands, initially engaging in agriculture. Some tribes, like the Spartans, continued farming due to the fertility of their land. However, most Greek tribes, including the Athenians, found their lands too barren to sustain the growing population over generations. The Aegean region, with its complex coastline and numerous islands, was surrounded by wealthy, authoritarian agricultural kingdoms like Egypt, Babylon, and Persia, or by relatively civilized tribes like the Berbers of North Africa and the Gauls, Celts, and Latins of Europe. This geographical context fostered a tradition of seafaring, commerce, and eventually colonization among the Greeks, alongside the development of handicrafts.

The unique environment of Greece meant that there was no need to form a unified nation-state to defend against foreign threats. Instead, they organized into city-states, with politics that were fundamentally democratic, albeit aristocratic democracy. While there were instances of tyranny and militaristic centralized states like Sparta, Greece never developed an absolute despotism comparable to contemporary Egypt or Persia.

Greek scholarship in the classical era included grammar, logic, and geometry. To the Chinese, their meticulous inquiries seemed tedious; they formulated principles like the law of identity ("A is A"), which the Chinese would not have questioned. Their philosophy delved into cosmology, theorizing elements like earth, water, air, and fire as the universe's building blocks, akin to the Chinese five elements. However, Greek thought sought precise classifications of nature, extending to concepts, judgments, and inferences in logic. In contrast, Chinese cosmology was immediately applied to practical governance principles of "the sage king governs the world" or dismissed entirely in the mystical musings of philosophers like Zhuangzi, sidelining the empirical study of reality.

Some aspects of Greek antiquity appear strikingly modern to contemporary Chinese. The Greeks united against the Persian Empire in the Greco-Persian Wars. Following their victory, the Peloponnesian War erupted between Athens and Sparta. Historian Thucydides' account of this conflict reveals early instances of international relations practices, such as treaties, envoys, declarations of war, peace negotiations, and war reparations—concepts unfamiliar to pre-Opium War China but well-established in the Greek world. Such international legal norms could only emerge among maritime, commercial, and colonial peoples.

The Romans largely inherited Greek traditions, with their singular innovation being the development of law—a crucial element of modern European civilization. However, the Greek-Roman civilization's legacy took different forms in the Eastern Roman Empire (Byzantium). In Western Europe, despite the Germanic invasions, the fusion of Roman and Germanic elements leaned towards greater freedom. In Byzantium, the integration with Babylonian-style despotism transformed into the Orthodox Christian civilization, deeply rooted in Russia. The Russian heritage traces back to the Byzantine Empire, as exem-

plified by the marriage of the last Byzantine emperor's daughter to the Grand Duke of Kiev and the creation of the Cyrillic alphabet by Orthodox missionaries. Russians proclaim that Moscow is the "Third Rome," asserting continuity with the legacies of Rome and Byzantium.

Byzantium, the capital of the Eastern Roman Empire, was the only major commercial hub in early medieval Europe, significantly involved in the Silk Road trade. Like China, the Byzantine Empire viewed commerce as a source of imperial revenue. Despite its opulence, the empire weakened over time, with emperors displaying a grandiose façade. Karl Marx described it as a "declining empire," highlighting its luxurious court, weakened state, and the emperor's exaggerated display of supreme authority.

Let's discuss Chinese cities and the citizenry. Unlike Europe, China has never developed politically autonomous entities based on commerce, nor was it ever likely to. Chinese cities and maritime technology were advanced very early on. During the late Spring and Autumn period, for example, the state of Wu launched an expedition against Qi, with part of the army transported by sea. Early major cities included Luoyang and Linzi. In comparison, the scale of commerce in medieval Europe, as revealed in economic history literature, was quite meager. When Marco Polo visited China, he was astounded by the splendor of cities like Beijing and Hangzhou, describing them as paradises. This is particularly notable since Marco Polo hailed from Venice, a major European city. Byzantium, meanwhile, relied heavily on the re-export of Chinese silk. This indicates that China never lacked commercial activity. Some historians, like Tao Xisheng, have even argued that Tang dynasty society had a commercial capitalist nature. However, Chinese cities, marketplaces, and commercial establishments were always under the control of the imperial regime. They served as financial assets for the dynasty, which would never allow the emergence of commercially autonomous cities or city-states.

This distinction highlights a significant difference between Chinese tradition and the Greco-Roman-Christian civilization. Foreigners often misunderstand this aspect of Chinese history, just as the Chinese may misunderstand European history. One notable modern misunderstanding was when Britain encouraged Chen Lianbo of Guangzhou to organize a merchant militia to oust Sun Yat-sen. In London, merchants played crucial roles during the English Civil War of the 17th century and even in the Battle of Waterloo, where they formed the backbone of the military. In China, the idea of a merchant militia taking control or achieving great deeds would be considered a huge joke.

The rise of medieval European cities was closely tied to the legal concepts inherited from Roman traditions. In medieval Europe, cities became autonomous entities that freed themselves from feudal obligations to lords and monarchs. This autonomy was exemplified in France, where such cities were known as "communes." The term "commune" later influenced the name of the Paris Commune. These autonomous cities had internal relations based on the principle that only those who contributed to the city's freedom could share its privileges, often organized through merchant guilds.

By the 13th century, many English cities had achieved a degree of self-

governance, distancing themselves from feudal exploitation. The primary goal of these cities was to ensure that their commerce remained in the hands of their own citizens. By the end of the 14th century, London's mayor could only be elected from one of the twelve major guilds.

The autonomy of these cities was often purchased from feudal lords in need of funds, especially during times of military campaigns like the Crusades. These cities, initially burdened with various unreasonable rents and taxes, gradually negotiated lump-sum payments or annual rents to free themselves from these obligations, receiving charters in return. These charters established collective responsibility for paying rents and allowed the cities to function independently, fostering a new class ready to participate in political life.

In contrast, Chinese cities were always tightly controlled by the imperial government. The state would never sell charters to create "independent kingdoms" within the empire. The reason lies in the nature of law in Chinese history, where it was a tool of the enlightened ruler to govern the world. In China, law was closely associated with punishment rather than rights, unlike in Europe, where Roman law linked law with rights and contractual obligations.

Roman law, which heavily influenced European legal traditions, was built on the foundation of citizen rights. This legacy allowed for the establishment of cities with special legal and political status. The "Communist Manifesto" highlights that the bourgeoisie, or the urban middle class, emerged as a force against the nobility during the era of absolute monarchies, laying the groundwork for modern nation-states. These monarchies relied on cities to combat the decentralized feudal lords, which ultimately led to national unification.

In China, historical narratives focused on military conquest by figures like Qin Shi Huang, Li Shimin, Zhu Yuanzhang, or foreign invaders like the Mongols and Manchus, who fought and defeated rival dynasties to ascend to power. The concept of cities purchasing charters to gain autonomy and becoming a basis for national unity was foreign to Chinese history. Roman legal traditions ensured that the state was founded on citizen rights. In modern European legal systems, individuals or corporations could sue the state, ensuring that personal interests were theoretically protected by law. In contrast, in China, even high-ranking officials could be punished at the emperor's whim, and the concept of rights was virtually non-existent.

Karl Marx criticized China for its universal slavery, highlighting the lack of individual rights. When reading works like "The Origin of the Family, Private Property and the State," "The State and Revolution," and "The Civil War in France," it is crucial to remember the historical context in which Marx and his contemporaries wrote, focusing on their condemnation of states that stood above the people.

Some individuals who extravagantly claim that China could naturally develop capitalism from within forget that capitalism is not merely an economic phenomenon; it is also a legal framework. This legal framework is part of the superstructure. It is not only the economic base that determines the superstructure; the superstructure can also influence what kind of economic structures can emerge or fail to emerge. Capitalism arose from Greek and Roman civilization.

It did not develop in civilizations such as India, China, Persia, the Arab world, or the Eastern Orthodox sphere, and this is not coincidental.

It must be acknowledged that Karl Marx was a product of Greek and Roman civilization, and it is this civilization that he studied in depth. Many Chinese historians seem not to grasp this fundamental point.

To illustrate the point that the bourgeois class does not necessarily lead to the development of capitalism, I want to provide some examples of "laggards" among the bourgeoisie in their march towards capitalism.

Italian City-States and Commercial Republics

The first example of laggards is the Italian city-states and commercial republics such as Venice, Genoa, Pisa, and Florence. These city-states laid the foundations for modern capitalism by pioneering modern banking and international exchange systems. They were also the cradle of the Renaissance. However, following the Age of Discovery, these city-states declined. Many citizens returned to rural areas to engage in small-scale agricultural activities (as noted in "Das Kapital," Volume 1, 1954 edition, p. 905). This decline can be partly explained by the shift of the maritime and colonial center to the Atlantic coast, making the Mediterranean-based Italian cities less relevant. Additionally, the rise of Spanish hegemony in the first half of the 16th century, which encompassed vast territories and trade routes including those in Italy, contributed to their decline. The conclusion here might be that without strong military power and the appropriate scale of a nation-state to protect economic advantages, commercial city-states cannot develop capitalism.

The Hanseatic League

Another example is the Hanseatic League, composed of northern European commercial city-states like Hamburg, Bremen, and Lübeck. This league was prominent in the 12th and 13th centuries, with significant influence even over powerful entities like the Lithuanian-Polish Commonwealth. However, by the 15th and 16th centuries, it too had declined. The reasons for this decline are not well documented in my sources, but it is plausible that the same reasons that led to the decline of the Italian city-states also apply here.

Spanish Communes

A third example is the Spanish communes. Spain was the first to discover the New World, conquer Latin America, and bring back vast quantities of gold and silver. These riches temporarily elevated Spain to the most powerful nation in Europe. However, this great maritime, commercial, and colonial achievement did not lead to the development of capitalism. The reasons are well documented:

At the beginning of the 16th century, Spain had numerous free cities or communes, and the hierarchical parliament still held significant power. In 1519, the Castilian Parliament declared to the king, "Your Majesty, you must know that the king is merely a paid servant of the state." However, when the Castilian Parliament presented demands in 1520 for the king not to leave Castile, prohibit the export of gold, and remove foreigners from high positions, King Charles V rejected them. This led to a revolt in Castile, driven primarily by the urban communes. The uprising failed by 1521, and Charles V aligned himself with the upper nobility against the cities. Marx observed that Spain, though its

aristocracy was in decline, retained its most harmful privileges, and its cities, though having lost their medieval power, did not acquire modern significance (Semenov, "History of the Middle Ages," 1956, Sanlian Press, quoting Marx's "Revolutionary Spain").

In summary, the ambitious emperor's quest for world dominance treated cities as golden geese, killing them for their eggs, resulting in cities losing their medieval power and failing to gain modern significance. Consequently, Spain never reaped the benefits of maritime commerce and colonization, except for the fact that Spanish is still spoken in many Latin American countries today.

These examples, all preceding the Industrial Revolution, demonstrate that the bourgeois class did not always succeed in transforming into capitalists. Many fell by the wayside. Moreover, commercial cities can only foster capitalism under suitable political power and strong military protection. If political and military power merely exploit these cities for conquest and expansion without protecting their growth, capitalism cannot emerge. This lesson should be particularly evident to those familiar with Chinese history.

The existence of free laborers is often cited as a key reason for the rise of capitalism. This explanation holds true for Europe, where labor was relatively scarce, and land resources were comparatively abundant (in the 11th century, England's population was about 2 million, while China's population exceeded 50 million). This argument might be even more relevant for post-geographical discovery Europe, which had vast colonial territories. However, upon further reflection, this certainty seems to be a matter of degree. If the population was indeed so sparse, there wouldn't have been serfs escaping to cities to gain their freedom. From a historical perspective, other factors were likely more influential. As indicated in "The Communist Manifesto," these factors include expanded markets through navigation, commerce, and colonization, and the inventions of the steam engine and machinery.

To supplement this perspective, especially in contrast with China, additional points need to be considered: the legal and ideological frameworks that defined the state's fundamentally commercial attitude; the accumulation of scientific and technological knowledge since ancient Greece and Rome, bolstered by the Renaissance (the development of scientific and technological knowledge cannot be overstated—consider that Zu Chongzhi's mathematical works in the Southern Qi dynasty were lost by the Tang dynasty because no one could understand them. In Confucian China, such academic achievements were inevitably extinguished); the knowledge of rational management (including double-entry bookkeeping, which Sombart compared in importance to the discovery of blood circulation. Fukuzawa Yukichi, the most influential advocate for modernization in Japan during the Meiji Restoration, personally translated works on double-entry bookkeeping); and the religious revolution, particularly the Puritan ethic of frugality and accumulation inspired by deep-seated antipathy towards Catholicism in 16th-century England. If these points are reasonable, then inventions like the steam engine should be considered under the broader category of scientific and technological advancements, a categorization that appears unproblematic from our vantage point over a century later.

Before the Industrial Revolution at the end of the 18th century, Europe had indeed expanded its territories significantly through navigation, commerce, and colonization. Culturally, it boasted figures like Newton, Leibniz, Kant, Hume, Locke, and Diderot. It had conquered Indonesia and the Philippines and began its conquest of India. Britain had established national bonds, the Bank of England, and numerous colonial companies. However, despite its progress, Europe at that time did not yet have an overwhelming advantage over Tsarist Russia, Ottoman Turkey, or the Qing Dynasty in China. In fact, when Europeans first became aware of the conditions in China, they were quite enamored. Quesnay's physiocracy, which Marx hailed as the gospel of capitalism, was inspired by the policies of the Kangxi Emperor and China's tradition of agrarianism.

Although the latent advantages of European civilization were evident and soon manifested as formidable material power, prior to the Industrial Revolution, these advantages were not yet compelling enough to dominate globally or to compel nations to "reform and strengthen" in terror of extinction.

Greek and Roman civilization was merely one of several major global civilizations, alongside others like Chinese civilization, which achieved remarkable feats. Until the Industrial Revolution, world history had not proven the superiority of Greek and Roman civilization. While we can now point to its legal and ideological systems as the foundation of its later material strength, it had not demonstrated its superiority before becoming a formidable material force. If we closely associate capitalism with Greek and Roman civilization, we might reasonably define capitalism as the modern mode of production and production relations that emerged after the Industrial Revolution. In this view, the organized financial methods, expansive maritime trade, commerce, and colonization of the pre-Industrial era can be seen as preparatory stages for modern capitalism.

Why did modern capitalism originate in Britain? The reasons are primarily those listed below. Let's restate and elaborate on them:

1. Historical Background: At that time, Britain had inherited the entirety of scientific and technological advancements accumulated since antiquity and through the Renaissance. It also benefited from the favorable outcomes of 16th-century navigation, commerce, and colonization. Furthermore, due to Britain's unique conditions, it was able to further develop these advantages.

2. Britain's Favorable Conditions: - **Unified Kingdom:** Britain had formed a unified kingdom with the strength to protect its expanding commercial interests. Unlike Spain, which had similar advantages but did not capitalize on them effectively, Britain made the expansion of its commercial interests a fundamental national policy. - **Colonial Expansion:** Britain engaged in extensive colonial expansion without aiming to establish a massive empire like that of Rome or Napoleon. Its colonies, such as those in North America, were more like the independent colonies of ancient Greece, possessing relative autonomy from the mother country.

3. Commercial Ventures and Monopoly Companies: - **Private Enterprise and Monopoly Companies:** In the early stages of its maritime, commercial, and colonial expansion, Britain utilized private adventurers and monopolistic

companies like the East India Company and the South Sea Company. However, the Industrial Revolution was not the achievement of these monopoly companies. This underscores the state's commitment to a commercial-based national policy. By the mid-19th century, John Stuart Mill emphasized in his writings that all business activities should ideally be conducted by private enterprise rather than the government. This attitude had been a fundamental stance from the 17th to the 20th centuries. - **Contrast with China:** In comparison, China had a long history of state-controlled industries starting from the Han dynasty, including the state monopoly on salt and iron, and extending through the Qing dynasty with the state-controlled salt trade and the Guangzhou Thirteen Hongs. Even in ancient times, during the Shang dynasty, China's handicrafts were state-operated.

4. Post-Industrial Revolution Warfare: - **Economic Policies in War:** After the Industrial Revolution, Britain engaged in numerous wars. During the Napoleonic Wars, British and French economic policies were in stark contrast. Napoleon sought to control all private commerce to serve his empire, akin to demanding golden eggs without killing the goose. He suppressed freedom of the press and allowed only a compliant legislature. In contrast, Britain allowed capitalists to exploit child labor without restriction—a historical shame for which Western historians still criticize. Britain raised war funds through public debt, facilitating capital accumulation, while Napoleon's policies had the opposite effect. Britain used its navy extensively and fought only one major land battle, the Battle of Waterloo, to conclude the war. This approach was consistent in Britain's earlier wars, such as those against Spain to aid Dutch independence and against Louis XIV. - **Outcome of Wars:** Britain's opponents, who adopted dynasty-centric policies, failed to foster economic development despite similar historical legacies. In contrast, each war strengthened Britain economically, culminating in the Industrial Revolution.

In conclusion, capitalism emerged in Britain due to a confluence of factors. No single factor alone could have led to this outcome. Other countries had commercial-based economies like the Netherlands, but the Industrial Revolution did not occur there. Scientific and technological achievements since the Renaissance were shared across many European nations, yet only Britain experienced the Industrial Revolution. Strong royal power was present in both France and Britain, but the Industrial Revolution did not occur in France (although the French Revolution played a role, the earlier state-sponsored workshops under Colbert in Louis XIV's era did not lead to an industrial revolution). The expansion of markets through navigation, commerce, and colonization benefited many European countries, but only in Britain did it culminate in the Industrial Revolution.

From this analysis, it can be inferred that the notion that any country would inevitably develop capitalism is fundamentally flawed. This is especially true in the case of China. The self-assured celestial empire, despite the shocks of the Opium Wars and the Anglo-French expedition, remained largely unperturbed. Even the Sino-French War of 1884 failed to awaken it. It took the severe blow of the First Sino-Japanese War in 1894 to elicit even a slight reaction. Only

after the Boxer Rebellion and the subsequent treaties of 1901 did China begin to awaken. To suggest that China could have spontaneously developed capitalism is nothing short of a delusion.

Furthermore, regarding the hypothesis of nascent capitalism in the late Ming Dynasty, Liang Fangzhong's "The Grain Tribute System of the Ming Dynasty" subtly provides evidence to refute this claim. This book is meticulously argued, richly documented, and relatively concise, making it a valuable read for those interested in this topic.

Liang's work shows how the socio-economic structures in China during the late Ming period were not conducive to the development of capitalism. The grain tribute system, a crucial aspect of the Ming economy, was deeply entrenched in feudal practices and state control. This system required local officials to procure and transport grain to the capital, reinforcing a centrally controlled economy that left little room for the independent capitalist enterprise.

Moreover, the social and political atmosphere in late Ming China was heavily influenced by Confucian ideals, which emphasized stability, hierarchy, and agrarianism. These cultural values discouraged the kind of entrepreneurial spirit and market competition essential for capitalist development.

In contrast, the capitalist development in Europe was facilitated by a unique combination of political, economic, and cultural factors. The decline of feudalism, the rise of a market-oriented agricultural system, the development of banking and financial institutions, and the cultural shifts brought about by the Renaissance and the Reformation all contributed to the emergence of capitalism in Europe.

Therefore, the suggestion that China could have independently developed capitalism without external influences overlooks the significant differences in historical, cultural, and economic contexts. It is a simplistic view that fails to appreciate the complex and multifaceted nature of capitalist development.

6 David Landes, in his seminal work "The Wealth and Poverty of Nations," provides a comprehensive analysis of why China, the "Celestial Empire," failed to achieve the same economic dominance and technological progress as Europe despite its early advancements and considerable resources.

Landes attributes China's stagnation to a variety of interconnected factors that contrast sharply with the European experience.

1. Political Centralization and Autocracy

Landes points to the highly centralized and autocratic nature of the Chinese state as a primary reason for its economic stagnation. The Ming and Qing

dynasties maintained strict control over all aspects of life, including commerce and innovation. This centralized power structure stifled individual initiative and discouraged the kind of entrepreneurial activity that was flourishing in Europe.

2. Cultural Attitudes and Confucian Ideals

The cultural context of China, deeply rooted in Confucianism, prioritized social harmony, stability, and hierarchy over individual achievement and economic competition. Confucian ideals promoted respect for tradition and authority, which led to a societal resistance to change and innovation. This cultural conservatism contrasted sharply with the more dynamic and competitive cultural milieu of Europe during the Renaissance and the Enlightenment.

3. Technological Stagnation

Despite China's early technological achievements, such as gunpowder, the compass, and printing, Landes argues that these innovations did not lead to sustained industrial growth or economic transformation. The Chinese state often monopolized or restricted technological advancements to prevent any threats to its authority. In contrast, Europe's fragmented political landscape allowed for greater competition and experimentation, fostering continuous technological and scientific advancements.

4. Economic Isolation and Trade Policies

Landes highlights China's economic isolationism as a significant factor in its stagnation. The Ming and Qing dynasties adopted policies that restricted foreign trade and interaction. The famous example of the maritime expeditions led by Admiral Zheng He, which were abruptly ended by the Ming government, exemplifies this inward-looking approach. In contrast, Europe's engagement in global exploration, trade, and colonization opened new markets and resources, fueling economic growth.

5. Bureaucratic Inefficiency and Corruption

The bureaucratic system in China, although sophisticated, became increasingly inefficient and corrupt over time. The civil service examinations, which were intended to select the best and brightest for government service, often led to a rigid and self-perpetuating bureaucracy more interested in maintaining its privileges than in fostering economic or technological progress. This contrasts with Europe's emerging meritocratic and more flexible systems that encouraged innovation and efficiency.

6. Lack of Legal and Institutional Support for Capitalism

China lacked the legal and institutional frameworks that supported capitalist development in Europe. Property rights were not as well-defined or protected, and there was no equivalent to the European financial institutions like banks and stock exchanges that facilitated investment and economic growth. Landes argues that these institutional deficiencies prevented the kind of sustained economic development seen in Europe.

Conclusion

David Landes' analysis of the Celestial Empire in "The Wealth and Poverty of Nations" paints a picture of a civilization that, despite its early advantages, failed to capitalize on its potential due to a combination of political, cultural, technological, and economic factors. The centralization of power, cultural con-

servatism, technological stagnation, economic isolationism, bureaucratic inefficiency, and lack of supportive institutions all contributed to China's inability to lead the industrial revolution and achieve the same level of economic prosperity as Europe. This analysis underscores the complex interplay of factors that drive economic development and highlights the unique path taken by Europe in achieving modern economic growth.

7 Karl Wittfogel, in his influential work "Oriental Despotism," provides a critical analysis of the political and economic structures of the Celestial Empire (China).

Wittfogel's theory centers around the concept of "hydraulic civilization," which he uses to describe societies that rely heavily on large-scale irrigation and water control systems. According to Wittfogel, these hydraulic societies, including ancient China, develop unique forms of despotic governance due to the centralization of power required to manage their complex irrigation networks.

1. Hydraulic Agriculture and Centralized Power

Wittfogel argues that the need for extensive irrigation in China's vast agricultural regions necessitated a highly centralized and bureaucratic state apparatus. The construction, maintenance, and regulation of large-scale irrigation projects required a level of coordination and control that could only be achieved through a strong, centralized authority. This centralization of power was essential for the efficient functioning of the agricultural economy but also led to the development of a despotic political structure.

2. Bureaucratic Despotism

The centralized state in China, according to Wittfogel, evolved into a bureaucratic despotism. The emperor and his bureaucrats wielded immense power over all aspects of society, including the economy, politics, and social life. This bureaucracy was characterized by a rigid hierarchy and strict control, with officials often appointed based on their loyalty to the emperor rather than their merit or ability. This system stifled individual initiative and innovation, as the bureaucrats prioritized maintaining their power and privileges over promoting economic or technological progress.

3. Control Over Resources

In Wittfogel's view, control over water resources was a fundamental aspect of the Chinese state's power. The ability to allocate water for irrigation meant control over agricultural production, which in turn meant control over the food supply and the livelihood of the population. This control allowed the state to exert a significant influence over the peasantry, ensuring their dependence on the central authority. The state's monopoly on vital resources thus reinforced its despotic rule and suppressed any potential challenges to its authority.

4. Suppression of Social Mobility and Innovation

Wittfogel contends that the despotic nature of the Chinese state suppressed social mobility and innovation. The rigid social structure and the emphasis on maintaining the status quo discouraged individuals from seeking new ways of doing things or challenging established norms. This cultural conservatism was further reinforced by the state's control over education and the dissemination of knowledge. The civil service examinations, while promoting a certain level of meritocracy, ultimately served to indoctrinate officials with the state's ideology and reinforce its control.

5. Resistance to Change

One of the key themes in Wittfogel's analysis is the resistance to change inherent in hydraulic societies like China. The centralized control necessary for managing irrigation systems created a conservative and static society resistant to reform. Any significant change in the political or economic structure would have threatened the stability of the irrigation system and, by extension, the state's control. This resistance to change contributed to China's relative stagnation compared to the dynamic and competitive societies of Europe.

Karl Wittfogel's analysis of the Celestial Empire in "Oriental Despotism" presents a compelling argument that the political and economic structures of ancient China were fundamentally shaped by its reliance on large-scale irrigation systems. The need for centralized control over these hydraulic projects led to the development of a despotic bureaucratic state that suppressed innovation, maintained rigid social hierarchies, and resisted change. Wittfogel's theory highlights the intricate relationship between environmental factors, political power, and economic development, offering a unique perspective on the historical trajectory of Chinese civilization.

8 The relationship between religious ideologies and economic development, particularly Protestantism and Catholicism, is a complex and nuanced subject extensively explored by Max Weber in his seminal work "The Protestant Ethic and the Spirit of Capitalism."

Weber's thesis posits that Protestantism, particularly Calvinism, emphasized hard work, discipline, and frugality, which he termed the "Protestant ethic." This ethic encouraged individuals to engage in economic activities methodically and rationally, promoting a culture of diligence and efficiency. The Protestant concept of "calling" imbued everyday work with spiritual significance, motivating individuals to pursue their professions diligently and efficiently. Moreover, the practice of asceticism among Protestants, which avoided luxury and excessive consumption, led to the accumulation of capital that could be reinvested into businesses, fostering economic growth.

The impact of these Protestant values on the market, firm, and law was significant. The emphasis on hard work and frugality helped create a culture conducive to economic activity and market expansion. Rational and disciplined economic behavior promoted efficiency and productivity, essential for market development. The Protestant values of self-discipline and responsibility supported the growth of firms, as entrepreneurs were driven by a sense of duty and a desire for success within their "calling." This led to the establishment and expansion of businesses. Furthermore, the rational approach to work and economic activity influenced the development of legal systems that supported contracts, property rights, and fair trade, all crucial for a functioning market economy.

In contrast, traditional Catholic views often emphasized the spiritual over the material world, potentially discouraging the pursuit of economic gain as a primary life goal. The hierarchical nature of the Catholic Church might have influenced societal structures, reinforcing established social orders and potentially limiting entrepreneurial activities. Catholic teachings emphasized communal values and charity, which, while positive in many respects, might have led to less emphasis on individual economic achievement and capital accumulation. This focus on otherworldliness and charity might have resulted in less emphasis on market-driven economic activities, potentially slowing market development compared to Protestant regions. The less individualistic approach and greater focus on communal well-being might have resulted in fewer incentives for entrepreneurial activities and firm growth. Additionally, while Catholic regions developed robust legal systems, the focus on maintaining social order and communal values might have influenced the legal environment differently compared to Protestant regions, potentially affecting economic dynamism.

It is essential to consider historical and contextual factors that also influenced these developments. Regions with Protestant majorities, such as parts of Northern Europe, had political and economic conditions that favored market development and industrialization. These regions often had more decentralized political structures that encouraged economic experimentation and innovation. Protestant nations like the Netherlands and England established extensive trade networks and colonies, further boosting their economic growth and legal frameworks to support global trade. The Protestant Reformation and the Catholic Counter-Reformation were responses to broader social and political changes, and the differing responses to these changes shaped economic and legal institutions in various ways.

While Weber's thesis provides a compelling argument for the positive influence of the Protestant ethic on economic development, it is crucial to recognize that these religious ideologies interacted with a host of other social, political, and economic factors. Protestantism's promotion of hard work, rationality, and frugality contributed to market development, firm growth, and supportive legal frameworks. Conversely, traditional Catholicism's focus on spiritual and communal values may have resulted in different economic outcomes. However, this analysis should not be overly deterministic, as economic development is influenced by a complex interplay of factors beyond religious ideology alone.

In linking Weber's Protestant ethic to Coase's transaction cost framework, we see how cultural and ethical values significantly impact economic efficiency. The Protestant ethic's emphasis on honesty, transparency, rationality, individual responsibility, self-discipline, and ethical conduct aligns with reducing transaction costs across several dimensions. Lower search and information costs are achieved through honest and diligent communication, minimized bargaining and decision costs through rational and methodical negotiation processes, and reduced policing and enforcement costs through self-discipline and strong community norms. This synthesis illustrates how cultural factors can enhance the efficiency of market transactions and support the development of robust economic institutions, highlighting the profound interplay between cultural values and economic performance.

Weber argued that the Protestant ethic emphasized honesty, integrity, and straightforwardness, creating an environment where individuals and firms provide clear and truthful information. This cultural emphasis significantly reduces the effort and cost associated with searching for reliable information. In markets where honesty and transparency prevail, businesses and individuals spend less time and resources gathering accurate data. The Protestant ethic's focus on hard work and diligence further encourages thoroughness and accuracy in business dealings, improving the quality of information available in the market. This meticulous approach ensures better documentation and record-keeping, making information more readily available and trustworthy, thus reducing the necessity for extensive due diligence. Consequently, honest and transparent communication within markets decreases search costs, facilitating efficient information flow and minimizing the time required to find reliable partners and information.

In terms of bargaining and decision costs, Weber's thesis posits that the Protestant ethic promotes a rational and methodical approach to work and decision-making. This mindset encourages clear, logical, and efficient negotiations and decision processes. The Protestant focus on individual responsibility and accountability leads to more decisive and transparent bargaining and decision-making processes. Rational and methodical approaches result in clearer and more straightforward negotiations, minimizing prolonged bargaining and reducing associated costs. Parties are more likely to reach agreements efficiently, reflecting a culture of personal accountability that ensures decisions are made swiftly, reducing delays and costs associated with lengthy decision-making processes. This efficiency is evident in the quicker resolution of disputes and more decisive contract agreements, streamlining business operations and reducing transactional friction.

The Protestant ethic's emphasis on self-discipline and ethical conduct also means that individuals and firms are more likely to adhere to agreements and contracts voluntarily. This cultural value significantly lowers policing and enforcement costs, as high levels of self-discipline and ethical behavior reduce the need for external monitoring and enforcement. Strong community standards and social norms within Protestant communities act as informal enforcement mechanisms, ensuring that parties adhere to agreed-upon rules and behaviors without requiring extensive formal enforcement. This internalization of ethical

behavior reduces the frequency of breaches and the subsequent need for legal recourse, making enforcement more efficient and less costly.

By linking Weber's Protestant ethic to Coase's transaction cost framework, we see that cultural and ethical values significantly impact economic efficiency. The Protestant ethic's emphasis on honesty, transparency, rationality, individual responsibility, self-discipline, and ethical conduct aligns with reducing transaction costs across several dimensions. Search and information costs are lowered through honest and diligent communication, bargaining and decision costs are minimized through rational and methodical negotiation processes, and policing and enforcement costs are reduced through self-discipline and strong community norms. This synthesis illustrates how cultural factors can enhance the efficiency of market transactions and support the development of robust economic institutions.

It's essential to approach this topic with sensitivity and recognize that attributing economic characteristics to entire religious groups can be overly simplistic and potentially misleading. However, historically and contextually, certain socio-cultural factors associated with traditional Catholic values and practices might have influenced economic behavior in ways that could be interpreted as increasing transaction costs. Understanding these nuances helps appreciate the complex interplay between culture, religion, and economic efficiency.

9 Analyzing how certain aspects of traditional Catholicism might affect search and information costs, bargaining and decision costs, and policing and enforcement costs reveals a nuanced interplay between religious values and economic behavior.

The hierarchical structure of the Catholic Church, characterized by a top-down approach to information dissemination, can create bottlenecks in the flow of information. Lower levels often wait for directives from higher authorities, slowing down the process and increasing search costs. The strong emphasis on tradition and established practices, while providing stability, may hinder the adoption of new information and innovative practices. This reliance on tradition can result in less efficient information flow, necessitating additional efforts from individuals and businesses to obtain current and relevant data, further increasing search costs.

Catholicism's collectivist and communal values emphasize the collective good, often leading to more inclusive and prolonged decision-making processes. This inclusivity ensures that all voices are heard and considered, but it can lengthen bargaining processes as more stakeholders are involved. Additionally, Catholic ethical teachings might lead to more complex bargaining processes, as moral and

ethical considerations are weighed alongside economic ones. This integration of ethical considerations into economic decisions can make the decision-making process more complex and time-consuming, increasing associated costs. The emphasis on communal decision-making and ethical considerations reflects a commitment to inclusivity and morality but can increase bargaining and decision costs.

The Catholic Church's centralized authority structure can also impact policing and enforcement costs. Dependence on higher levels for the enforcement of rules and norms can lead to less autonomy and self-enforcement at lower levels. This centralization may necessitate more formal mechanisms for monitoring and enforcement, as lower levels rely on directives from higher authorities. Additionally, the sacrament of confession and the emphasis on forgiveness, while spiritually beneficial, might sometimes lead to less stringent enforcement of rules, relying more on personal repentance and absolution. This focus on forgiveness and repentance can result in variable enforcement of rules, requiring additional resources to ensure consistent adherence to agreements and standards, thereby increasing policing and enforcement costs.

While these factors provide context for understanding potential increases in transaction costs associated with traditional Catholic cultural practices, it is essential to avoid overgeneralizations. Socio-economic behavior is influenced by a wide range of factors, including historical, cultural, political, and economic contexts, and not solely by religious affiliation. Traditional Catholic values might influence economic behavior in ways that could be interpreted as increasing transaction costs through hierarchical structures and an emphasis on tradition, inclusive decision-making processes, and moral considerations, and centralized authority with variable enforcement practices. However, these broad generalizations do not account for the diversity within Catholic communities and the various ways in which Catholic values can positively influence economic behavior. Recognizing the complexity and multifaceted nature of how religion interacts with economic processes is crucial for a comprehensive understanding of this relationship.

10 Michael Mann’s theory on social power offers a comprehensive framework for understanding how various sources of power interact to shape historical events and societal structures. One of Mann’s four sources of social power is military power, which becomes particularly significant when examining the influence and control exerted by capitalists after key events such as the English Civil War and the Glorious Revolution in Britain.

The English Civil War and the Glorious Revolution

The English Civil War (1642–1651) was a significant conflict between the monarchy, led by King Charles I, and Parliament. The war concluded with the Parliamentarian forces’ victory and Charles I’s execution, leading to the temporary establishment of the Commonwealth under Oliver Cromwell. This period demonstrated the critical role of military power in political restructuring.

The Glorious Revolution of 1688 saw the overthrow of King James II and the ascension of William III and Mary II to the throne, supported by Parliament. This event marked the consolidation of a constitutional monarchy and the supremacy of Parliament over the monarchy, setting the stage for modern British governance.

Military Power and Capitalist Control

Post-Civil War Period: During and after the Civil War, the New Model Army, loyal to Parliament, became a central force. The military’s success was crucial in the Parliamentarian victory and Charles I’s execution. Oliver Cromwell, a key military leader, rose to power as the Lord Protector of the Commonwealth, exemplifying the military’s dominance. However, his rule also laid the groundwork for the eventual return to monarchy, albeit under new conditions favoring parliamentary supremacy.

Post-Glorious Revolution: The Glorious Revolution significantly shifted the balance of power, establishing Parliament’s primacy over the monarchy and ensuring military subordination to civilian control. This new political settlement favored the emerging capitalist class. Wealthy merchants, financiers, and landowners who supported Parliament and William III gained considerable influence. The founding of the Bank of England in 1694 symbolized the intertwining of financial power with state military power.

Mann’s Perspective on Military Power

Integration with Capitalist Interests: Post-Glorious Revolution, military power was firmly placed under Parliament’s control, which increasingly represented capitalist interests. This period marked a transition where the military

served the state, which in turn was influenced by the capitalist class. The financial needs of the military and the state led to the development of new financial instruments and institutions, such as government bonds and the Bank of England. These innovations were driven by capitalists seeking profitable investments and stable governance.

Military as an Instrument of Capitalist Expansion: The British military, particularly the navy, became crucial in protecting and expanding British trade routes, vital for capitalist expansion and colonial ventures. Domestically, the military was used to maintain internal stability, protecting the capitalist class's interests against potential uprisings or disturbances.

11 The period of the English Civil War and the Glorious Revolution witnessed significant shifts in political power, with capitalists increasingly exerting control. Michael Mann's framework on social power provides a valuable perspective for understanding the interplay of economic, military, ideological, and political powers during these transformative events. This analysis details how capitalists came to dominate political power during this period.

The English Civil War (1642-1651)

The English Civil War was fundamentally a struggle over political sovereignty between the monarchy and Parliament. King Charles I's attempts to govern without Parliament and impose arbitrary taxation alienated many, especially those with economic interests. Members of Parliament, including merchants, landowners, and financiers from the burgeoning capitalist class, resented the King's restrictions on commerce. These capitalists provided significant financial support to the Parliamentarians, crucial for maintaining and provisioning the New Model Army, which played a decisive role in the war. The victory of the Parliamentarians and the execution of Charles I in 1649 symbolized a political system more responsive to capitalist interests. The Commonwealth under Oliver Cromwell, although short-lived, further weakened the traditional monarchical power structure.

The Glorious Revolution (1688)

The Glorious Revolution was driven by King James II's attempts to centralize power and his perceived favoritism towards Catholics, which alarmed both the Protestant majority and the capitalist class. Key political figures with substantial economic interests invited William of Orange to invade England to

protect their economic and political freedoms from James II's autocratic tendencies. The invasion was backed by significant financial resources from the capitalist class, ensuring its success. The revolution resulted in the establishment of a constitutional monarchy. The Bill of Rights 1689 limited the powers of the crown and ensured that Parliament, now significantly influenced by capitalist interests, held the ultimate power. The new political arrangement led to economic policies that favored the capitalist class, including the establishment of the Bank of England in 1694, which stabilized and promoted capitalist economic activities.

Capitalists' Control of Political Power

Capitalists increasingly dominated Parliament, especially the House of Commons, which became a stronghold for wealthy merchants, landowners, and financiers advocating for policies favoring economic growth and stability. They used their economic power to influence political decisions, providing crucial financial support during conflicts and ensuring the state's prosperity. Significant legal and institutional reforms protected property rights, promoted commerce, and reduced arbitrary taxation, aligning with the interests of the capitalist class. This alignment contributed to political stability and the rule of law, essential for economic development. The control over political power facilitated economic policies that promoted trade, industry, and financial innovation, laying the groundwork for the Industrial Revolution.

12 Adam Smith, often hailed as the "father of modern economics," made foundational contributions that have deeply influenced capitalist ideology. His seminal work, "The Wealth of Nations," laid the groundwork for many principles that underpin capitalist economic systems.

The Concept of the Invisible Hand

Smith introduced the idea of the "invisible hand" to explain how individuals pursuing their self-interest inadvertently benefit society as a whole. He argued that personal economic pursuits lead to the efficient allocation of resources through market mechanisms, suggesting that markets are self-regulating and require minimal government intervention. This concept is central to capitalist ideology, advocating for free markets.

Division of Labor

Smith emphasized the division of labor as a key driver of productivity and efficiency. Using the example of a pin factory, he illustrated how specialization allows workers to produce significantly more than if each worker performed every task independently. This focus on specialization and division of labor supports

the rationale for industrialization and complex market economies, which are hallmarks of capitalism.

Laissez-Faire Economics

Advocating for minimal government intervention, Smith's laissez-faire approach argues that the government should only protect property rights, enforce contracts, and provide public goods that the market cannot efficiently supply. This principle underpins the capitalist belief in free markets as the most effective way to allocate resources and generate wealth.

The Importance of Self-Interest

Smith posited that individuals are motivated by self-interest, which drives economic activity benefiting society. By pursuing their own interests, individuals engage in trade and production, creating wealth and improving living standards. Recognizing self-interest and the profit motive as legitimate and beneficial drivers of economic activity is a cornerstone of capitalist ideology.

The Role of Competition

Smith highlighted competition's role in regulating markets, arguing that it leads to better products, lower prices, and efficient production methods. Competition ensures that businesses serve consumers' interests, offering more choices and lower prices, reinforcing the capitalist view that competitive markets are essential for economic prosperity.

Wealth Creation and Economic Growth

Smith emphasized capital accumulation as vital for economic growth, arguing that saving and investing profits lead to new capital creation, generating more wealth. His focus on wealth creation and distribution provides a framework for understanding economic development and growth, central concerns of capitalist economies.

Critique of Mercantilism

Smith critiqued mercantilist policies that focused on hoarding gold and restricting imports. He argued that free trade and open markets allow nations to specialize in goods where they have a comparative advantage, leading to greater wealth for all. This critique laid the groundwork for capitalist beliefs in the benefits of globalization and free trade.

Moral and Ethical Foundations

In "The Theory of Moral Sentiments," Smith explored the ethical and moral dimensions of economic behavior, arguing that sympathy and social bonds are crucial for a well-functioning society. This perspective has influenced ideas about ethical capitalism and corporate social responsibility, recognizing that markets operate within a broader moral context.

Thus, Adam Smith's contributions to capitalist ideology are profound and multifaceted. His ideas about the invisible hand, division of labor, laissez-faire economics, self-interest, competition, wealth creation, and free trade have shaped modern capitalist thought. By providing a comprehensive framework for understanding market operations and wealth generation, Smith's influence on economic theory and practice continues to underpin the principles of capitalism, shaping global economies today.

13 Before Adam Smith, and among his contemporaries, several thinkers and economic theorists made significant contributions to the development of capitalist ideology. Their ideas laid the groundwork for many of the principles later formalized by Smith in "The Wealth of Nations."

Richard Cantillon (1680-1734)

Richard Cantillon's "Essai sur la Nature du Commerce en Général" is considered one of the first systematic economic treatises. He introduced the concept of the entrepreneur as a risk-taker and central figure in economic activity, setting the stage for later theories about entrepreneurship. Cantillon also analyzed market dynamics, explaining how prices are determined and how markets tend toward a natural equilibrium. His insights into supply and demand influenced subsequent economic thought.

John Locke (1632-1704)

John Locke's "Two Treatises of Government" argued that private property is a natural right derived from one's labor, a fundamental principle in capitalist ideology. Locke emphasized the importance of individual ownership and the protection of property rights. He also advocated for a limited government whose primary role is to protect individuals' property rights and freedoms, aligning with later capitalist arguments for minimal state intervention in economic affairs.

Bernard Mandeville (1670-1733)

Bernard Mandeville's "The Fable of the Bees" posited that private vices, such as selfishness and greed, can lead to public benefits by driving economic activity and prosperity. This paradoxical view influenced later ideas about the positive effects of self-interest in economic systems.

Sir William Petty (1623-1687)

Sir William Petty, considered one of the founders of political economy, used empirical data to analyze economic activity, laying the groundwork for statistical and quantitative approaches in economics. His work on the value of land and labor contributed to the development of value theories that influenced later classical economists, including Adam Smith.

François Quesnay (1694-1774)

François Quesnay and the Physiocrats were among the first to systematically study economics. They emphasized the importance of agriculture and believed that land was the source of all wealth. While their focus on agriculture differed from later capitalist thought, their ideas about economic order and natural law influenced subsequent economic theories. Quesnay's "Tableau Économique" was one of the first attempts to model the economy as a whole, showing the flow of goods and money and influencing later economic analysis.

David Hume (1711-1776)

David Hume wrote extensively on economics, including essays on money, trade, and interest. He argued that commerce and industry were essential for national wealth and prosperity. Hume's price-specie flow mechanism explained how trade imbalances between nations are self-correcting through the movement of gold and silver, influencing later ideas on international trade and monetary policy.

Dudley North (1641-1691)

Dudley North was an early advocate for free trade and minimal government intervention. In "Discourses upon Trade," he argued that trade restrictions hinder economic prosperity and that free markets lead to the most efficient allocation of resources.

John Law (1671-1729)

John Law's ideas on money and banking, including the use of paper money and the establishment of central banks, were innovative and influenced later monetary policy, despite his controversial and ultimately disastrous Mississippi Company scheme.

Anne-Robert-Jacques Turgot (1727-1781)

Anne-Robert-Jacques Turgot, a French economist and statesman, implemented significant economic reforms aimed at reducing regulation and promoting free markets. His work, "Reflections on the Formation and Distribution of Wealth," discussed capital accumulation, interest, and the role of entrepreneurs, contributing to early economic thought on capital and investment.

14 Adam Smith and many of his contemporaries, as well as predecessors, made substantial contributions to reducing search and information costs, bargaining and decision costs, and policing and enforcement costs in the capitalist economy. Here's a detailed look at how their ideas and innovations influenced these aspects of economic transactions:

1. Reducing Search and Information Costs

Adam Smith: - Market Transparency: Smith's advocacy for free markets and competition inherently promotes transparency. In competitive markets, firms are incentivized to provide clear and accurate information about their products to attract consumers, reducing the cost and effort consumers spend on searching for information. - The Invisible Hand: The idea of the invisible hand suggests that individuals pursuing their self-interest unintentionally create a more efficient allocation of resources, which includes better dissemination of

information as businesses strive to meet consumer needs.

Richard Cantillon: By highlighting the role of the entrepreneur as a risk-taker and an information processor, Cantillon underscored the importance of entrepreneurs in reducing search costs by providing necessary information to the market.

David Hume: Hume's writings on money and trade explained how price signals work, helping to clarify how market participants can make informed decisions based on available price information, thereby reducing search costs.

François Quesnay and the Physiocrats: Their focus on the flow of goods and money through the economy emphasized the importance of clear economic data and modeling, as seen in Quesnay's "Tableau Économique," which aimed to make economic relationships more transparent.

2. Reducing Bargaining and Decision Costs

Adam Smith: - Specialization and Division of Labor: By promoting the division of labor, Smith demonstrated how specialization can lead to more efficient production processes and reduce the complexity of negotiations, as each party can focus on specific tasks. - Market Competition: Smith's advocacy for competition helps reduce bargaining costs by setting clear prices through supply and demand dynamics, minimizing the need for prolonged negotiations.

John Locke: Locke's theories on property rights and government laid the groundwork for legal frameworks that protect transactions, reducing the need for extensive bargaining over property issues.

David Ricardo: Ricardo's theory of comparative advantage provided a clear rationale for trade, reducing the complexity of international trade negotiations by showing that countries benefit from specializing in what they do best.

Sir William Petty: Petty's early use of empirical data and statistics helped standardize economic measurements and concepts, reducing the ambiguity and costs associated with economic decision-making.

3. Reducing Policing and Enforcement Costs

Adam Smith: - Moral Sentiments: In "The Theory of Moral Sentiments," Smith argued that social norms and moral behavior play a crucial role in economic transactions, reducing the need for extensive policing and enforcement. - Rule of Law: Smith supported a legal framework that protects property rights and enforces contracts, which reduces the costs associated with ensuring compliance and resolving disputes.

John Locke: Locke's emphasis on the social contract and government's role in protecting property rights laid the foundation for the rule of law, reducing the need for extensive enforcement mechanisms.

David Hume: Hume's ideas on justice and property emphasized the importance of stable property rights and legal systems, which help lower enforcement costs by creating predictable and reliable frameworks for economic activity.

François Quesnay and the Physiocrats: Their focus on natural law and economic order underscored the importance of clear and consistent rules that reduce the need for extensive enforcement efforts.

Thus, the contributions of Adam Smith and other economic thinkers significantly influenced the reduction of transaction costs in capitalist economies.

Their ideas promoted transparency, competition, and legal frameworks that streamlined economic activities and minimized the resources required for information search, bargaining, decision-making, and enforcement. By establishing principles that support efficient market functioning and stable property rights, these thinkers helped lay the groundwork for the modern capitalist economy.

15 The control of economic power by capitalists before and during the Glorious Revolution (1688) in Britain involved a complex interplay of social, political, and economic factors. The influence of the capitalist class grew significantly during these periods through strategic actions and alliances, financial innovations, and political maneuvers.

Before the Glorious Revolution

By the 17th century, a significant merchant class had emerged in urban centers like London, accumulating substantial wealth through domestic and international trade. The formation of chartered companies, such as the East India Company (1600) and the Hudson's Bay Company (1670), allowed merchants to pool resources, share risks, and gain monopolistic advantages granted by the Crown. These companies played a crucial role in controlling trade and accumulating economic power.

The development of banking and finance facilitated capital accumulation and the extension of credit. While the Bank of England was established after the Glorious Revolution in 1694, the foundations of modern banking were laid before this period with the emergence of private banks and credit systems. The proliferation of joint-stock companies enabled the pooling of capital for large ventures, spreading risk among investors and enhancing the scale of commercial enterprises.

Wealthy merchants and landowners began to assert influence in Parliament, advocating for policies that favored trade, such as the Navigation Acts (1651), which aimed to protect English commerce by restricting foreign ships from trading with English colonies. Many merchants formed alliances with the nobility, intermarrying and investing in land, which diversified their economic base and increased their social and political influence.

During the Glorious Revolution

King James II's attempts to centralize power and his perceived favoritism toward Catholics alarmed both the Protestant majority and the capitalist class. His policies were seen as threats to economic and religious freedoms, motivating opposition among merchants and landowners. Many capitalists provided finan-

cial backing and logistical support to William of Orange, enabling his successful invasion and the subsequent overthrow of James II.

The Glorious Revolution resulted in the Bill of Rights 1689, establishing the supremacy of Parliament over the monarchy. This shift greatly benefited the capitalist class, as Parliament was more responsive to their economic interests than the monarchy had been. Legal and institutional reforms favored capitalist interests, including the establishment of a constitutional monarchy that protected property rights and promoted economic stability.

The establishment of the Bank of England in 1694 was crucial in managing public debt and providing a stable financial environment. It facilitated government borrowing at lower interest rates, essential for funding wars and public projects that supported capitalist expansion. The creation of a national debt allowed for more extensive and reliable public financing, instrumental in funding large-scale projects and military campaigns that secured and expanded British trade interests.

The enforcement of the Navigation Acts under the new regime protected British shipping and trade, boosting the maritime economy dominated by capitalist merchants. The new political framework promoted policies that favored free trade, reduced internal tariffs, and encouraged the development of infrastructure that supported commerce.

Conclusion

Before and during the Glorious Revolution, British capitalists expanded their economic power through strategic alliances, financial innovations, and political influence. By leveraging their economic resources to support political changes aligning with their interests, they helped establish a constitutional monarchy and legal reforms that promoted economic growth and stability. The support for William of Orange and the Glorious Revolution marked a significant shift in power, ensuring that capitalist interests were well-represented in the new political order.

16 The control of political power by capitalists before and during the Glorious Revolution significantly impacted reducing search and information costs, bargaining and decision costs, and policing and enforcement costs. Here's an analysis of how these costs were affected:

Reduction in Search and Information Costs

The establishment of clearer property rights and legal frameworks by a capitalist-influenced Parliament created a more predictable and transparent environment for economic transactions. This change reduced the effort and resources needed to gather reliable information about property ownership and

contractual obligations. Additionally, the rise of the press and other forms of publication led to greater dissemination of market information. Merchants and capitalists used newspapers and pamphlets to spread information about prices, market conditions, and trade opportunities, making it easier for others to access necessary information.

The creation of the Bank of England in 1694 improved financial transparency and stability, providing reliable information about monetary policy and financial conditions. This reduced uncertainty and the costs associated with searching for financial information. The establishment of government bonds and other standardized financial instruments also facilitated easier comparison and assessment of investment opportunities, reducing information asymmetry between investors.

Reduction in Bargaining and Decision Costs

The solidification of property rights and enforcement of contracts by a capitalist-influenced legal system reduced the time and resources spent on negotiating and securing property and contract agreements. Clear rules meant fewer disputes and more straightforward negotiations. Early moves toward standardized commercial laws under the influence of capitalists helped simplify and expedite trade and business agreements, reducing the complexity and duration of bargaining processes.

The promotion of free markets and competition, advocated by capitalists, ensured that prices and terms of trade were more likely determined by market forces rather than protracted negotiations. This competitive environment reduced the need for lengthy bargaining, as prices became more standardized and reflective of supply and demand.

Reduction in Policing and Enforcement Costs

The establishment of parliamentary supremacy after the Glorious Revolution meant that laws and regulations were more consistently enforced. The legal reforms that capitalists supported helped create a reliable and predictable legal environment, reducing the costs of policing and enforcement. The development of a more independent judiciary ensured that legal disputes were resolved fairly and efficiently, reducing the need for private enforcement and the associated costs.

The influence of the Protestant ethic, as analyzed by Max Weber, promoted honesty, diligence, and responsibility in business practices. This cultural shift reduced the need for extensive enforcement as more businesspeople adhered to ethical norms voluntarily. The rise of joint-stock companies and corporate governance structures meant that internal rules and oversight mechanisms helped enforce compliance with agreements and contracts, reducing the need for external policing.

Conclusion

The control of political power by capitalists before and during the Glorious Revolution led to significant reductions in transaction costs. Search and information costs were reduced through greater transparency, standardized financial instruments, and improved dissemination of market information. Bargaining and decision costs were lowered by establishing clear property rights, enforcing contracts, promoting market competition, and developing efficient commercial

laws. Policing and enforcement costs were minimized by creating a reliable legal framework, developing an independent judiciary, and fostering ethical business practices and effective corporate governance. These changes facilitated a more efficient and predictable economic environment, supporting the growth and stability of capitalist enterprises in Britain.

17 The control of military power by capitalists before and during the Glorious Revolution significantly shaped the political and economic landscape of Britain. This influence was manifested through financial support, strategic alliances, and the establishment of institutions that aligned military power with capitalist interests.

Before the Glorious Revolution

Wealthy merchants and financiers had accumulated substantial economic power through trade and commerce. These capitalists provided crucial financial support to Parliament during the English Civil War (1642-1651), which was essential in funding the New Model Army. This army played a pivotal role in defeating the Royalists, thereby shifting the balance of power away from the monarchy and towards Parliament. The financial contributions of capitalists were vital for equipping and maintaining military forces, giving them considerable influence over military decisions and strategies.

Capitalists also formed strategic alliances with Parliament, which better represented their economic and political interests compared to the monarchy. This alignment was based on shared goals, such as promoting trade and opposing arbitrary royal taxation. The merchant class had a vested interest in protecting trade routes and maritime commerce, leading them to support the development and maintenance of a strong navy. This navy was crucial for safeguarding their economic interests against piracy and foreign threats.

During the Glorious Revolution

Capitalists played a key role in supporting William of Orange's invasion of England in 1688. They provided substantial financial backing, including funds for troops, equipment, and logistics, which were critical for the success of the Glorious Revolution. Beyond financial support, capitalists facilitated the logistical aspects of William's invasion, such as securing ships and supplies, ensuring that the invasion force was well-prepared and adequately equipped.

The Glorious Revolution resulted in the Bill of Rights 1689, which established the supremacy of Parliament over the monarchy. This shift meant that military decisions were increasingly made by a Parliament influenced by capi-

talist interests rather than by the monarch. After the revolution, the control and organization of militias and armed forces were more closely aligned with parliamentary oversight, ensuring that military power served the interests of the capitalist class and the broader economic policies they supported.

The establishment of a professional standing army and navy, funded and controlled by Parliament, ensured that military power was systematically organized and aligned with the state's economic goals. The creation of the Bank of England in 1694 provided a stable financial foundation for funding military operations. By managing public debt and providing a reliable source of funds, the Bank of England facilitated the ongoing support and expansion of military power in line with capitalist interests.

Impact on Economic and Political Stability

The strengthened navy protected trade routes and ensured the security of British maritime commerce, which was vital for the economic interests of the capitalist class. This protection facilitated safe and reliable trade, supporting colonial expansion and providing new markets and resources for capitalist enterprises. Military power was crucial for the protection of overseas territories and trade routes, significantly contributing to the growth of the British economy.

Internally, the professional army and local militias helped maintain security and suppress rebellions or uprisings that threatened political stability. This stability was essential for creating a favorable environment for economic growth and investment. The alignment of military power with parliamentary control also helped enforce legal and property rights, ensuring a stable and predictable legal environment conducive to economic activity.

Conclusion

The control of military power by capitalists before and during the Glorious Revolution was achieved through financial support, strategic alliances, and the establishment of institutions that aligned military power with capitalist interests. This control helped protect trade and commerce, support colonial expansion, and maintain internal security and stability. By aligning military power with their economic and political goals, capitalists were able to shape the trajectory of British economic development and ensure a stable environment for the growth of capitalism.

18 Crony capitalism in China diverges significantly from the principles of real capitalism and a free market economy. Instead, it remains closely aligned with socialist planned economy frameworks, with the market operating within the constraints of central planning.

1. Definition and Characteristics of Crony Capitalism in China

Crony capitalism refers to an economic system where business success is influenced by close relationships between business people and government officials. In China, this system manifests through the strong connections between the Chinese Communist Party (CCP), state-owned enterprises (SOEs), and a select group of private enterprises. These relationships often result in preferential treatment, including access to lucrative contracts, favorable regulations, and financial support.

2. Contrast with Real Capitalism

Real capitalism is characterized by the principles of free market competition, minimal government intervention, private property rights, and an open economic environment where businesses compete on a level playing field. In contrast, crony capitalism in China does not adhere to these principles:

- **Government Intervention:** The Chinese government plays a dominant role in the economy, directing economic activity through policies, regulations, and state planning. The government's intervention distorts market mechanisms, often favoring SOEs and politically connected firms over others.

- **Limited Competition:** The competitive landscape in China is skewed by the government's preferential treatment of certain firms. This limits genuine competition, as businesses with government connections gain undue advantages, undermining the efficiency and fairness that define real capitalism.

- **Restricted Private Property Rights:** While private property rights have been gradually recognized in China, they remain insecure compared to those in capitalist economies. The government retains significant control over land and other critical resources, which can be appropriated for state use. This undermines the foundation of private ownership central to real capitalism.

3. Market within the Cage of Central Planning

Despite economic reforms and the introduction of market mechanisms, China's market operates within the confines of central planning. The central government maintains substantial control over key economic sectors, using planning tools to direct economic development and maintain stability.

- **Five-Year Plans:** China's economic strategy is heavily influenced by Five-Year Plans, which outline key economic goals and directives for the country's development. These plans reflect the government's central role in guiding the economy, setting targets for growth, industrial policy, and resource allocation.

- **State-Owned Enterprises:** SOEs remain a cornerstone of China's economy, dominating sectors such as energy, telecommunications, and finance. These enterprises benefit from government support and protection, limiting the role of private enterprises and genuine market competition.

- **Financial System Control:** The Chinese government exerts tight control over the financial system, including banks and capital markets. The allocation of credit is often influenced by political considerations, with state-owned banks favoring SOEs and politically connected firms. This distorts capital allocation and stifles the growth of private enterprises.

4. Implications for Economic Efficiency and Innovation

The constraints imposed by crony capitalism and central planning have several implications for China's economic efficiency and innovation:

- **Resource Misallocation:** Government intervention and favoritism lead to the misallocation of resources, with capital and labor often directed towards less efficient SOEs or politically connected firms rather than the most productive uses.

- **Innovation Stagnation:** The lack of a truly competitive environment discourages innovation. Private firms that might otherwise drive technological advancements and economic dynamism face significant barriers due to the advantages enjoyed by state-favored entities.

- **Economic Inequality:** Crony capitalism exacerbates economic inequality, as wealth and opportunities are concentrated among those with political connections. This undermines social cohesion and can lead to discontent among the broader population.

5. Conclusion

Crony capitalism in China represents a hybrid system that combines elements of market economics with the control and intervention characteristic of a socialist planned economy. The market operates within the constraints imposed by central planning, resulting in a distorted economic landscape that diverges from the principles of real capitalism. This system poses significant challenges to economic efficiency, innovation, and equitable growth, highlighting the limitations of China's current economic model. Understanding these dynamics is crucial for analyzing China's economic trajectory and the potential reforms needed to foster a more open and competitive market economy.

19 Since 2012, China has increasingly shown signs of reverting to the totalitarian practices reminiscent of Mao's and Stalin's eras. This shift is characterized by the centralization of power, heightened surveillance, suppression of dissent, and the reassertion of state control over various aspects of society and the economy. Here is an expanded analysis of this regression:

Centralization of Power

Under Xi Jinping's leadership, there has been a systematic consolidation of power that mirrors the centralization seen under Mao Zedong. Xi has eliminated potential rivals and accumulated numerous titles that position him as the most powerful leader since Mao. One of the most significant changes was the abolition of presidential term limits, which allows Xi to potentially remain in power indefinitely. This consolidation is not just political but ideological as well, with

"Xi Jinping Thought" being incorporated into the constitution and educational curricula. This move towards ideological indoctrination is reminiscent of Maoist principles, emphasizing the supremacy of CCP ideology in every aspect of life.

Heightened Surveillance and Social Control

China has significantly intensified its surveillance and social control mechanisms, leveraging advanced technology to monitor and regulate the population. The implementation of mass surveillance systems, including facial recognition technology, AI, and big data, allows the government to maintain a close watch on its citizens. The Social Credit System is a prime example, where citizens' behaviors are tracked and scored, impacting their access to services and opportunities based on their loyalty to the state. Additionally, internet censorship has reached new heights, with the government using sophisticated technologies to control information flow and suppress dissenting voices online. Any content deemed subversive is quickly removed, ensuring that the narrative remains firmly in the hands of the CCP.

Suppression of Dissent

The crackdown on opposition has been a defining feature of Xi Jinping's administration. The anti-corruption campaign, while ostensibly aimed at rooting out corruption, has also served as a tool to purge Xi's political opponents and consolidate his power within the party. This has been coupled with increased repression of ethnic and religious minorities. In Xinjiang, the internment of Uyghurs in so-called "re-education camps" has drawn international condemnation. Similar restrictions have been placed on cultural and religious practices in Tibet. Furthermore, civil society has been stifled, with non-governmental organizations, human rights activists, and lawyers facing intensified crackdowns. The government has tightened regulations on foreign NGOs and restricted the activities of domestic civil society organizations, aiming to eliminate any form of organized dissent.

State Control Over the Economy

The economic landscape in China has seen a reassertion of state dominance, reversing some of the market liberalizations that had fueled China's rapid growth in previous decades. State-owned enterprises (SOEs) have been bolstered at the expense of the private sector. These SOEs receive preferential treatment, including access to capital and contracts, reinforcing state control over key economic sectors. High-profile actions against private enterprises, such as the crackdown on tech giants like Alibaba and Tencent, reflect the government's intent to rein in the influence of private capital. These measures have included fines, regulatory probes, and the forced restructuring of companies to align them more closely with state objectives.

Cultural and Ideological Control

Cultural and ideological control has also intensified under Xi's rule. The government has ramped up efforts to promote a nationalist ideology, using historical narratives to bolster the CCP's legitimacy. This includes revising educational materials and media content to highlight the party's role in China's development and its resistance against foreign adversaries. Educational institutions have been subjected to tighter ideological control, with an increased emphasis

on Marxist education and the prohibition of teaching materials that conflict with CCP ideology. Universities and schools are now critical battlegrounds for ensuring that future generations are ideologically aligned with the party.

Conclusion

Since 2012, China has been increasingly adopting practices reminiscent of Mao's and Stalin's totalitarian states. This period is characterized by the centralization of power, heightened surveillance, suppression of dissent, and the reassertion of state control over the economy. These measures indicate a significant shift away from the relative openness and market liberalization of previous decades, moving towards a more controlled and authoritarian model of governance. This regression has profound implications for China's internal dynamics and its interactions with the global community. The shift signals a period of heightened tension and potential conflict as these policies unfold, with significant impacts on global politics and economics. Understanding these changes is crucial for assessing China's future trajectory and its influence on the international stage.

20 Minxin Pei's detailed analysis of China's crony capitalism in his book "China's Crony Capitalism: The Dynamics of Regime Decay" reveals how the interweaving of political power and economic wealth has resulted in systemic corruption, inefficiency, and the eventual decay of the governing regime. Pei's work sheds light on the mechanisms through which crony capitalism has evolved in China, detailing its historical context, political dynamics, economic implications, and the broader social consequences.

Pei defines crony capitalism as an economic system where the allocation of resources, opportunities, and wealth is primarily determined by personal relationships and political connections rather than market forces or merit. In China, this phenomenon is evident through the close ties between business elites and political leaders, resulting in a mutually beneficial relationship that perpetuates their power. The key characteristics of this system include political patronage, where business success is contingent upon maintaining relationships with political patrons who can provide access to lucrative opportunities and shield them from legal challenges. This environment fosters widespread rent-seeking

behavior, where economic actors expend resources to gain advantages through political means rather than productive activities. Corruption is rampant, with officials extracting bribes and businesses offering payments to secure advantages, thus perpetuating a cycle of systemic inefficiency.

Pei traces the origins of China's crony capitalism to the economic reforms initiated in the late 1970s and early 1980s. While these reforms were intended to introduce market mechanisms and reduce state control, they inadvertently created opportunities for corruption and rent-seeking. As state assets were privatized and regulatory frameworks remained weak, politically connected individuals amassed significant wealth by acquiring valuable assets at below-market prices. This process led to the accumulation of wealth by a small elite with strong political ties. The privatization of state-owned enterprises and the liberalization of certain sectors were marred by the lack of a robust regulatory framework, allowing corruption to flourish.

The political dynamics of crony capitalism in China are rooted in the tight control exerted by the Chinese Communist Party (CCP) over the state and the economy. Political loyalty and connections are crucial for career advancement and business success. The intertwining of party and business interests fosters an environment where economic opportunities are allocated based on political considerations. Factionalism within the CCP exacerbates crony capitalism, as different factions vie for control over economic resources, leading to patron-client networks that drive corruption and rent-seeking. This internal competition undermines the coherence and effectiveness of governance, creating a fragmented and inefficient system.

Economically, crony capitalism leads to significant inefficiencies and distortions. Resources are allocated based on political connections rather than economic productivity, resulting in misallocation and reduced overall economic growth. Productive enterprises may be starved of capital and opportunities, while politically connected but less efficient businesses thrive. The concentration of wealth and power in the hands of a politically connected elite exacerbates social inequality, undermining social cohesion and stability as the broader population perceives the system as unfair and rigged in favor of the elite. Environmental degradation is another consequence, as politically connected businesses circumvent regulations and avoid accountability, leading to severe pollution and public health crises.

The pervasive corruption and inequality associated with crony capitalism erode the CCP's legitimacy. As citizens become increasingly disillusioned with the government's inability or unwillingness to address corruption and inequality, the regime's stability is threatened. The competition among factions and the rent-seeking behavior foster internal conflicts within the CCP, leading to policy paralysis and undermining the party's ability to govern effectively. The focus on securing personal and factional interests takes precedence over national interests and effective governance.

Since coming to power, Xi Jinping has launched a high-profile anti-corruption campaign aimed at curbing crony capitalism and consolidating his control over the party. While the campaign has targeted many high-ranking officials and

business leaders, Pei argues that it also serves as a tool for Xi to eliminate rivals and reinforce his authority. Despite these efforts, Pei remains skeptical about the long-term effectiveness of the campaign. He contends that as long as the underlying political and economic structures that facilitate crony capitalism remain intact, corruption will persist. The campaign may also inadvertently exacerbate factionalism as different groups within the party use anti-corruption efforts to target their opponents.

In conclusion, Minxin Pei's analysis of China's crony capitalism provides a comprehensive and critical examination of the deep-rooted corruption and inefficiency within the Chinese political and economic system. He highlights how the intertwining of political and economic power has led to systemic issues that threaten the regime's stability and legitimacy. While anti-corruption campaigns may offer temporary relief, Pei argues that without fundamental structural reforms, the cycle of crony capitalism and corruption is likely to continue, posing significant challenges to China's future development.

21 Gu Zhun again

It must be acknowledged that the entrepreneurial spirit and the willingness to challenge aristocratic and royal power are integral to the capitalist ethos. Without such a mindset, capitalists would lack the courage and initiative to build enterprises and stand against the entrenched power of the nobility. Even with this spirit, it is noteworthy that 19th-century British capitalists were often content to let the aristocracy take the forefront in politics, serving as prime ministers, generals, and diplomats, while they themselves played secondary roles in the political arena.

In contrast, Chinese merchants, steeped in a historical tradition that prioritized agriculture over commerce, were typically more passive in their ambitions. This tradition, known as "emphasizing agriculture and restraining commerce," favored farming and restricted the influence and growth of commerce. Consequently, Chinese merchants often sought favor and protection by ingratiating themselves with court eunuchs and other powerful figures, much like the character Ximen Qing in classical literature, who thrived by courting the favor of those in power. They dared not challenge the existing political order or seek political power for themselves.

This comparison highlights a fundamental difference in the evolution of capitalist societies in the West versus China. In Britain, the capitalist class eventually grew confident enough to influence and participate in governance, contributing to the development of democratic institutions. In China, however, the merchant class remained subservient and politically marginalized, which limited their impact on the broader societal and political structures. This historical context explains why Chinese merchants, constrained by cultural and institutional barriers, never aspired to political power in the way their Western counterparts did.

22 Wu Jinglian: The Greatest Danger Facing China Today is Crony Capitalism

According to Caixin, Wu Jinglian recently emphasized in an interview that one of the most severe threats facing China is the rise of crony capitalism. He argues that various levels of government are increasingly exerting control over resource allocation and intervening in economic activities. This expansion of rent-seeking opportunities leads to the persistence or even growth of vested interests that benefit from the current semi-controlled, semi-market economic system, pushing it towards state capitalism or even crony capitalism.

In the 12th issue of Caixin's "China Reform" magazine, Wu Jinglian detailed these concerns in an interview titled "The Most Urgent Issue in China's Current Reform." He analyzed that many of the rent-seekers were initially supporters of the reform. However, as the reform process progressed halfway, these beneficiaries of incremental reforms started to protect their vested interests. They sought to maintain or even expand administrative interventions in the market and economic system, aiming to exploit their special status to seek rents and accumulate wealth rather than continuing efforts to establish a regulated and competitive market.

Wu Jinglian noted a peculiar phenomenon he highlighted in the 1990s: genuine, regulated reforms are often criticized as "idealistic" or "conservative," while various rent-seeking activities, such as the privatization of public assets under the guise of property rights reform, speculative land leases, and financial manipulations to exploit shareholders, are praised as reform measures that could enrich the country. These misleading activities, once praised under the banner of reform, have become widespread.

He warned that as reforms deepen, the conservative nature of rent-seeking social forces becomes more prominent. These forces, having previously engaged in reforms and continuing to champion the reform banner even while obstructing or distorting it, can easily confuse the public and lead them to believe falsehoods.

Wu Jinglian pointed out that after the economic overheating in 2004, some party and government leaders used macroeconomic controls to intervene in market transactions and business operations, significantly strengthening administrative approval powers. This caused the pace of reform to noticeably slow, and in some areas, even regress.

In recent years, the practice of buying and selling official positions has become increasingly prevalent. Wu attributed this to the lack of effective public authority, where officials' personal will can determine the success or failure of enterprises. The reluctance of power to exit the market, coupled with its strengthened suppression and control of free market exchanges, has led to an unchecked expansion of rent-seeking activities. The massive total rent-seeking amount has had a decisive impact on the widening wealth gap and high Gini coefficient in China, fueling public discontent.

Wu Jinglian cautioned that the "old guard" of the previous regime and system might exploit public dissatisfaction, guiding it towards anti-reform di-

reactions with the help of certain media. If this happens, it would pose a severe problem.

He referenced the analysis by North on the dangers of path dependence, warning that once a path is locked in, it becomes difficult to change without significant social upheaval. Wu sees this risk as currently present in China.

Wu argued that using strong government control to curb corruption is an impossible and dangerous prescription. Expanding government power inevitably leads to an increase in rent-seeking opportunities, which in turn results in the spread of corruption. This creates a vicious cycle of government power expansion and corruption, potentially driving society towards collapse.

Wu Jinglian stressed the need to clarify the boundaries of government power. In relation to the market, the government should not replace the market or engage in commercial activities using public power. What China needs is a limited and effective government. While many people justifiably call for more government action in the current situation, it is crucial to understand the direction of strengthening government roles: is it to establish a good institutional environment for the effective operation of the market and provide public goods that the market cannot efficiently supply, or is it to use government power to dominate, suppress, and replace the market? As the modernization history of many late-developing countries has shown, steadfastly advancing economic and political system reforms and returning to marketization, rule of law, and democratization are essential to breaking the vicious cycle and achieving sustainable development.