# Rediscovering Analytical Rigor in Traditional Economic Thought: The "Second Integration" and the Making of a Chinese School of Economics

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***Abstract:*** *Does traditional Chinese economic thought possess genuine analytical rigor? This question lies at the heart of any serious evaluation of its theoretical value and historical significance. It also matters for understanding how best to preserve, build on its remarkable achievements, and develop its intellectual legacy. Critics such as Schumpeter and Taylor have long argued that the economic reasoning found in ancient China cannot compare with that of classical Greece or medieval Europe. Yet this view often reflects the narrow assumptions of mainstream economics, defining analysis almost entirely in terms of market exchange. As a result, it tends to overlook traditions built around statecraft, governance, and the management of economic order. A careful re-examination and Sino-Western comparative analysis of key thinkers—including Mencius, Guanzi, and Sima Qian—tells a different story. Rooted in China's distinctive cultural and philosophical heritage, traditional Chinese economic thought not only contains the analytical dimensions (as defined by Schumpeter) but also displays a broader and more diverse set of economic reasoning. Notably, its systematic depth and intellectual precision were, in many respects, remarkably advanced. Therefore, advancing the construction of a Chinese school of economics in the new era under the framework of the "Second Integration", i.e., integrating the basic tenets of Marxism with China's fine traditional culture, should, and indeed can draw essential insights from this analytical tradition.*

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## 1. Introduction

Does traditional Chinese economic thought contain genuine analytical reasoning? This question has long sparked fierce debate among scholars, in China and abroad. Joseph Schumpeter and Overton H. Taylor, among others, maintained skepticism, even outright denial, regarding the analytical components in traditional Chinese thought. Schumpeter (2006) observed that "in China, we indeed find a highly developed public administration dealing with agricultural, commercial, and fiscal problems of the time. The surviving classical texts often discuss these matters, though mainly from an ethical standpoint… From these writings, one could compile a complete system of economic policy, and there are even methods of monetary management and exchange control that seem to require considerable analytical sophistication. …Yet no treatises reasoning on strictly economic subjects have survived—nothing that we could call 'scientific.'" Schumpeter did provide a note of caution: "Such a definite inference is, of course, highly uncertain. There may have been some analysis that left no trace—but it is unlikely to have been extensive."[1] As his citations in *History of Economic Analysis* demonstrate, Schumpeter's understanding of Chinese economic thought relied primarily on Western translations of Confucian and Mencian classics and a few secondary studies. These works inevitably acted as interpretive filters, giving him only a partial picture of the Chinese economic tradition. Consequently, this gap provides room for further correction and reinterpretation. Additionally, Schumpeter noted that although the ancient Greek philosophers likewise intertwined economic reasoning with their broader reflections on society and the state, they still developed analytical insights into money, value, and price. However, Schumpeter's view was not an isolated instance. Taylor (1956) arbitrarily asserted that "no Eastern country has anything comparable to the beginnings of economic analysis made by Western medieval scholars." Thus, such judgments reflect not only the low regard many Western historians of economic thought held toward Chinese intellectual traditions but also the limited exchange between Chinese and Western scholarship. Thus, standard Western histories of economic theory or thought rarely include China's contributions—and when they do, they are treated only briefly.

The significance of studying the analytical nature of traditional Chinese economic thought lies in its relevance to several key issues: how to objectively and accurately assess its intellectual depth, theoretical value, and historical place in the global development of economic thought; how to better inherit and innovate upon this tradition; and how to correctly understand its vital role in constructing Chinese economics for the new era. Schumpeter famously dismissed Chinese economic thought as lacking analytical precision. Yet, scholars—Chinese and international—have long challenged this verdict, uncovering a tradition rich in reasoning and insight. Choi (1989), for instance, refutes Schumpeter's view through the lens of Han Fei's (c. 280-233 BC) political economy. Han Fei's analysis, grounded in the "self-interested individual" hypothesis, parallels

[1] An examination of the bibliography in *History of Economic Analysis* reveals that Schumpeter's understanding of traditional Chinese economic thought was drawn mainly from Western translations of the classical works of Confucius and Mencius, as well as from three related secondary studies. These sources functioned as a kind of intellectual filter, resulting in a necessarily partial and limited grasp of the richness of traditional Chinese economic thought. This limitation, in turn, creates the space for the corrective and supplementary analysis undertaken in the present article.

modern microeconomics and anticipates the Public Choice School's treatment of rent-seeking. Colander and Landreth (2001) make a similar case with the *Guanzi* (attributed to the statesman Guan Zhong, c. 720-645 BC). "While most early Chinese writings," they note, "fit Schumpeter's moral framework, the *Guanzi* breaks away—transcending mere public administration." His "Light and Heavy" theory is a sophisticated framework for state control of commodity prices and reserves, in which the state should intervene by selling reserves to "lighten" the market when prices are high and purchasing surpluses to give them "weight" when prices are low. Yet they argue that it effectively predicts the law of supply and demand, earning it a comparison to *The Wealth of Nations*. Young (1996) adds that Sima Qian (c. 145-c 86 BC), in *The Biographies of the Money-Makers*, articulated the concept of a market mechanism long before Adam Smith, such as his metaphor of "water flowing downward" mirroring the "invisible hand." Chinese scholars also reached similar conclusions. Hu (1998) argues that the *Guanzi*'s ideas on self-interest and commodity circulation approach the level of early classical political economy. Wu (1992) highlights Xunzi's (c. 310-c. 235 BC) theory of "enriching the state," Mencius' (c. 372-c. 289 BC) Theory of Mutual Exchange of Services, Sunzi's quantitative analysis of taxation and agricultural output, and ancient debates on money's value and velocity—all demonstrating the analytical sophistication embedded in China's intellectual heritage.

What makes economic thought truly analytical? This question lies at the heart of debates over whether ancient traditions—Chinese or Western—can be said to embody genuine economic analysis. However, the answer depends on how we define "analysis" itself. Many scholars argue that mainstream economists, following Schumpeter, have drawn that boundary too narrowly. Lowry (2003) notes that they equate analysis with what Karl Marx called "bourgeois exchange," rooted in the rise of global markets after the late 18$^{th}$ century. Yet, as he reminds us, ancient Greek thought developed a "management-oriented rather than market-oriented" framework (Lowry, 1987b). Likewise, Petrochilos (2002) calls it "a very narrow interpretation of economics," one that most economists would reject, since it limits economic analysis to the study of fully capitalist, self-regulating markets. Ekelund & Hébert (2013) further observe that ancient thinkers living in non-market societies, where custom and command governed economic life, lacked a concept of the market as a self-regulating mechanism. However, they instead built sophisticated, management-based systems of analysis. Chinese scholars have reached similar conclusions. Zhao (1986) argues that economic relations in ancient China were not those of commodities or capital, and thus Chinese economic thought took a different analytical path. Rather than focusing on exchange, it centered on governance—what Zhao (1995) called the "art of enriching the state." It was, in essence, a form of macroeconomic management: the study of how to organize and direct the national economy to increase revenue and collective wealth (Zhou & Ye, 2022). Seen in this light, traditional Chinese economic thought was not devoid of analysis; it simply operated within a different paradigm. Moreover, it offers a managerial vision of economic order, one that complements rather than imitates the market logic of modern economics.

As is clear from the preceding literature review, the definition of economic analysis centered on market exchange, as employed by mainstream scholars like Schumpeter, has been challenged by researchers in China and internationally. Critics argue that ancient societies followed distinctive

models of economic reasoning—models that cannot be judged solely by modern, market-based standards. Yet this debate remains incomplete in several respects. First, studies affirming the analytical depth of Chinese economic thought often stop short of defining what "economic analysis" actually means. Without a clear conceptual benchmark, discussions lose focus and fail to build cumulative evidence. Second, works emphasizing the uniqueness of ancient systems tend to lack an international perspective. By concentrating on local traditions, they overlook the insights that comparative studies can bring, especially between China and the West. Third, scholars have yet to examine the "Second Integration", i.e., integrating the basic tenets of Marxism with China's fine traditional culture, through the lens of analytical traditions. Consequently, this leaves untapped potential contributions of ancient economic reasoning to the construction of modern Chinese economics.

This paper seeks to fill those gaps. Building on a critical reading of Schumpeter's concept of economic analysis, it argues that analysis, in essence, explains economic phenomena and underlying laws. In its broad sense, economic analysis includes not only market-based inquiry—the form Schumpeter emphasized—but also state-management-based economic analysis. From this wider perspective, the paper reinterprets key examples in traditional Chinese economic thought. Furthermore, it compares their analytical features with those of ancient Greek and Western traditions that Schumpeter classified as "analytical."[2]

## 2. Defining and Reframing the Concept of Economic Analysis

When we ask whether traditional Chinese economic thought contains elements of economic analysis, we are already assuming something fundamental: that analysis is a subset of economic thought. Schumpeter's definition of economic thought precisely reveals this. He described economic thought as "the sum of all opinions and desires concerning economic problems—especially public policy," noting that it "may overlap with, or even merge into, economic analysis" (Schumpeter, 2006). In other words, economic analysis is embedded within the broader sphere of economic thought. Chinese scholars also share a similar understanding. Wu (1991) observed that the economic thought of each era and thinker generally consists of three dimensions: the philosophical foundation that underpins the thought, views, and policy proposals on economic issues, and "the analysis of the internal and external relations of economic phenomena." This last dimension corresponds closely to what Schumpeter called "analytical work."

### 2.1 Schumpeter's View of Economic Analysis

Schumpeter's decision to write a *History of Economic Analysis,* rather than a broad history of economic thought, was driven by his aim to identify and examine how analytical components were inherited and developed across different periods. For him, the existence and sophistication of such analysis formed one of the core criteria for assessing the enduring significance of any economic

[2] As Ye (2021) aptly notes, "To study China, one must have a global horizon and frame of reference. Without comparison, there is no distinction; without comparison, there is no understanding of uniqueness." The same principle applies here. Only through comparative analysis can we fully assess the analytical nature and contributions of China's economic thought heritage.

doctrine. In Schumpeter's view, an economic idea exerts lasting influence when its policy proposals are well-suited to the demands of its age and, often more importantly, when those proposals rest upon clear, compelling analytical arguments. If analysis is so central, we must ask: what counts as "economic analysis"? Schumpeter offers a concise and still-resonant definition: "What distinguishes the 'scientific' economist from everyone else who thinks, speaks, or writes about economic topics is the command of techniques that may be grouped under three headings: history, statistics, and 'theory.' The three together make up what we call economic analysis" (Schumpeter, 2006). Since this article aims to supplement—and where necessary, amend—Schumpeter's views, and given the profound influence of his *History of Economic Analysis* within the study of economic thought, his tripartite definition serves here as the principal point of reference. Thus, it is by this demanding standard that we assess whether, and to what degree, traditional Chinese economic thought contains genuine analytical components that merit recognition in the broader global history of economic analysis.

In Schumpeter's definition, economic analysis employs three fundamental tools: History, Statistics, and Theory. History, or economic history, is the first analytical tool. Schumpeter regarded historical study as the best way for economists to deepen their understanding of how economic and non-economic factors interact—something the other tools cannot easily achieve. Statistics is the second tool, concerned mainly with how data are collected and processed. As Schumpeter observed, "We need statistical figures not only to explain problems, but also to discover what problems require explanation." He emphasized that if one does not understand how statistical data are gathered, it is impossible to understand the data themselves. Likewise, without knowledge of data collection methods, no meaningful information can be drawn from statistics. Theory is the third analytical tool and consists primarily of *assumptions* and *concepts*. Assumptions are "things we take for granted—hypotheses, axioms, or postulates." Such assumptions may arise from empirical observation, yet in strict logic, they remain the analyst's own constructions. Concepts, by contrast, are the generalizations formed from observing reality. They do more than describe phenomena—they conceptualize them. Based on these assumptions and concepts, economists construct theoretical models to explain economic phenomena and predict future developments. The totality of these assumptions, concepts, and the methods used to treat them constitutes what Schumpeter calls *economic theory*. Overall, Schumpeter posed that applying these analytical techniques to the study of economic problems constitutes *economic analysis*, or what he termed *scientific economics* (Schumpeter, 2006).

From the perspective of their respective functions, History and Statistics serve to "gather facts." These facts are then used to derive hypotheses and concepts, which in turn form the basis for building economic theory. Theory, for its part, is responsible for "explanation and reasoning." Accordingly, when Schumpeter assessed whether a body of economic thought possessed analytical qualities, the key indicator was whether it contained elements of economic theory, or at least the components from which theory is formed, such as concepts or hypotheses.

Schumpeter further set two more rigorous criteria for judging analytical thought. First, economic analysis must minimize the interference of value judgments, confining itself to the realm of pure economics. Schumpeter believed that "every economic activity is a form of barter...

This concerns not only the so-called 'theory of exchange' but all pure economic theory, which is nothing more than the analysis of barter" (Schumpeter, 2010). Thus, Aristotle's studies of money, value, and price—topics related to market exchange—were considered analytical. By contrast, Johann Justi's theory of the "welfare state" was regarded as non-analytical because it was "entangled with value judgments and therefore cannot form part of scientific analysis" (Little, 1955). Second, analytical content must bear similarities to mainstream theory.[3] Schumpeter emphasized the progressive nature of economic analysis, arguing that modern economic theory contains analytical components inherited and developed from traditional thought. For example, from Aristotle and the Scholastics to later economists, the persistent study of price theory demonstrates this evolutionary progression (Schumpeter, 2006). In short, from Schumpeter's perspective, economic analysis in its essence refers to the study of economic theory grounded in market exchange—in other words, what we may call *market-exchange-based economic analysis*.

This paper argues that market-exchange-based economic analysis can be understood at three levels. The first level involves collecting factual material through analytical tools such as history and statistics, and then processing it to formulate hypotheses and concepts. The second level integrates these concepts, hypotheses, or related theories into broader theoretical structures[4]—or even full theoretical systems—to analyze and explain economic issues. The third level concerns the inheritance and further development of existing concepts, hypotheses, and theories (or theoretical systems), advancing them by creating new ones to promote progress in economic analysis. Among these, the first level is the most fundamental—it is the prerequisite for the other two. Without hypotheses and concepts, the higher levels have no foundation. Although this first stage cannot yet be called economic analysis in the strict sense, it nevertheless embodies the essential analytical components which make such analysis possible. Indeed, Schumpeter himself held such preliminary analytical elements in high regard. In *History of Economic Analysis*, he noted that even pre-scientific thinkers like the Mercantilists displayed analytical insight. While classifying their work as belonging to a pre-scientific stage, he nonetheless praised their concept of the balance of trade, writing that "it is not something obvious; it requires analytical effort to perceive it, to see its relation to other economic phenomena, however small that effort may have been" (Schumpeter, 2006). Thus, when an economic thinker formulates significant hypotheses or concepts, that achievement at least reaches the lowest level of economic analysis. If, on that foundation, the thinker can develop concepts, hypotheses, and related theories into a coherent theoretical system and from there derive corresponding policy proposals, then the work represents a higher level of analysis.[5]

Based on this framework, Schumpeter examined the presence of economic analysis in the traditional economic thought of both East and West. However, his overall assessment was not

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[3] A close reading of the table of contents of the *History of Economic Analysis* reveals that Schumpeter focused primarily on two broad domains: microeconomics, represented by general equilibrium theory, and monetary and credit theory.

[4] A theory can build upon other theories. For instance, Marx's theory of surplus value rests upon his labor theory of value.

[5] As Jia & Jia (2018) observe, economic analysis and economic policy cannot be completely separated, for both are rooted in specific historical and social contexts. This paper likewise holds that the ultimate purpose of economic analysis is to help society address real economic problems—hence, analysis necessarily includes a policy dimension.

favorable. His assessment of ancient Greek economic thought was relatively higher than that of traditional Chinese economic thought. He conceded that ancient Greece contained instances of economic analysis, but thought they were few: "preliminary economic analysis," he wrote, "was a very small—even a very tiny—component." As for ancient Rome, he saw no analytical content at all. In his view, until the time of Thomas Aquinas, "there was no single piece of reasoning that could be included in the field of economic analysis." Schumpeter attributed this absence to two leading causes. First, he believed ancient societies lacked the conditions for economic analysis to emerge. As he put it, "In economics as elsewhere, most statements about basic facts are important only because of the superstructure they support; without that superstructure, they are trivial." By this, he meant that because the level of market exchange in ancient times was low—that is, the economic "superstructure" was underdeveloped—there was little impetus for sustained analytical inquiry. Second, traditional economic thought was constrained by ethics and politics. It could neither separate itself from them nor operate independently of them, and in fact remained subordinate to them. Ancient thinkers "mixed economic reasoning with their general philosophical ideas about the state and society, and seldom studied economic subjects for their own sake." Consequently, "when compared with the brilliant achievements in other fields, their accomplishments in economics appear exceedingly small" (Schumpeter, 2006). In summary, Schumpeter concluded that traditional economic thought was largely devoid of economic analysis due to a dual constraint: the absence of a developed market economy (the necessary "superstructure") and the subordination of economic inquiry to ethics and politics.

**2.2 Critiquing and Expanding Schumpeter's Concept of Economic Analysis**

Schumpeter's conception of economic analysis profoundly influenced how later scholars evaluated ancient economic thought. Mainstream academics developed his view further, arguing that no genuine economic analysis existed in antiquity. Finley (1999), for example, maintained that because ancient societies lacked a modern market economy, "it was impossible to discover or systematically express the laws governing economic behavior. Without such laws, the very concept of 'the economy' could not arise, and economic analysis was therefore impossible." However, this view has been vigorously challenged by scholars such as Lowry and Petrochilos. They contend that ancient economic thought made substantive contributions to the emergence of modern economics and developed forms of economic analysis distinct from mainstream theory. The negative assessments by Schumpeter and others, they argue, stem from an overly narrow understanding of what constitutes economic analysis. Thus, it is necessary to broaden the concept.

First, economic analysis should not be confined to the study of laws and phenomena within market economies; non-market economies are equally worthy of analytical attention. Robbins (1932) defined economics as "the science which studies human behavior as a relationship between ends and scarce means which have alternative." He therefore criticized Schumpeter's restriction of analysis to market exchange, observing that "to develop the concept of exchange into a theory is one thing; to treat it as a standard is quite another. Undoubtedly, the exchange concept can serve as a standard. But whether it best captures the ultimate nature of economics is certainly open to question." He thus emphasized that while "economic analysis is most meaningful and

useful in exchange economies," this "does not mean that analysis is possible only within them"—a position he regarded as untenable.[6] Given the diversity of economic models[7], the study of how scarcity is managed in non-market environments should equally fall within the scope of economic analysis. The key distinction lies in the "superstructure": is no longer the market, but other forms of social and institutional organization. Moreover, although ancient societies were characterized by predominantly natural economies, markets nonetheless played a role—however limited—which provided the conditions for market-exchange-based analysis to emerge. This explains why Schumpeter could still detect analytical elements in ancient Greek thought. In sum, as Petrochilos (2002) emphasized, what makes economics analytical is that "it seeks to establish the principles on which an existing economic system operates," irrespective of whether that system is a market economy. Viewed in this light, ancient economic thought can be understood in the same way. On one hand, it developed, within its own social and economic context, a non-market framework of analysis distinct from modern economics. On the other hand, it investigated market-related phenomena, thereby contributing conceptually to the later development of modern economic theory.

Second, ethical factors play an essential role in analyzing economic problems and should not be excluded from economic analysis. Ethics and economics have always been closely connected and are difficult to separate. Sen (1988) even identified ethics as one of the two intellectual origins of modern economics, underscoring their intrinsic relationship. This linkage is even more evident in ancient economic thought. Taylor (1955) argues that Schumpeter's rejection of ethical considerations led him to "deny that Plato had any serious analytical intention or achievement in studying social life, including its economic aspects." In Taylor's view, Plato's thought inspired an analysis of the moral pathologies produced by unrestrained wealth-seeking— a systematic, diagnostic form of inquiry akin to a "science of social pathology." This type of analysis aims to help the guardians or rulers of a well-governed state understand "the pathological processes and outcomes of greed in market exchange," so that they can establish and enforce appropriate regulations to restrain such impulses and moderate the scale and intensity of wealth pursuit, enabling all citizens to attain genuine "wealth." Moreover, value judgments do not necessarily hinder the progress of economic analysis—in some cases, they may even stimulate it. Mark Blaug (1997) observed that Ricardo's strong anti-landlord sentiment was a crucial driving force behind the development of his international trade theory, implying that moral conviction can catalyze analytical innovation. Taken together, ethical factors are inseparable from economics and should no longer be excluded from the definition of economic analysis.

Accordingly, the concept of economic analysis must encompass research on diverse economic systems and reintegrate ethical considerations. Existing scholarship has already attempted to define an alternative form of economic analysis embedded within traditional thought. Many foreign scholars (Lowry, 1979, 1987a, 1987b; Petrochilos, 1999, 2002; Peach, 2022; Ekelund & Hébert,

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[6] Exchange economies here refer to the market economy.

[7] For instance, Hicks (1969) in *A Theory of Economic History* identified centrally planned, customary, and command economies as alternative forms of resource allocation; Robbins distinguished among exchange, self-sufficient, and communist economies.

2013) emphasize that traditional economic thought attaches particular importance to the roles of the state and ethics. Chinese scholars share similar insights. Cheng & Zhao (2019), for instance, note that Confucius analyzed resource allocation within a society governed by political and ethical principles. Only from this perspective, they argue, can we understand why pre-Qin texts seldom discuss markets or property rights in isolation, instead treating political and economic issues as a unified whole. Even Lima (2016)—who denies the existence of any ancient economic analysis—acknowledges that emphasizing the state as an instrument for achieving socially optimal outcomes is fully compatible with what he terms "social economics." Scholars have also offered specific definitions of ancient economic analysis. Lowry (1987a) interprets the Greek term *oikonomia* as a formal art of management, aiming to minimize costs and maximize returns—its primary goal being the efficient organization of resources to achieve established ends. Similarly, Peach (2022) contends that Xunzi developed an "economics of holistic governance," composed of a pathological analysis of unrestrained profit-seeking and a detailed model of economic planning. In fact, defining economics from a managerial standpoint is not new. As Wicksteed argued, economics "embraces the study of the general principles of resource management—whether individual, domestic, corporate, or governmental" (Ekelund & Hébert, 2013).

The definitions above, focusing on management, exhibit two main differences when compared to Schumpeter's concept of economic analysis: (1) The Object of Study: Emphasis on State Management over Market Exchange. In contrast to analyzing market exchange, this broadened concept emphasizes the study of state management. In ancient societies where markets were underdeveloped, resources (such as land, labor, and vital commodities) were often controlled by the state. Therefore, studying economic laws and phenomena meant investigating how the state could efficiently manage society's resources. For this reason, Lowry (1987a) noted that ancient Greek economic analysis "was an approach to economic phenomena in terms of management rather than market," designed to study how economic efficiency could be improved through state administration. Likewise, Peach (2022) highlighted that the government in Xunzi (c. 310-c. 235 BC)'s economics "would not only determine 'macroeconomic' goals, such as allocating resources among different sectors of the economy; they would also set output targets for each sector, oversee the 'efficient' execution of the plans, and ensure that all 'economically' important affairs were under their control."

(2) The Role of Ethics: Integral to Economic Analysis. Ethical factors occupy a significant position within this type of economic analysis. For ancient thinkers, ethics provided the essential foundation for their economic analysis. Lowry (1987b) pointed out that ancient Greek economic analysis viewed efficiency, distribution, economic organization, and private and public interests "from the perspective of ethics, law, and ultimately, administration." In other words, ethical considerations directly influenced the analysis of state management. In Lowry's interpretation, Aristotle's analysis of commodity exchange was not an effort to study how market prices are formed; instead, it was rooted in moral considerations, attempting to "determine the criteria for a just price through public decision-making" (Lowry, 1979). In summary, a second significant type of economic analysis existed in ancient societies, one highly influenced by ethical factors. This paper terms this state-management-based economic analysis. It is dedicated to studying,

from the perspective of the state or the whole society, how to coordinate societal production and consumption through government administration to achieve specific societal goals ultimately.

**2.3 Examining Traditional Chinese Economic Thought Through Broad Economic Analysis**

Building on Schumpeter's definition and its subsequent critiques, this paper defines broad economic analysis as encompassing two interrelated forms. The first is market-exchange-based analysis, which focuses on exchange behavior, prices, value, money, and related phenomena. The second is state-management-based analysis, which explores how governments manage the economy efficiently and the issues of ethics, institutions, and fiscal policy. These two forms are not mutually exclusive. They often interpenetrate: state governance extends into market exchange, while market forces shape administrative choices. Adam Smith's analysis provides a vivid example of this fusion. On the one hand, he defined political economy, "considered as a branch of the science of a statesman or legislator," as pursuing two objectives: "first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. Its purpose, therefore, is to enrich both the people and the sovereign" (Smith, 2007). Smith's framework incorporates a strong managerial vision of political economy. At the same time, he placed market-based analysis at its core by arguing that the driving force of national wealth lies in rising labor productivity, which depends on the division of labor, and the extent of that division is determined by the scope of the market. Thus, he advocated removing all restrictions on exchange, placing market-based analysis at the very heart of his framework. In fact, even before Smith, Western traditions had incorporated forms of economic analysis not limited to state management. As Schumpeter noted, ancient thinkers studied division of labor, value, markets, and money—phenomena connected to market exchange that already exhibited analytical reasoning.

Under this broadened definition, the analytical character of traditional Chinese economic thought can be explored through three representative cases: Mencius, the *Guanzi* (attributed to the statesman Guan Zhong, c. 720-645 BC), and Sima Qian (c. 145-c 86 BC). These cases are chosen for two reasons. First, the pre-Qin (prior to 221 BC) and Qin-Han (221 BC-AD220) periods were the formative stages of Chinese civilization, during which traditional economic thought first emerged and from which all later developments can be traced. Second, each of these thinkers integrates market-based and state-management-based analyses, emphasizing different aspects, making them broadly representative. Research demonstrates that traditional Chinese economic thought displays a high level of analytical sophistication in state-management-based analysis. Nor is it inferior in market-exchange-based analysis in the Schumpeterian sense. In both respects, it stands on par with the economic reasoning of ancient Greece, medieval Europe, and even early classical political economy. Moreover, Chinese traditional thought can be reinterpreted as a coherent system of economic analysis built upon core concepts, fundamental assumptions, theoretical reasoning, and policy recommendations. Its difference from modern economic theory lies mainly in four dimensions: the superstructure (state management vs. market economy), the decision-making subject (the state vs. the individual), the analytical focus (management

vs. exchange), and the ultimate goal (national prosperity or other value-laden ends vs. utility maximization).[8] Building upon these analytical achievements of traditional Chinese economic thought, the construction of a modern Chinese economics in the new era must therefore be guided by the "Two Integrations"—the integration of the basic tenets of Marxism with China's concrete realities and with its fine traditional culture—and particularly the "Second Integration," to maximize the contemporary relevance of this intellectual heritage.

## 3. Mencius: An Ethical Economic Management System

Mencius's thought, developed in the mid-Warring States period (c.372-c. 289 BC), represents a profound legacy of early Chinese civilization. His analysis of economic management rests on his fundamental assumption of the Theory of Innate Goodness and the core ethical concepts of benevolence and righteousness, forming a moral-based framework for governance that highlights the essential role of ethics. In Mencius's time, warfare and disorder stemmed from conflicts between public and private interests, generating acute economic and social distress. To address this, Mencius proposed that the state implement benevolence and righteousness as *non-formal institutions*[9]. Through these moral norms, he sought to regulate behavior, harmonize social relations, and reconcile public and private interests. At the same time, he advocated concrete measures such as ensuring constant property, observing agricultural seasons, and lightening taxes —all aimed at raising productivity and, ultimately, realizing his vision of an ideal, well-ordered society. From the perspective of market-exchange-based analysis, Mencius's contributions manifest chiefly in two areas. First, his "Theory of Mutual Exchange of Services" emphasized the efficiency gains from the division of labor. This idea paralleled the Greek philosophers' reflections on social specialization and served as a forerunner of the modern theory of division of labor. Second, like Aristotle, Mencius offered insights into value and price, advancing an early understanding of their formation and ethical dimensions.

(1) Basic Assumptions and Core Concepts: Mencius attributed human conscience and inherent moral capacity to innate human nature, famously asserting: "Water, truly, makes no distinction between east and west, but does it make no distinction between up and down? The goodness of human nature is like water trending downward. There is no man who is not good, just as there is no water that does not flow down."[10] Based on this premise, he formulated his Theory of Innate Goodness. Unlike the *rational economic man* hypothesis of neoclassical economics, Mencius held that individuals are not driven solely by self-interest but also by concern for others. As he famously observed, "Everyone has a heart that cannot bear the suffering of others; when one suddenly sees

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[8] Traditional economic theory distills concepts and assumptions to craft theories and policies, yet it diverges sharply from modern theory in four key dimensions: "Super Structure" (market economy vs. state management); decision-making agents (individuals vs. the state); analytical focus (exchange vs. governance); and ultimate goals (utility maximization vs. enriching the nation or other value-driven aims).

[9] Such informal institutions refer to ethical norms that, following Douglass North's definition, serve as informal institutions constraining and guiding social, political, and economic interactions (North, 1990).

[10] Unless otherwise noted, all views attributed to Mencius in this article are derived from (Mencius, 2008). Due to constraints of space, individual references for each instance are not listed.

a child about to fall into a well, one will have a feeling of shock and distress." Such altruistic behavior, undertaken without expectation of personal gain, resembles the altruism emphasized in behavioral economics and parallels Adam Smith's notion of "sympathy" in *The Theory of Moral Sentiments*. Yet Mencius also recognized that selfish desires could obscure moral intuition, leading individuals to act against the public good: "Human nature can be good; what is called 'good' refers to this potential. If one acts badly, it is not because of a lack of ability, but because of the distortion of desire." He therefore noted that while a few people—those "with a constant mind without constant property"—could remain virtuous even under hardship, most could not. Because both self-interest and altruism influence human behavior, Mencius emphasized the need for ethical cultivation and institutional guidance to align individual behavior with collective welfare. In sum, Mencius's economic thought, grounded in the Theory of Innate Goodness, serves as a valuable complement to modern economics.

Mencius's theoretical framework centers on two core ethical concepts: benevolence and righteousness. For Confucius, benevolence embodies the essence of being human—what Feng (1998) describes as "the defining quality that makes a person human"—manifested in the principle of "loving others." As Confucius taught, "Fan Chi asked about benevolence. The Master said: To love others," and "What you do not wish for yourself, do not impose on others" (Confucius, 2018). Mencius inherited and expanded upon these ideas, affirming that "the benevolent love others," and extending the reach of benevolence to the entire social order: "The Three Dynasties gained the realm through benevolence and lost it through the lack thereof; the same holds for the rise and fall of states." Building on this foundation, Mencius developed benevolence into a comprehensive doctrine of benevolent governance, encompassing political, economic, and cultural dimensions. He cited the governance of King Wen as the model: "In his rule over Qi, cultivators paid one-ninth of their produce as tax, officials received hereditary stipends, at passes and markets there was inspection, but no tax, fishing and woodcutting were unrestricted, and punishment did not extend to a criminal's family." Mencius also enriched the concept of "Xiaokang" (a society of moderate prosperity) from the Book of Rites, elaborating its socio-economic ideal and infusing it with concrete economic meaning (Wang, 1992). This vision of a "Xiaokang" society, underpinned by benevolent governance, subsequently became an enduring objective for successive imperial dynasties in China. In contrast, righteousness served as the ultimate standard of human conduct. Rejecting the pursuit of private profit as a moral principle, Mencius advanced Confucius's dictum of "righteousness before profit" to its logical conclusion. Notably, he argued that one should "give precedence to righteousness and only then to profit," and even asserted, "Why must one speak of profit?" These two ethical concepts—benevolence and righteousness—thus functioned as moral institutions for the whole society: non-coercive yet effective, their validity resting upon Mencius's foundational assumption of innate human goodness.

(2) Theoretical analysis and policy implications: Mencius demonstrated acute awareness of the social and economic turmoil of his time. Living amid the Warring States' incessant conflicts, where rulers waged wars for personal gain and exploited the people through heavy taxes, he identified the root cause as mutual competition for profit between superiors and inferiors — "When everyone, from ruler to commoner, competes for profit, the state stands on the brink of ruin." This

perspective is most evident in his renowned dialogue with King Hui of Liang: "The King asks, 'How may I profit my state?' The great officers ask, 'How may I profit my family?' The common people ask, 'How may I profit myself?' When superiors and inferiors strive with one another for profit, the country will be endangered. In a state of ten thousand chariots, the murderer of its sovereign is sure to be the chief of a family of a thousand chariots. In a state of a thousand chariots, the murderer of its sovereign is sure to be the chief of a family of a hundred chariots. To have a thousand in ten thousand, and a hundred in a thousand, is not to say that their possessions are few. If righteousness is put last and profit first, they will not be satisfied without seizing the whole." To address this dilemma, Mencius constructed a system of social division of labor and a set of economic policies grounded in his Theory of Innate Goodness and the principles of benevolence and righteousness. Through this framework, he sought to restore benevolent governance to save the people from dire suffering and realize the ideal of a flourishing Xiaokang society.

Mencius's economic management system rests on a foundational theory of the division of labor, which consists of two core components: the Theory of Mental and Manual Labor, grounded in innate differences among individuals, and the Theory of Mutual Exchange of Services, which emphasizes efficiency gains through specialization and mutual exchange. He formulated this theory in direct response to Xu Xing (an agriculturalist and philosopher during the Warring States period in the 4$^{th}$ century BC)'s doctrine of "everyone plow [s] and eat [s] their own produce," which rejected specialization and advocated universal self-abundance. Mencius refuted Xu's view on two analytical levels. First, he argued that people differ in their natural aptitudes: those skilled in thought should engage in governance, while those adept at physical labor should focus on production. Hence, "those who work with their minds rule; those who work with their hands are ruled"—a principle he regarded as a universal truth. Among mental laborers, Mencius distinguished between rulers and ministers, who formulate and implement state policies, and righteous scholars, who may serve as officials or teachers guiding producers in ethics and conduct. Manual laborers, in turn, work across agriculture, industry, and commerce, improving productivity and facilitating exchange—what Mencius described as "Mutual Exchange of Services."

Mencius's Theory of Mutual Exchange of Services bears striking similarities to the ideas of certain classical Greek thinkers. First, as Joseph Schumpeter noted in his *History of Economic Analysis*, Mencius's framework shares significant parallels with Plato's economic thought, particularly in their theoretical approach to social division of labor. In *The Republic*, Plato argues that each citizen should engage in the occupation most suited to his natural disposition. He divides society into three classes — Guardians (rulers), Auxiliaries (warriors), and Producers — responsible respectively for governing, defending, and producing. Although the structures are not identical, this tripartite division has clear points of convergence with Mencius's own social hierarchy. Schumpeter particularly commended Plato's insight: the efficiency gain arises "not from division of labor as such, but from the fact that it enables each person to specialize in the work for which he is best fitted by nature." Schumpeter further observed that "this recognition of differences in innate human capacities deserves mention, because it was later almost completely forgotten" (Schumpeter, 2006). Second, Mencius's theory operates on two distinct but complementary levels: the doctrine of the distinction between mental and manual labor and the principle of mutual

exchange of services. Like Plato, he stresses that efficiency is enhanced when people are assigned roles according to their innate abilities and dispositions. At the same time, like Xenophon, he also recognizes the productivity gains that arise from specialization and the division of labor itself — independent of innate differences. Xenophon, however, went further by explicitly linking the benefits of division of labor to the size of the market or population, an insight widely regarded as a significant contribution (Lowry, 1987a).

Mencius's Theory of Mutual Exchange of Services maps out the distinct roles, interactions, and societal impact of different groups. These are guided throughout by the ethical principles of benevolence and righteousness.

The first group: *the Ruling Class*. The ruling class—monarchs and senior officials—bears responsibility for governing the state and the people. Yet, Mencius saw how their pursuit of private gain often clashed with the public good, undermining the realization of benevolent governance. To correct this, he advanced two key ideas. First is his people-centered philosophy, which holds that "The people are to be valued most, the altars of the grain and the land next, the ruler least." As Mencius explained, political legitimacy is rooted directly in the "common people" (the laborers). A ruler who governs tyrannically severs this root of legitimacy, thereby legitimizing the people's right— their potential—to overthrow such a ruler (Zhang, 2012). Second, Mencius's faith in human goodness led him to believe that rulers, if guided by benevolence and righteousness, could restrain selfish desires, govern more effectively, and distribute wealth more fairly—thereby achieving a flourishing society under benevolent governance. In his dialogues with rulers such as King Xuan of Qi, King Hui of Liang, and Duke Wen of Teng, Mencius consistently urged them to embrace benevolence and righteousness as the moral foundations of statecraft.

The second group: *Scholars of Benevolence and Righteousness*. They occupied a crucial mediating role in Mencius's social vision—linking rulers with the common people. They served in two main capacities. First, as officials and advisers, they helped rulers overcome self-interest and implement benevolent governance, overseeing national finance, production, and justice. Second, as teachers and moral guides, they educated the populace through *careful instruction in filial piety and fraternal duty*, ensuring that "the elderly need not bear burdens along the road." In doing so, they instilled benevolence and righteousness in daily life, nurturing altruism and easing social tensions across classes. Notably, Mencius held a remarkably forward-looking view of labor value. He recognized that intellectual and moral labor contributed to social development no less than material production. As he observed: "Suppose there is a man who, at home, is filial, and abroad, respectful to his elders, who preserves the Way of the ancient kings and waits for later students—yet he cannot earn his livelihood from you. Why then do you honor carpenters and wheelwrights, but look down on those who practice benevolence and righteousness? A scholar's service is like a farmer's toil." Thus, educators and officials, like farmers, deserved fair compensation for their social contributions.

The third group: *the General Populace*—the broad base of productive laborers. He believed that under *benevolent governance* combined with moral education, the people could enjoy a life of dignity and abundance, where "the elderly wear silk and eat meat, and none suffer hunger or cold." In such a society, material output would be so ample that it "exceeds all need and use." Mencius envisioned benevolent governance as promoting social harmony through

four interrelated mechanisms. First, securing property rights: Mencius's "Theory of Constant Property" emphasizes that securing long-term land rights for farmers is fundamental to agricultural development, as it directly boosts their motivation and productivity. Furthermore, he posited that such material security is a prerequisite for effectively instilling in the laborers the ethical principles of benevolence and righteousness. Material security, in this view, is the foundation for moral cultivation. Second, reducing state interference. He urged rulers to "avoid disrupting the agricultural seasons" and to "collect taxes lightly," minimizing corvée labor and fiscal burdens. Such restraint would preserve the farmers' productivity and enthusiasm, allowing agriculture—the state's economic backbone—to flourish. Third, encouraging exchange and specialization. Through his "Theory of Mutual Exchange of Services", Mencius argued that efficient division of labor and open trade enhance social welfare: "If you do not practice the mutual exchange of services and balance what people have in excess with what they lack, then farmers will have surplus grain and women surplus cloth. But if you do practice it, then carpenters and wheelwrights will all be able to obtain food from you." Accordingly, he opposed excessive government control of non-agricultural sectors, maintaining that the government should "inspect but do not tax the markets; impose no bans on weirs and fish traps." Free exchange, for Mencius, was a moral as well as an economic good. Finally, harmonizing interests through moral education. Mencius saw the cultivation of benevolence and righteousness—through the teachings of virtuous scholars and the example of benevolent rulers—as the means to moral harmony among all classes. When the laboring and the governing alike act with humanity and righteousness, "none abandon their parents, and none neglect their ruler," ensuring social stability grounded in ethical reciprocity.

Mencius's political proposals flow naturally from these principles. Land Policy: He maintained that "benevolent governance begins with clear boundaries." Implementing the *Well-Field System*—dividing land into public and private plots—would ensure fairness in distribution. Most importantly, by "giving the people constant property", one ensures that "those who have constant property will have constant hearts." Taxation: Mencius favored the ancient assistance system of the Well-Field but insisted that agricultural taxes should not exceed 10 percent. This upheld his ideal of "light taxation" while ensuring the state could still support public goods such as rituals, education, and community welfare. Interestingly, he also opposed taxes lower than 10 percent, recognizing that underfunded public institutions would undermine the moral and social order sustained by benevolence and righteousness[11]. Legal and Labor Policy: Rejecting "punishment without prior education," Mencius preferred moral instruction to coercion as a means of regulating behavior and preventing conflict. He further opposed conscripting farmers during critical agricultural periods, thereby safeguarding rural productivity. Market Regulation: Mencius's dictum "inspect markets but do not tax them" captures his minimalist approach to economic oversight. Except in cases of monopoly or disorder, he advocated granting merchants operational freedom and opposed commercial taxation, believing that unburdened exchange best serves both moral virtue and economic prosperity.

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[11] When the financier Bai Gui proposed a mere 5% rate ("one in twenty"), Mencius explicitly rejected it as "the way of the northern barbarians" (Mencius 6B.10).

In their reflections on market regulation, both Mencius and Aristotle made significant early contributions to theories of value and price. Mencius recognized that some intrinsic, uniform factor determines commodity prices. He observed, "The unevenness of things is their nature. Some may be twice, five times, ten times, or even a thousand times more valuable. To equalize prices simply because goods share a category is to invite chaos upon the world." In other words, even goods of the same type need not sell at identical prices, for prices are governed by the "nature of things." This insight suggests that Mencius had a preliminary awareness that the *nature* of a good constitutes the underlying basis of its value (Li, 1984; Zhao, 2002). Similarly, Schumpeter observed that Aristotle, too, had an implicit understanding that labor might be the source of value. Aristotle (2009) wrote, "Reciprocity occurs when different products are equalized, so that the proportion between a shoemaker's shoes and a farmer's grain corresponds to the proportion between the shoemaker and the farmer themselves." Schumpeter (2006) concluded that Aristotle was "groping toward a labor-cost theory of price, though he never made it explicit." Karl Marx (1972), however, offered a more precise assessment: Aristotle's brilliance lay in identifying the *equivalence* embodied in the expression of commodity value— "it is here that his genius shines"—yet his analysis "stopped at this point, without further probing into the form of value" or recognizing labor as the decisive determinant of that value. In a parallel way, Mencius did not pursue a deeper inquiry into what exactly constitutes the "nature of things." Taken together, Mencius and Aristotle both discerned the element of *equivalence* within the notion of commodity value. This recognition, though still incomplete, marked a foundational step in the intellectual development of value theory.

Grounded in the Theory of Innate Goodness, Mencius developed a socio-economic framework that placed benevolence and righteousness at its moral and institutional core. Drawing upon his Theory of Mutual Exchange of Services, he articulated how each social stratum functions and interacts, emphasizing the use of ethical norms—particularly benevolence and righteousness—to mediate class relations. Through benevolent governance, Mencius sought to realize his vision of a flourishing society. From the perspective of market-based analysis, Mencius made essential contributions to theories of the division of labor, price, and value. His division of labor theory was notably comprehensive, combining two distinct sources of efficiency: differences in individual aptitudes (the Theory of Mental and Manual Labor) and the productivity of specialization itself (the Theory of Mutual Exchange of Services). In contrast, Xenophon's account was more analytically sophisticated, anticipating the link between market scale and the degree of specialization. Regarding value and price, Aristotle's exposition was more transparent and more systematic than Mencius's, yet their divergence lies more in analytical depth than in fundamental understanding (Li, 1984). Mencius's emphasis on ethics and his people-centered vision remains remarkably prescient. The rise of behavioral and experimental economics has demonstrated that classical and neoclassical paradigms—centered narrowly on market competition—cannot fully capture the complexity of socio-economic life. As Sun (2023) observes, this scientific narrowing has led to a "loss of humanistic character." Contemporary economics is now re-engaging with elements that have long been central to ancient thought—power, ethics, and institutional context. Questions of fairness and justice, once debated by ancient philosophers, have re-emerged as core themes in behavioral

economics, where fairness is treated as an altruistic preference or moral sentiment. Building on this idea, scholars such as Rabin (1993), Konow (2003), and Velez (2011) have developed models that formally analyze individuals' concern for fairness and justice. Moreover, behavioral economics' theoretical exploration of altruism provides new analytical tools for understanding the rich moral dimensions of ancient economic thought. The early Chinese discussions of benevolence, filial piety, and ethical duty, for instance, can be fruitfully reinterpreted within this framework. Viewed from this perspective, Mencius's economic analysis still remains a source of instructive insight for the development of modern economics.

## 4. *The Guanzi*: "Light and Heavy" and Theories of Monetary Management

Of the *Guanzi*'s original eighty-six chapters, seventy-six have survived, and nearly two-thirds address economic questions—ranging from self-interest, division of labor, and consumption to monetary theory, fiscal management, and the doctrine of "light and heavy." Among these, the *Light and Heavy* chapters contain the most sophisticated and influential economic thought, offering not only pioneering analytical insights but also policy recommendations that shaped the trajectory of ancient China's economic governance. This discussion focuses on the *Guanzi*'s theory of monetary management, a comprehensive system built upon the concept of "light and heavy," its associated principles, and the foundational hypothesis that the state confers value upon currency (the "ancient sages created coinage" doctrine).The *Guanzi* proposes that the state can regulate the economy by adjusting the money supply to achieve specific macroeconomic objectives. Within its framework, state-centered and market-oriented analyses are not oppositional but complementary, forming an integrated, quasi-market model of monetary management. From the perspective of market-based analysis, the *Guanzi*'s treatment of currency—its origins, functions, quantity theory, and management—is not only on par with that of ancient Greece but, in certain areas, even attains the analytical level of classical political economy. Furthermore, while emphasizing theoretical analysis, the Guanzi also addressed the application of statistical tools, explicitly stating that statistics are an essential instrument for state monetary control, revealing an early awareness of quantitative governance.

At the heart of the *Guanzi*'s monetary theory lies the traditional Chinese hypothesis of "the ancient sages created coinage." This view holds that the value of money is conferred by the state (the "ancient sages") and that coinage was created to provide famine relief and facilitate exchange. As Shan Qi (fl. late 6th century BCE) noted during the Spring and Autumn period (c. 770-476 BCE), "When calamity struck, the rulers assessed resources, balanced light and heavy, and issued currency to rescue the people" (Zuo, 2022). Building on this foundation, the *Guanzi* expands the idea: "During Tang's seven-year drought and Yu's five-year flood, some people, having no grain, sold their children. Tang cast coins from the metal of Mount Zhuang to redeem those who had sold their children for want of food; Yu cast coins from the metal of Mount Li to redeem those who had sold their children for lack of grain." This passage explicitly advances the doctrine that "the ancient sages created coinage."[12] The text further classifies currency into three forms—jade, gold,

[12] Unless otherwise noted, all views attributed to the *Guanzi* in this article are derived from (*Guanzi*, 2019). Due to constraints of space, individual references for each instance are not listed.

and pearls—and explains: "These currencies neither warm when held nor nourish when eaten; the sages created them to safeguard wealth, manage affairs, and bring balance to the realm." Since money originates through deliberate state action, its value, too, is subject to governmental control. The *Guanzi* records: "When decrees are urgent, gold grows heavy; when decrees are slow, gold grows light." In other words, a currency's worth depends on official policy and administrative regulation. This "ancient sages created coinage" hypothesis thus serves as the theoretical foundation of the *Guanzi*'s monetary management system. Interestingly, this position parallels Plato's theory of money as a *nominal symbol.* As Schumpeter (2006) observed, Plato was among the earliest proponents of monetary nominalism, arguing that money functions merely as a "symbol" of exchange, independent of its material composition, and derives its value from legal authority. In *The Laws*, Plato asserts, "The currency we use shall be coin that has value among ourselves but is worthless elsewhere" (Hu, 1988). Both Plato and the *Guanzi*, therefore, understood money as a product of state power—a legal and institutional construct whose value rests not on intrinsic substance but on the authority of governance.

The concepts of light and heavy are distinctive features of traditional Chinese economic thought and form the core of the *Guanzi*'s monetary theory. Its earliest usage appears in the *Discourses of the States* during the Spring and Autumn period (c. 770-476 BCE), where it referred literally to the weight of coins— "light" denoting lighter coins and "heavy" denoting heavier ones. Over time, the term evolved into a multifaceted analytical concept encompassing three primary meanings. (1) Commodity Dynamics. In this sense, *light and heavy* describe variations in the quantity and value of goods. "Heavy" signifies scarcity and rising prices, while "light" indicates abundance and falling prices. Because grain held a uniquely central position in the feudal economy—as both the basic means of subsistence and a key factor of production—its *light and heavy* relationship diverged from that of other commodities. (2) Monetary Conditions. Here, *light, and heavy* relate to the quantity of currency in circulation. "Heavy" corresponds to a limited money supply with high purchasing power; "light" to an abundant supply with diminished purchasing power. (3) Rewards and Punishments: The concept is also used metaphorically for the calibration of incentives. For example, in the *Guanzi*, *light and heavy* describe how the state's system of rewards and punishments shapes human behavior: "*Men do not court death lightly; it is the weighting of rewards and punishments that drives them*." Although the notion of *light and heavy* carries broad meanings, the *Guanzi* primarily applies it to questions of money and price, making it a foundational analytic tool in its economic thought.

The *Guanzi*'s monetary management theory consists of four interconnected components: (1) market theory, (2) analysis of currency functions and monetary supply and demand, (3) the relationship between money and prices, and (4) monetary policy recommendations.

*Market Theory.* At the heart of this system lies a sophisticated understanding of markets as essential institutions for exchange. The *Guanzi* articulates six primary functions of the market: (1) Alleviating Scarcity. "Where people gather, there are markets; without markets, the people suffer want." Markets thus address material shortages and distribute resources efficiently. (2) Determining Prices. "The market is the standard of goods." Prices are set by market interaction rather than administrative decree. (3) Signaling Stability. "From the market one can discern order or disorder."

Price fluctuations reflect the broader stability of the economy and governance. (4) Generating Wealth. "The market is the wealth of Heaven and Earth, where all people share in profit." It serves as a universal site of mutual gain. (5) Stimulating Production. "The market encourages; encouragement gives rise [to production]." Circulation itself promotes productive activity. (6) Revealing Supply. "The market reveals abundance and scarcity, though it cannot create them." Markets reflect production conditions but do not directly produce goods. Taken together, these propositions show that by the Warring States period (c. 475-221 BC), China had already developed a relatively advanced market economy. Unlike Mencius, who concentrated on production and distribution, the *Guanzi* emphasizes the state's role in regulating circulation. Hence, market theory serves as the analytical foundation of its monetary management system. As Wu (1996) notes, the *Light and Heavy* chapters may be viewed as the *Guanzi*'s extension and refinement of early market theory, deepening its discussions of currency and price.

*Currency Functions and Supply-Demand Dynamics*. The *Guanzi* presents a remarkably comprehensive understanding of money's functions—recognizing its roles as a medium of circulation, a means of payment, a store of value, and a measure of value. (1) Medium of Circulation. The text observes, "Gold and knife-coins serve as the channels of exchange among the people," and adds, "Knife-coins are the ditches and conduits of commerce." In this view, money facilitates the movement of goods through society—an essential mechanism for circulation. (2) Means of Payment. The *Guanzi* notes: "Scholars receive stipends in coin; nobles receive fiefs in coin; soldiers and horses receive provisions in coin." Money thus functions as a standardized instrument for settling payments and compensations. (3) Store of Value. The text also stresses the importance of reserves: "A state with ten thousand chariots cannot do without the reserves of ten thousand pieces of gold." Wealth accumulation, in this sense, safeguards national stability. (4) Measure of Value. Finally, the *Guanzi* recognizes money as a unit of account: "Set one *jin* of gold as equal to eight *dan* of grain." Among these, the function of circulation receives the most significant emphasis, forming the theoretical foundation of the *Guanzi*'s monetary system. A parallel can be drawn with Aristotle, whose analysis of money's exchange, measure, and storage functions Schumpeter (2006) called "the groundwork for most later analysis of monetary problems." Lowry (1987a) further notes that Aristotle, in *Politics*, identified money's capacity to act as a means of deferred payment. Both the *Guanzi* and Aristotle, therefore, recognized the essential functions of money in exchange, payment, valuation, and storage. In its discussion of supply, the *Guanzi* emphasizes that the state must control the quantity of money in circulation and monopolize coinage— "The ruler mints coins and establishes currency as the medium of exchange among the people." By placing monetary authority firmly under state control, the text envisions a system in which currency serves both economic and political functions. On the demand side, while the *Guanzi* does not formulate an explicit theory of money demand, it offers a practical framework for estimating it through empirical observation. It proposes two complementary approaches—one based on production and the other on consumption. From the Production Side: The state should collect data on arable land, grain output, surplus commodities (after deducting subsistence grain), and grain prices to estimate the total monetary requirement: "How much land exists? How much currency is adequate? What is the weight of grain to match the coinage? What remains

after a year's consumption?" From the Demand Side: The state can also infer money demand by aggregating the purchasing needs of individuals and households: "Each county must have its own record of arable land; each village its own register; each household its own account of daily expenses." Summing these local estimates yields the aggregate monetary demand. Taken together, these analyses reveal a sophisticated grasp of economic circulation. As Wu (1996) observed, the *Guanzi* displays "extraordinary insight into the analysis of currency flow and demand." Schumpeter (2006) once praised late medieval scholars for their empirical rigor— "They did not merely speculate; in the absence of statistical institutions, they conducted field investigations to support their arguments." The *Guanzi* deserves similar recognition: its reliance on systematic data collection and estimation demonstrates proto-statistical awareness, enabling the state to manage the currency efficiently based on observed supply and demand conditions.

*Relationship between Money and Pr*ices. Building on its theory of "light and heavy," the Guanzi offers an early and coherent analysis of the inverse relationship between the amount of money in circulation and the level of prices. It explains that when the state withdraws most of the currency from the market—keeping "nine parts above and one part below"—money becomes "heavy," meaning its purchasing power rises, and prices fall. Conversely, when the state releases currency back into circulation, money becomes "light," and prices increase, in some cases, tenfold." The text applies the same logic to the grain market: when grain is concentrated in state granaries while money circulates broadly among the people, grain prices soar. Taken together, these passages show that the *Guanzi* considers changes in the circulating money supply to be the primary driver of price movements: more money leads to higher prices and lower purchasing power, and less money leads to lower prices and stronger purchasing power. On this basis, the text argues that by controlling the quantity of currency, the state can deliberately influence price levels—providing an early theoretical foundation for monetary policy in ancient China.

In comparative perspective, the *Guanzi*'s analysis anticipates the core ideas of Jean Bodin's 16$^{th}$-century *Quantity Theory of Money*. Bodin famously attributed Europe's inflationary surge to the influx of precious metals, writing that "I have found four, even five causes for today's high prices. The chief and almost sole cause—one yet unmentioned—is the abundance of gold and silver. Wherever these dominate valuation and exchange, all things become dear" (Wu, 1998). Schumpeter (2006) later judged Bodin's explanation "a correct diagnosis of the events of 1568, and theoretically superior to many later analyses." By comparison, the *Guanzi* had already articulated a parallel framework more than a millennium earlier, asserting that variations in money supply determine price movements. As Tang (2014) observed, "Western scholars trace the origins of the Quantity Theory to Bodin, yet Bodin's *Réponse aux paradoxes de Monsieur de Malestroit* appeared in 1573—over a thousand years after the *Guanzi* had already advanced this same doctrine."

*Monetary Management Policies.* Based on its preceding monetary theory, the *Guanzi* explicitly advocates a proactive state monetary policy: "Those skilled in governance control circulation to command vital goods, and thereby fully harness the people's strength." In this framework, the state must effectively regulate currency (the medium of exchange) to control essential commodities—chiefly grain (the lifeblood of the people)—thereby influencing all prices in the economy. Through such control, the ruler can achieve three interrelated objectives: maximize productive capacity,

stabilize prices, and secure fiscal advantage. The guiding principle of this policy is encapsulated in the maxim "Use heaviness to strike lightness; release cheapness to restore balance". This means that when certain commodities are in surplus, the government should purchase them at slightly above market prices; when they are in shortage, it should sell them at below market prices. By doing so, the state stabilizes price fluctuations and later resells or repurchases at favorable times to generate fiscal revenue. The *Guanzi* illustrates this mechanism through grain and cloth: "When grain is cheap, buy it with coin; when cloth is cheap, buy it with coin. Observe each commodity's lightness or heaviness and balance it by regulation—thus prices can be adjusted, and the ruler gains profit." Beyond direct price intervention, the *Guanzi* also considers the possibility of influencing money demand through policy to secure royal profit. When Duke Huan of Qi asked how to utilize his gold reserves, Guan Zhong advised: "Command that tribute, gifts, and official payments be made in gold." By decreeing that gold serve as the medium for taxes or tributes, the ruler artificially increases its demand. Since other goods' quantities remain constant, gold's relative value rises sharply, enhancing the ruler's purchasing power: "Gold's worth multiplies a hundredfold. By weighing all things against gold, all wealth flows to the ruler." This analysis reveals a sophisticated understanding of monetary policy transmission, where changes in money demand alter relative prices and wealth distribution—an idea resonating with modern financial economics.

In Western economic thought, Lowry (2003) argues that rudimentary forms of monetary management already existed in ancient Greece. Lycurgus's reform of Sparta's currency system—replacing precious metals with iron—curtailed counterfeiting and foreign trade while stimulating domestic production (Plutarch, 2012). Schumpeter (2006), however, traces the first fully developed theory of a managed currency to John Law in the early 18$^{th}$ century. Law's system aimed to raise the French economy through deliberate control of the money supply, leading Schumpeter to call him "the true founder of managed currency thought." The *Guanzi*'s theory, formulated nearly two millennia earlier, remarkably anticipates the logic underlying Law's system. Both share two essential premises: a nominalist conception of money, where value arises from state authority rather than from the intrinsic metal content. The conviction that by controlling the quantity of circulating money, the state can pursue broader economic and fiscal objectives. In this sense, the *Guanzi*'s monetary management policy represents one of the earliest and most comprehensive examples of macroeconomic regulation through state-controlled money, demonstrating the remarkable theoretical depth of early Chinese economic thought.

Nevertheless, the *Guanzi* cautions that monetary regulation has inherent limits, implicitly recognizing the existence of an optimal money supply. It states: "When goods are hoarded, they become *heavy*; when released, *light*; when dispersed, plentiful. If currency is *heavy*—that is, too scarce—people are deprived of benefit; if it is *light*—too abundant—it will be recklessly spent and lose its function. Therefore, adjustments between lightness and heaviness must be made in proper measure. Once balance is reached, they should cease." This passage suggests that the state, while adjusting the relationship between money and goods, must not issue currency indiscriminately. Once circulation reaches its optimal "number," monetary intervention should stop—anticipating the modern idea of an optimal monetary stock. To ensure effective implementation, the *Guanzi*

outlines three key measures: Regional Currency Systems: Establish local mechanisms to meet both state issuance needs and public demand, maintain "balanced circulation," and set aside "public reserves." State Monopoly: Preserve absolute control over money by monopolizing minting rights and securing sources of monetary materials such as metals, jade, and pearls. Statistical Governance: Emphasize the importance of "state records," i.e., systematic statistical collection on currency demand, to provide the empirical foundation for regional monetary policy.

Building upon earlier thought, the *Guanzi* develops and systematizes the concepts of *Light and Heavy* and the state's currency-control hypothesis, forming a coherent monetary theory that integrates both market mechanisms and state management. This synthesis produces an early *market-oriented theory of economic governance*. From a comparative perspective, the *Guanzi*'s insights into monetary functions, the quantity theory of money, and policy management demonstrate a level of sophistication equal to—if not exceeding—that of pre-17$^{th}$-century Western scholarship. As Wu (1989) observed, its analyses of the nature and function of currency profoundly influenced later economic thinkers. Similarly, Hu (1998) emphasized that the *Guanzi*'s theoretical exploration—especially its analysis of commodity circulation—approaches the depth of early classical political economy and, in certain respects, offers original insights of its own. A distinctive feature of the *Guanzi*'s economic thought is its emphasis on statistical methods in policy execution. Its insistence on empirical assessment before monetary intervention shows that ancient Chinese economic analysis extended beyond theoretical reasoning into data-driven governance—demonstrating the intellectual and practical sophistication of early Chinese monetary thought.

## 5. Sima Qian: Historiography, Non-Intervention, the Doctrine of Positive Causes, and the Art of Livelihood

Sima Qian (c. 145-86 BCE) lived in the centuries following China's Axial Age, the era of intellectual efflorescence spanning the Spring and Autumn period (c. 771-476 BCE) and the Warring States period (c. 475-221 BCE). His monumental *Records of the Grand Historian* drew deeply on the diverse philosophical traditions of the Pre-Qin thinkers to "explore the relation between Heaven and humanity, trace the transformations of past and present, and form a school of his own" (Ban, 1962). Employing a historiographical method that "embeds judgment within narrative" (Gu, 2006), Sima Qian wove his reflections on early economic history into two key chapters: The *Treatise on the Equalization of Currency* and the *Biographies of the Money-Makers*. These texts not only document the economic life of the pre-Western Han world but also reveal its distinctive economic insights and intellectual inclinations. In the *Biographies of the Money-Makers*, Sima Qian combines philosophical depth with historical acuity. Surveying regional conditions—including natural resources, population patterns, customs, agriculture, industry, commerce, and urban development—he articulated economic ideas marked by apparent regional and geographic sensitivity. Strikingly, several of his arguments parallel concepts later developed by Adam Smith (1723-1790), including the virtues of free markets and the division of labor. From this foundation, Sima Qian articulated two significant contributions: First, a market-oriented analytical framework. He proposed an economic model centered on market mechanisms, with the state occupying a supplementary role—intervening only to compensate for market failures.

Second, the art of livelihood. From a micro-level perspective, he analyzed the functions and motivations of entrepreneurs or wealth-creators, offering one of the earliest systematic discussions of entrepreneurial behavior. These contributions mark a watershed moment in both Chinese and global economic thought. Liang Qichao (1873-1929) observed that the theories in the *Biographies* "correspond remarkably to those of Western thinkers, as if two halves of a tally" (Liang, 2001), underscoring their historical resonance. Modern scholars likewise credit Sima Qian with inaugurating a "distinctively Chinese tradition of economic historiography" and with coining or clarifying several early economic terms and concepts (Tang & Zhao, 2022).

First, core assumptions and concepts. At the heart of Sima Qian's economic thought lies a penetrating understanding of human nature. Rather than engaging in the moral debates over innate goodness or evil, he posited a universal inclination toward profit, asserting that "wealth is a natural human desire, sought by all without instruction." He affirmed the legitimacy of seeking profit, writing: "Common people, doing no harm to governance nor injuring others, accumulate wealth through timely exchange—the wise observe and learn from this."[13] This stance led him to become the first historian to write full biographies of merchants and entrepreneurs, distilling the principles and recurring patterns of wealth creation. At the outset of the *Biographies*, Sima Qian cites Laozi's (fl. 4th century BCE) vision of effortless governance, then immediately notes: "Customs have shaped the people for a long time; no amount of subtle discourse can alter their desires." Those desires include "the ears and eyes yearning for exquisite sights and sounds, the mouth craving the finest flavors, the body seeking comfort, and the heart longing for the prestige of power and influence." This marks a profound departure from the primordial simplicity described before the age of Shennong (the mythical culture hero of agriculture). His use of terms such as "exhaust" and "deplete" resonates with Gary Becker's (1976) economic assumption of maximization—the relentless pursuit of personal wants. This transformation produces a world in which "all bustle for profit; all strive for gain." Sima Qian thus lays bare the instinctual and self-interested drives animating economic life, establishing them as the foundational premise of his analytical framework. In this, he echoes Joseph Schumpeter's (2006) praise for Aristotle, who "steadfastly made desire and its satisfaction the basis of economic inquiry."

Drawing on his understanding of human nature, Sima Qian developed two pivotal concepts in his economic analysis— "each pursues their craft", which points to market-based division of labor, and non-intervention, which frames his ideal of governance. These concepts are closely intertwined: the former is elaborated in depth in the *Biographies of the Money-Makers*. At the same time, the latter permeates numerous chapters of the *Records of the Grand Historian*. As Joseph Schumpeter observed, historical narrative can never be purely economic, yet it offers "the best method for understanding how economic and non-economic facts intertwine" (Schumpeter, 2006). Adopting such a historical lens, Sima Qian first catalogs the geographic features and material resources of different regions, then sets out a vision of social division of labor: "farmers cultivate to feed, woodsmen and hunters draw from nature, artisans craft goods, and merchants make

[13] Unless otherwise noted, all views attributed to Sima Qian in this article are derived from (Sima Qian, 2014). Due to constraints of space, individual references for each instance are not listed.

them circulate." He depicts an incentive-compatible order in which "each person applies their abilities, exerts their effort, and attains what they desire," in which individuals "delight in their occupations," and in which economic activity flows "unbidden and without coercion, as people bring forth goods of their own accord." For Sima Qian, this spontaneous coordination resembles occurs as naturally as "water flowing downward," an alignment with the Way and a verification of natural law.His observations echo in striking ways Adam Smith's reflections on how the self-interest of the butcher, brewer, and baker promotes the public good, as well as Smith's insight into the efficiency created by labor specialization, famously illustrated in his example of pin-making.

The concept of non-intervention and its grounding in Yellow Emperor and Laozi (Huang-Lao) thought—*the syncretic Daoist-Legalist tradition that prioritized minimal state interference and light taxation*—held a priority position in Sima Qian's (c. 145-c 86 BCE) intellectual framework. In the early Han, Huang-Lao governance thrived, and Sima Qian praised it as "rooted in emptiness and non-being, functioning through accommodation," a form of non-intervention that was more active and world-engaged than Laozi's quietism or Zhuangzi's metaphysical Daoism. He expressed deep admiration, even reverence, for early Han Dynasty (202 BCE - 9 CE) statesmen, who actively supported and implemented *Huang-Lao* politics and non-interventionist governance, such as Xiao He (d. 193 BCE), Cao Can (d. 190 BCE), Chen Ping (d. 178 BCE), and Zhang Liang (d. 186 BCE); of Cao Can he wrote, "Through restful non-intervention, he earned universal acclaim." In the *Biographies*, Sima Qian vividly sketches the economic prosperity during the reigns of Emperors Wen and Jing (known as the Rule of Wen and Jing, 180-141 BCE): "When the Han rose and the realm was unified, passes and bridges were opened and restrictions on mountains and marshes lifted; wealthy merchants and great traders then traveled the empire, goods circulated without obstruction, and people obtained what they desired." Both "each pursues their craft" and non-intervention thus ultimately rest on the premises of desire fulfillment and the pursuit of profit, revealing their shared logical foundation. Conversely, Sima Qian records with measured skepticism the policies of Emperor Wu, whose grand internal projects, foreign campaigns, and profit-seeking interventions—including the Equalization and Transportation Scheme, the wealth-assessment and informant system, and the state monopolies on salt and iron —shifted the state into competition with the people, generating economic consequences he was careful to note and implicitly critique.

Second, theoretical analysis and policy implications. Sima Qian's economic thought can be divided into two interrelated components: the macro-level Doctrine of Positive Causes and the micro-level Art of Livelihood. Together, they form a coherent system of economic governance. Grounded in a historical understanding of human desire and the realities of social division of labor, Sima Qian sets forth in the *Biographies of the Money-Makers* the following schema: "The best approach is to follow and adapt; next is to guide through incentives; next is to educate; then to regulate; and the worst is to compete with the people for profit." This Doctrine of Positive Causes offers a macroeconomic theory that resists excessive state control, advocating instead a laissez-faire stance remarkably close to the principles underlying modern market economies. For Sima Qian, the worst possible policy is for the state to intervene so extensively that it seeks profit at the expense of the people. His thinking resonates with F. A. Hayek's insight that "the spontaneous order of the market rests upon reciprocity and mutual benefit" (Hayek, 1966). The

essence of "guiding through incentives" lies in market-based resource allocation: prices should emerge primarily from competition and the dynamics of supply and demand, rather than from governmental manipulation. This observation touches the core laws of market economies. Sima Qian articulates this principle with striking clarity: "When goods are cheap, they herald future dearness; when dear, they herald future cheapness. Each pursues their craft with joy, like water flowing downward." Although prices seem perpetually in flux, they nonetheless follow a pattern akin to natural law. Sima Qian further explicates this by invoking Ji Ran, an ancient theorist of market cycles: "By assessing surplus and shortage, one discerns price trends. When prices peak, they will turn downward; when they bottom out, they will rise again. Sell expensive goods as if discarding dirt; buy cheap goods as if treasuring pearls. Let commodities and money circulate like flowing water." In other words, consumers infer value from availability: goods priced too high go unsold and must fall in price, but low prices reduce sellers' willingness to supply, thus lifting prices again—an early articulation of self-correcting market cycles.

The injunction that "the best approach is to follow and adapt" is the heart and soul of the Doctrine of Positive Causes. For Sima Qian, it encapsulates how a government achieves good governance: by following, adapting, listening, and allowing economic actors to pursue agriculture, foraging, craftsmanship, and commerce in accordance with their own interests. Such freedom enables long-term prosperity for both people and the state. Yet Sima Qian also recognized that markets have inherent shortcomings, and that state intervention is at times necessary to remedy them. He categorized wealth into three types: "primary wealth", derived from agriculture; "secondary wealth", derived from industry and commerce; and "illicit wealth", obtained through unlawful or manipulative means. He affirmed "primary wealth" and "secondary wealth", considering them harmless to governance and society and essential sources of national prosperity, and therefore subject to a policy of "following and adapting." Illicit wealth, however, was different. Sima Qian held that those who "manipulate laws and schemes to enrich themselves" do not create wealth but merely exploit others. Thus, he advocated a policy of "rectification" toward such actors. The Doctrine of Positive Causes, therefore, is not a doctrine of absolute laissez-faire; it endorses government intervention when circumstances warrant it.

Sima Qian's economic thought aligns strikingly with that of Adam Smith, leading Leslie Young to speculate that Smith might even have encountered Sima Qian's ideas indirectly through Anne Robert Jacques Turgot and two Chinese scholars studying in France—Kao Lei-szu and Yang Te-wang.[14] When these students prepared to return to China in 1764, Turgot provided them with instructions on collecting information about China, raising the possibility of intellectual transmission. Smith himself visited France before writing *The Wealth of Nations*, and Turgot's *Reflections on the Formation and Distribution of Wealth* is widely regarded as a precursor to Smith's work. In several respects, Sima Qian's economic insights display unmistakable originality, later echoed in Smith's theories. First, they shared a view of human nature: both saw self-interest as a natural and powerful motivator of human behavior, not something to be suppressed but instead

[14] When the two Chinese students were preparing to return to China in 1764, Turgot wrote them *Directions to the two Chinese on the Indicators for Studying Chinese Issues*, instructing them to gather information. See Young (1996) and Cheng and Chen (2016).

harnessed productively. Second is their understanding of price mechanisms. As Young observes, Sima Qian's metaphor of "water flowing downward" can be viewed as an early analog to Smith's "invisible hand," expressing the idea that price formation follows objective, natural patterns that should not be distorted by artificial intervention—though Sima Qian's liberal economic stance did not become dominant in Chinese intellectual history (Ma & Li, 2019). Third is their analysis of the division of labor. Smith's observations about efficiency gains in pin production resonate with Sima Qian's historically and geographically grounded conclusions about the differentiated functions of agriculture, resource extraction, industry, and commerce. Although Sima Qian did not quantify productivity differences as Smith did, his impartial evaluation of all four sectors posed a profound challenge to the Han-era policy mindset of "honoring agriculture and suppressing commerce."

The Art of Livelihood: micro-level economic thought. Complementing the macro-level Doctrine of Positive Causes is Sima Qian's micro-level framework, the Art of Livelihood, which refers to the management of household enterprises and livelihoods; thus, this body of thought constitutes an early Chinese exploration of micro-level business strategy and economic behavior. In the *Biographies of the Money-Makers*, Sima Qian profiles entrepreneurial figures such as Fan Li, Zi Gong, and Bai Gui, presenting their methods of management and wealth accumulation. Through this lens, he argues that household prosperity and national prosperity are not at odds but mutually reinforcing: "the wealth of households enriches the state." He writes, "If farmers do not produce, food is lacking; if artisans do not produce, tools are lacking; if merchants do not operate, the three treasures cease; if resource managers do not produce, wealth is scarce. When wealth is scarce, mountains and marshes remain unopened. These four are the wellsprings of clothing and food. When these wellsprings are abundant, there is plenty; when they are narrow, there is scarcity. Above, this enriches the state; below, it enriches the household." This passage conveys two fundamental insights: *first*, contrary to the traditional belief that only agriculture creates wealth, Sima Qian identifies agriculture, resource management, industry, and commerce as the four equally essential "wellsprings of clothing and food"; *second*, the abundance of these wellsprings benefits both individuals and the state, revealing a natural harmony between household and national prosperity. Consequently, Sima Qian argues that expanding these wellsprings requires developing all sectors and allowing individuals to exercise their economic capabilities fully. Aside from curbing "illicit wealth", he consistently opposes excessive state control or intervention in economic life.

Sima Qian offers a particularly acute observation about merchants and entrepreneurs—namely that they "are keenly attuned to changes in the times" and "keep pace with the times without blaming others". This insight stems from his careful recording and elaboration of the economic-cycle theories of Ji Ran and Bai Gui. According to Sima Qian's account of Ji Ran: "When Jupiter, the Year Star, aligns with the Metal phase in the Five Phases cosmological model, harvests flourish; with Water, ruin follows; with Wood, famine strikes; with Fire, drought prevails. In drought, prepare boats; in flood, ready carts—such is the nature of things. Six years yield bounty, six years yield drought, and every twelve years bring a great famine." This theory combines Jupiter's sidereal cycle with the cosmological model of the Five Phases. When Jupiter moves to the West, three years of plenty ensue; in the North, three years of scarcity; in the South, three

years of drought. This cycle repeats endlessly in a twelve-year sequence—roughly the 11.86-year orbital period of Jupiter—with six relatively abundant years and six leaner ones. In discussing Bai Gui's commercial experience, Sima Qian notes his adherence to agricultural-cycle theories: Sima Qian highlights Bai Gui's (fl. 4th century BCE) reliance on an agricultural cycle theory: "When Jupiter, the Great Yin (*Taiyin*), resides in *Mao* (an Earthly Branch), harvests flourish; the next year falters. In *Wu*, drought strikes; the following year thrives. In *You*, harvests flourish; the next year wanes. In *Zi*, severe drought prevails; the next year, yields are abundant, and water is plentiful. By *Mao*'s return, stored wealth doubles each year." This passage—shaped partly by Sima Qian's own interpretation—refines the earlier tripartite cycle into an annual predictive model. Scholars have summarized Sima Qian's account as a "twelve-year short-cycle model of alternating abundance and scarcity" (Zhang, 2011).

Like the 17th and 18th -century French economist Richard Cantillon (c. 1680-1734), Sima Qian attached great importance to the role of entrepreneurs in economic development. Joseph Schumpeter (1883-1950) praised Cantillon for clarifying the entrepreneur's function in confronting uncertainty and bearing risk—an analysis that ensured French economists, unlike their English counterparts, did not "overlook the entrepreneur's function and its crucial importance." Schumpeter emphasized that "no one before Cantillon had expounded it so fully" (Schumpeter, 2006). Similarly, Robert Hébert (1940-) and Albert Link (1950-), in their historical survey of entrepreneurship, note that Cantillon defined the entrepreneur as a market participant who assumes risk to earn profit (Hébert & Link, 2009). Defying the traditional Han Dynasty doctrine of honoring agriculture and suppressing commerce, Sima Qian was the first Chinese historian to write full biographies of merchants and entrepreneurs. Summarizing their essential attributes, he wrote: "Those adepts at managing their livelihood choose the right people and act at the right time"; they "embrace change, taking what others discard and yielding what others desire"; and "the wealthy triumph through bold, unconventional methods". True wealth thus requires strategic timing, the selection of capable partners, and the skillful use of ingenious and unconventional tactics. These characteristics—defined by timing and adaptability—implicitly acknowledge the ever-present risks and uncertainties of economic life. That Sima Qian recognized this entrepreneurial logic in the Western Han, as Chen (2019) notes, is no small achievement.

Taken as a whole, Sima Qian's economic thought elevates respect for individual self-interest, the promotion of social division of labor, the development of commodity production and markets, and the establishment of market order to the level of fundamental principles of state governance, while also highlighting the critical role of entrepreneurs. In the *Biographies of the Money-Makers*, Sima Qian cites Ji Ran's observation: "A profit of twenty percent signals a disorder in agriculture; a profit of ninety percent signals a disorder in commerce. When commerce suffers, wealth does not circulate; when agriculture suffers, fields go untilled. But when profits range from thirty to eighty percent, both sectors thrive. Stabilizing grain prices, balancing commodities, and ensuring that markets and trade routes remain well supplied—this is the art of governing the state." For Sima Qian, commodity production and market exchange accord with human self-interest; allowing individuals to engage freely in production and trade without undue interference benefits economic development and improves living standards. However, Sima Qian did not naively assume that

market mechanisms alone could resolve all economic or social problems. Drawing on his analysis of the sources of wealth, he emphasized the state's responsibility to correct market deficiencies. As Liang Qichao (1873-1929) noted, "Sima Qian's greatest purpose in writing was to express the Sima family's philosophy, just as Xun Kuang expressed his in *Xunzi* and Dong Zhongshu in *Luxuriant Dew of the Spring and Autumn Annals*—only Sima presented his ideas through the medium of history" (Liang, 1925). Much like Schumpeter's insistence on the importance of economic history for economic analysis, Sima Qian's theoretical insights emerge from extensive historical evidence. As such, his economic thought is both profound and forward-looking, bearing notable affinities to the theories and methods later developed by early classical political economists such as Adam Smith.

## 6. Advancing Chinese Economics through the "Two Integrations" in the New Era

As noted earlier, traditional Chinese economic thought contains analytical insights of remarkable depth—fully comparable to the ancient Greek, medieval, and early modern Western doctrines cataloged by Joseph Schumpeter. In terms of scope, it developed a relatively comprehensive framework that accommodates both market exchange and state governance. In this sense, the present study helps redress the longstanding skepticism, misunderstanding, and neglect toward traditional economic thought—especially its Chinese strand—within the international history of economic ideas. It thus provides a basis for more objective assessments of the historical role that Chinese economic thought should occupy in the global narrative of economic intellectual development. More importantly, the analytical rigor and systemic coherence of traditional Chinese economic thought retain significant contemporary value. Through creative transformation and innovative development, these traditions can meaningfully inform the construction and theoretical advancement of Chinese economics in the new era.

The development of Chinese economics must draw deeply from the rich resources of China's traditional economic thought; otherwise, it risks severing itself from the cultural roots of China's outstanding intellectual heritage.[15] The "Two Integrations" —i.e., integrating the basic tenets of Marxism with China's concrete realities and its fine traditional culture—and especially the "Second Integration"—provide fundamental guidance on this front. They call for us to "integrate the basic tenets of Marxism with China's concrete realities and with its fine traditional culture" (Xi, 2021) and to "draw fully on the invaluable resources of traditional Chinese culture to explore future-oriented theoretical and institutional innovation" (Xi, 2023). Applied to economic thought, this means integrating traditional Chinese economic ideas with the worldview and methodology of Marxist economics. Marxism offers theoretical direction, methodological discipline, and conceptual illumination, helping to animate the internal vitality of traditional Chinese economic thought and enabling its modern transformation and innovative reinterpretation. In turn, conventional Chinese thought provides Marxist economics with indigenous wisdom and cultural depth, enriching it with

[15] As Jin Chengwu observes, "Ancient Chinese economic thought was not an independent system of ideas but was deeply rooted in, and directly constituted part of, traditional Chinese culture" (Jin, 2023).

new sources of insight and new modes of explanation. This dynamic synthesis equips scholars with distinctive perspectives and analytical approaches to diagnose and address contemporary economic challenges in China, thereby contributing to the creation of a Chinese economics grounded in China's own intellectual patterns and cultural traditions.

(1) Chinese economics should draw deeply on traditional Chinese economic thought—particularly its balanced approach to state governance and market exchange—and center theoretical innovation on clarifying the functions of government, the role of markets, and their relationship. In mainstream Western economics, market exchange forms the core of theoretical analysis, while the state is typically treated as an exogenous actor whose functions are narrowly circumscribed. Yet this framework rests on the historical trajectory of Western economic development; it is fundamentally a form of "local knowledge" that lacks broader inclusivity and representativeness. It underestimates the importance of the state in economic life and overlooks the diversity of national and regional conditions. By contrast, traditional Chinese economic thought bears a cultural imprint of "ordering the world and benefiting the people." It is infused with the aspiration to "govern the state and bring peace under Heaven". Accordingly, it contains extensive analyses rooted in state governance. At the same time, given the sophistication of China's ancient commodity and market economies, it also accumulated substantial insights into market exchange. Taken together, traditional Chinese economic thought emphasizes both state management and market dynamics, offering valuable perspectives for rethinking government-market relations today. These insights are especially evident in the following areas.

Inspiration 1: State management and the functions of government. Traditional Chinese analyses of governance offer several vital directions for theorizing governmental roles: First, non-formal institutions as drivers of socio-economic development. Traditional thought highlights the crucial role of ethics, morality, and customs—non-formal institutions—in shaping social and economic outcomes. In Mencius's economic reasoning, virtues such as benevolence and righteousness function as essential tools for statecraft, fostering economic vitality and sustaining social harmony. Similarly, Sima Qian's principle of "governing through customs" stresses that customs are central to economic development and effective governance; when respected and properly guided, they allow the state to achieve "few actions, great results". Second, market-based instruments for achieving governance objectives. Traditional thought also recognizes that the state may employ market-oriented methods in governance. The *Guanzi* offers a paradigmatic example through its monetary management theory, which advocates state participation in market transactions. By using currency and commodity operations for macro-level adjustment, the state can stabilize markets while simultaneously increasing fiscal revenue. Third, analytical tools—especially statistics—as foundations for economic governance. The *Guanzi* also underscores the importance of statistical knowledge, arguing that the state must maintain an accurate understanding of society's monetary demand from both production and consumption perspectives. Only by grasping these conditions comprehensively can effective currency management and policy implementation be ensured.

Inspiration 2: the market-based analyses embedded in traditional Chinese economic thought help cultivate a comprehensive, nuanced, and dialectical understanding of how markets function.

At a minimum, they illuminate three major dimensions: First, a comprehensive view of market functions. The *Guanzi* (compiled c. 4th-2nd centuries BCE) identifies six primary functions of markets, including alleviating material scarcity, determining commodity prices, stimulating production, and reflecting broader socio-economic conditions. This constitutes an impressively thorough account of the market's central role in economic activity. Second, recognition of the dangers of monopoly. Mencius (c. 372-289 BCE) warned that monopolistic practices "ensnare market profits", disrupting regular market order. His recommendation to "levy taxes upon them" was intended to curb such behavior and restore fair competition. Third, emphasis on the entrepreneur's vital role. In Sima Qian's (c. 145-86 BCE) *Art of Livelihood*, merchants and entrepreneurs are recognized as the true generators of social wealth—the "source of clothing and food". Their defining traits, timing, and adaptability underscore their indispensable economic role by highlighting their ability to manage risk and uncertainty. Taken together, traditional Chinese insights into market functions, the harms of monopoly, and the contributions of key market participants (i.e., entrepreneurs) can be integrated into the theoretical framework of a socialist market economy with Chinese characteristics, providing fertile ground for contemporary theoretical innovation.

Inspiration 3: traditional Chinese reflections on the relationship between government and markets offer valuable guidance for advancing the theory of China's socialist market economy. Whether in the *Guanzi*'s monetary management theories or Sima Qian's "Doctrine of Positive Causes", government and market are not portrayed as mutually exclusive forces. Instead, each plays a distinct yet complementary role in economic development and must operate in a coordinated fashion. Sima Qian's incisive analysis of resource allocation, grounded in his fourfold division of social industries (agriculture, extraction, manufacturing, commerce), distinguishes three pathways to wealth: "primary wealth (from agriculture)" and "secondary wealth (from industry and commerce)", which constitute genuine sources of prosperity and should be governed primarily through market mechanisms—what he calls "following along"; and "illicit wealth (from manipulation and law-breaking)", which produces no real value and generates harmful effects. Because market forces cannot correct such distortions, government intervention— "rectification"—is required. His analysis makes clear that defining the boundary between government and market must be context-specific, varying across industries and domains. As China's socialist market economy continues to evolve, the governmental role has expanded beyond traditional models—the night-watchman state, the regulatory state, or even the developmental state—toward an empowering state that enhances and complements market functions. As practical explorations of government-market relations deepen, the ability to distill typified empirical patterns and reveal their underlying objective laws will offer powerful theoretical innovation to underpin the construction of Chinese economics.

(2) Chinese economics must move beyond methodological atomic individualism by re-situating the individual within the social collective. This shift draws attention to collective rationality and social ethics and helps establish a people-centered vision aimed at enhancing well-being and advancing holistic human development. Mainstream Western economics overturned the classical tradition's preference for holism, elevating individualist methodology to its apex. Under

atomic individualism, the individual is abstracted into a socially detached "atom," reduced to the "rational economic man." Social production relations are filtered out, and the economic order is conceived as nothing more than a linear aggregation of micro-level behaviors (Xiao, 2015)[16]. Grounded in such abstract assumptions, mathematical formalism came to dominate economics, contributing to a prolonged process of de-ethicization within the discipline. Marx, by contrast, argued that "the human essence is no abstraction inherent in each isolated individual; in its reality, it is the ensemble of social relations" (Marx, 2012). He called for analysis to begin not with metaphysical notions of "man" but with "real people" and the concrete conditions through which happiness might be realized. In this respect, Chinese economics—understood as "an economics for the people" (Qiu, 2020)—is fundamentally people-centered. This orientation derives from both Marxism's commitment to the people as the principal subject and its holistic analytical tradition, while also drawing nourishment from traditional Chinese economic thought.

First, the people-centered ethos. Traditional Chinese economic thought contains a deep and longstanding reservoir of people-centered philosophy. When critically refined, these ideas offer strong support for grounding Chinese economics in a people-centered orientation. Rooted in concerns for national stability, this tradition places the populace at the core of political and economic considerations and reflects a sustained emphasis on public welfare. This ethos is evident in classic texts: the *Book of Documents*—"The people are the foundation of the state; when the foundation is firm, the state is at peace"; Mencius's dictum that "the people are paramount; the altars of the gods of land and grain (the state) come next; and the sovereign is of the least importance"; the *Guanzi*'s assertion that effective rule begins with taking the people as the foundation; and Sima Qian's description of Emperor Xiaowen's reign, during which people "worked with joy, followed their natural inclinations, were left undisturbed, and thus found security." Building on this legacy, later thinkers and statesmen developed a rich cluster of ideas—loving, nourishing, enriching, relieving, protecting, benefiting, and securing the people—which became an enduring component of China's cultural tradition. At the same time, it is essential to recognize the historical and class limitations of ancient people-centered thought, while absorbing its valuable elements and discarding or transforming those unsuited to contemporary conditions.

Second, Ethical Foundations. Traditional Chinese economic thought places strong emphasis on ethics, especially Mencius's assumption of innate human goodness and his concepts of benevolence and righteousness. These ideas help move beyond the narrow "rational economic man" and strengthen the foundational logic of Chinese economics. Confucian economic ethics consistently advocate placing righteousness before profit and reject profit-seeking without moral constraint. When self-interest clashes with altruism, righteousness should prevail—yet the two can also reinforce each other, as shown in longstanding discussions of treating righteousness as profit, dual pursuit of righteousness and profit, and the unity of righteousness and profit. Chinese economics should therefore transcend one-dimensional self-interest, integrate the social

[16] This is not intended, of course, as a wholesale rejection of individual rationality or individualism; rather, it emphasizes that these concepts do not align with the established social characteristics of ancient China, which prioritized collective rationality and ethical standards as the orthodox foundations.

attributes of human behavior, and bring self-interest and altruism—and individual and collective rationality—into a coherent whole, drawing directly from traditional ethical insight.

Third, the concept of benevolent governance. Traditional economic thought is characterized by its integrated perspective, where economic discourse is inherently interwoven with political and cultural dimensions, most comprehensively articulated in Mencius's governance framework based on the principle that "the benevolent care for others" In advancing the Chinese path to modernization, two goals—material abundance and holistic human development—are central. Material conditions underpin human development, as the *Guanzi* notes: "full granaries foster propriety and adequate livelihood cultivates a sense of honor." Human development, in turn, guides the values shaping material progress, following the classical sequence from investigating things to achieving social harmony (the core sequence of the *Great Learning*). Accordingly, Chinese economics should address not only efficiency but also fairness, justice, community, education, culture, health, ecology, and other dimensions of well-being—shifting from a "material economics" focused on allocation to a "human economics" focused on comprehensive human flourishing.

(3) The importance of creating distinctive concepts. Chinese economics must strengthen its capacity to develop unique concepts by critically reconstructing the rich conceptual resources of traditional economic thought, to provide foundational support for building an autonomous Chinese economic knowledge system. Concepts—the basic units of any knowledge system—underpin categories, propositions, principles, and theories. Ancient thinkers constructed economic frameworks grounded in core concepts that both embodied a distinctly Chinese intellectual style and offered valuable resources for shaping contemporary categories and expressions. Traditional Chinese economic thought distilled a set of concepts and assumptions different from those of Western economics—for example, Mencius's benevolence, righteousness, and assumption of innate goodness; the *Guanzi*'s notions of "light and heavy" and coin regulation; and Sima Qian's ideas of "each pursues their craft" and non-intervention. Following the "Two Integrations," we should adapt these concepts by redefining meanings, refining linguistic forms, and synthesizing evaluations (Cheng et al., 2024). By critically absorbing ideas with historical continuity, contemporary relevance, and theoretical coherence, Chinese economics can build a concept system that better interprets China's experience. The three cases below show how transformed traditional concepts can indeed serve as distinctive building blocks of an autonomous Chinese economic knowledge system.

Case 1: Xiaokang (Moderate tranquility). The concept of *Xiaokang* first appears in the Classic of Poetry · Daya, where Eastern Han scholar Zheng Xuan interpreted it as Xiao'An—a state of relative stability. In the Book of Rites · Liyun, Xiaokang refers to the exemplary rule of ancient sage-kings such as Yu, Tang, King Wen, King Wu, King Cheng, and the Duke of Zhou. These six sages governed through ritual and moral principles which involved upholding righteousness, verifying trustworthiness, correcting transgressions, practicing benevolence, encouraging deference, and establishing stable norms. This moral order is presented as an ideal Xiaokang society. Mencius later expanded the concept considering his era, adding strong economic content. He emphasized that a perfect society requires not only ethical governance but also adequate

material production. Thus, the meaning of *Xiaokang* evolved from "relative stability" to "modest material well-being" (Wang, 1992). In the 1980s, Comrade Deng Xiaoping reinterpreted *Xiaokang* as a benchmark for China's modernization. From this emerged a series of policy-guiding notions—"Xiaokang society," "building a *Xiaokang* (moderately prosperous) society in an all-round way," and "completing the construction of a moderately prosperous society." Over time, Xiaokang has become both a landmark for understanding the Chinese path to modernization and a key narrative device for telling the story of China's economic development.

Case 2: *Light and Heavy*. The concept of *Light and Heavy*, in the *Guanzi*, distinguishes between "heavy" goods—scarce items or essentials that require state price stabilization—and "light" goods, which are non-essential or abundant and can be left to the market. Modern economist Xue Muqiao further developed this logic. As Weber (2021) notes, Xue's view that the law of value can be consciously utilized echoes the *Guanzi*. For Xue, rationing key livelihood goods to prevent price surges exemplifies the limitation of the market mechanism for "heavy" goods, as he wrote: "Rationing important necessities prevents prices from rising when supply is tight—an important example of restricting the role of the law of value" (Xue, 2011). British economist Peter Wiles (1964) went so far as to call the light-heavy rationing policy a Chinese "invention" in the socialist world. This underscores the originality and enduring analytical value of the light-heavy concept in balancing state intervention with market forces.

Case 3: "Enrich the state above; enrich the households below". The third case concerns the concept of "a rich state above, a rich household below". In the *Enriching the State* chapter, Xunzi (c. 313-c 238 BCE) had already advanced the notion of "wealth for both above and below", arguing that national prosperity and individual enrichment are mutually reinforcing. Sima Qian (c. 145-c 86 BCE) inherited this unified vision of enriching the state and enriching the people, and—drawing on his analysis of the sources of social wealth—formulated the more explicit concept of "A Rich State Above, a Rich Household Below". This intellectual lineage of "mutual prosperity" directly informed Comrade Deng Xiaoping's reform-era assertion in the 1980s that "the goal of socialism is common prosperity for all the Chinese people, not polarization" (Deng, 1993). In his 1992 Southern Tour, Deng further linked "common prosperity" to the development of productive forces, insisting that the two together constitute the essence of socialism. Entering the New Era of Socialism with Chinese Characteristics, President Xi Jinping deepened this tradition by connecting Chinese modernization to the pursuit of shared prosperity. As the report to the 20$^{th}$ CPC National Congress stated, "it (Chinese modernization) is the modernization of common prosperity for all". "The immutable goal of our modernization drive is to meet the people's aspirations for a better life. We will endeavor to maintain and promote social fairness and justice, bring prosperity to all, and prevent polarization".

(4) Problem-oriented theoretical innovation. Chinese economics must be grounded in the traditional Chinese principle of practical statecraft, leveraging the Marxist worldview and methodology to advance problem-oriented theoretical innovation that responds to the pressing questions facing China, the world, the people, and our times. China's current economic practices and transformations yield phenomena and challenges unseen in Western developed nations and unexplained by mainstream Western theories, offering a vast scope for theoretical innovation.

Constructing Chinese economics demands a problem-oriented focus on major contemporary issues, as "generalized theories rooted in China's typical facts and experiences best advance economic theoretical innovation" (Liu & Xiong, 2022). Karl Marx (1818-1883) noted, "Questions are the motto of the age," and "World history answers old problems with new ones" (Marx, 1995). Traditional Chinese economic thought, steeped in "governing through practical application", ties analysis to contemporary socio-economic issues, as seen in prior case studies addressing era-specific challenges with policy proposals. Though modern Chinese economic practice is far more complex, traditional thought remains relevant. For instance, Mencius's "Theory of Mutual Exchange of Services" countered disdain for specialization, highlighting how cooperation enhances outcomes—a principle still insightful for industrial synergy and regional development. Similarly, Sima Qian's *Doctrine of Positive Causes* critiqued excessive government control, complementing the *Light and Heavy* theory, and offers guidance for aligning with economic laws and energizing private markets today. Three significant era issues below exemplify the historical wisdom embedded in traditional Chinese economic thought.

First, achieving Common Prosperity. Since the beginning of reform and opening-up in 1978, China's liberation of productive forces culminated in the completion of building a moderately prosperous society by 2020, ushering in a new phase of advancing shared prosperity. The report to the 20$^{th}$ CPC National Congress declares that Chinese modernization is "modernization for the common prosperity of all," a practice rich with theoretical innovation potential. Pre-Qin economic thought already harbored rich elements of shared prosperity: Laozi's "take from surplus to augment deficiency", Confucius's "worry not about scarcity but about inequality", Mencius's "sages till alongside the people", and the *Guanzi*'s "use the world's wealth to benefit its people". The *Guanzi* (c. 4th-2nd centuries BCE), synthesizing pre-Qin governance philosophies, asserts in chapters like *Governing the State* and *Five Supports*: "To govern, first enrich the people" and "unbounded poverty or wealth leads to failure". It proposes measures like "enriching livelihoods," "distributing wealth," "ceding profits," "easing policies," "aiding emergencies," and "relieving poverty." Though often unrealized, these ancient aspirations for common prosperity remain progressive, offering vital insights for China's pursuit of shared prosperity in the new era.

Second, cultivating Outstanding Entrepreneurial Spirit. The *Opinions of the CPC Central Committee and the State Council on Promoting the Development and Growth of the Private Economy (2023)* set out primary new measures for strengthening the private sector. They call for vigorously fostering entrepreneurial spirit within the private economy and for promptly summarizing and promoting growth experiences that embody Chinese characteristics and accord with contemporary trends. The earliest discussion of entrepreneurial spirit in Chinese economic thought belongs to Sima Qian, whose writings reveal an intuitive grasp of exemplary entrepreneurial character. In the *Postface to the Records of the Grand Historian*, he describes them as "ordinary people who harm neither government nor the people, who trade opportunely to accumulate wealth, and whose practice merits the attention of the wise." Accordingly, he devoted the entire *Biographies of the Money-Makers* to prominent merchants from the late Spring and Autumn period (550-476 BC) through the Qin-Han era (221 BC-AD 220), praising their ability to "shift and turn with the times," to "act without awaiting commands," and to "hit the mark again

and again by their own reckoning." Through their role in optimizing resource allocation and unleashing economic vitality, they achieved personal wealth while benefiting society. At the same time, Sima Qian sharply condemned those who amassed "illicit wealth" by "manipulating laws and engaging in deceit," insisting that such gains represent mere transfer rather than creation of value. Practitioners who "multiply capital through cunning and legal evasion" must therefore be subject to regulatory rectification. This contrast highlights his admiration for innovation, integrity, and social responsibility—qualities that remain highly instructive for cultivating an outstanding entrepreneurial spirit in the new era.

Third, modernizing Macroeconomic Governance. The Fifth Plenary Session of the 19th CPC Central Committee adopted the *Recommendations of the CPC Central Committee for Formulating the 14th Five-Year Plan for National Economic and Social Development and the Long-Range Objectives Through the Year 2035*, which laid out systematic arrangements to improve China's macroeconomic governance system and capacity. A critical dimension of this modernization is the formulation and execution of monetary policy. Here, the *Guanzi*'s theory of financial management retains striking contemporary relevance. It explicitly calls for the state to control the money supply, regulate key commodities by adjusting the money in circulation, and thereby influence overall price levels—with the ultimate goals of securing the people's productive capacity, balancing high and low prices, and securing benefits for the sovereign. Thus, over more than two millennia, the *Guanzi*'s insight into managed currency has lived on in China's contemporary practice of flexible, precise, and effective monetary policy—ensuring that the money supply and total financing remain in harmony with the objectives of growth and stability. CE

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