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Peeking behind China's Stationary State

by Yue Xiao

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Peeking Behind China's Stationary State

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Abstract

Current literature on John Stuart Mill's writings about Asia has mainly focused on his influence in India because of Mill's 35-year career in the East India Company. Scholars in both China and the West have not paid attention to Mill's views on China. This paper delves into Mill's notion of China's stationary state and categorizes Mill's discussion of China into three major topics: (1) capital accumulation, (2) liberty and individuality, and (3) democratic government. Mill made an empirical analysis of the relationship between China's high interest rate and the desire for capital accumulation. He went on to explore the negative connection between China's "despotism of custom" and individual liberty. Finally, he considered the autocratic government and the lack of civil rights. Mill traced China's stationary state from the time preferences of people to broad institutional failures.

Keywords: John Stuart Mill, China, stationary state

JEL Codes: B1, B3

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1. Introduction

The study of Mill's influence in Asia has mainly focused on his relationship with India because of Mill's 35-years' service in the East India Company (Moore 1991; Zastoupil 1994; Moir, Peers, and Zastoupil 1999; Mehta 1999; Tunick 2006; Bell 2010). Working as the "chief conductor of correspondence" in the political department over the years, Mill had a significant influence on the company's policies and the important principles for governing India (Harris 1964, 186). However, Mill's writings on China have been overlooked by scholars in both China and the West. Western scholars rarely pay attention to Mill's views on China, and Chinese scholars seldom study Mill's thought.

Though Mill's writings on China are less voluminous than his writings on India, Mill discussed China's situations in his major works, including *Principles of Political Economy* (1848), *On Liberty* (1859), and *Considerations on Representative Government* (1861).[1] In Mill's analysis of China, he developed the concept of China's stationary state which was introduced by early European thinkers. In the next section, this paper contrasts Mill's conceptions of China's stagnant situation with Mill's ideal stationary state of an advanced society. The third section critiques Mill's understanding of China's economic stagnation and his early explanation of the low desire for capital accumulation in China. His conclusions were questionable because he entirely ascribed the Chinese low desire for accumulation to an internal reason—a taste for enjoyment over investment, and he neglected the important external reasons. This section further explores China's economic conditions through two questions: Why was the interest rate so high in China? Why did this high interest rate not

[1] Mill's articles on India were collected in *Writings on India* (1990).

stimulate the desire for capital accumulation? In the fourth section, this study considers Mill's criticism of the "despotism of custom" which impedes liberty and individuality, as well as his suggestions for how to prevent such cultural stagnation. The fifth section explores Mill's criticism of the dictatorship and bureaucratism of a centralized government that restrains individual vigor and retards social progress.

This study shows the development of Mill's thought on China. Regarding the causes of China's stagnation, Mill originally concluded that it was because of Chinese taste for pleasure rather than accumulation. However, his later discussions argued that it was the result of a rigid tradition and autocratic institutions. Unfortunately, Mill did not provide a clear path for China's reform other than the westernization he envisioned. Mill's legacy for Chinese reformers lies in his radical criticism of the despotism of convention and autocracy.

2. China's Stationary State versus Mill's Ideal Stationary State

Before the 17th century, Europe's impression of China was rather vague. In the book *The Travels of Marco Polo*, which was written in the 13th century, China was described as a wealthy land full of prosperous commercial metropolises and gorgeous palaces.[2] In the Age of Enlightenment, when sea travelers brought more reliable information about China, European thinkers from Voltaire[3] and Leibnitz[4], to Quesnay[5] were fascinated by the ancient Chinese

[2] The authenticity of the book has been questioned by modern historians who argued that Polo had never arrived in China and the stories about China were what Polo gathered from other travelers.

[3] In *Philosophical Dictionary*, Voltaire said: "It is, in fact, in morality, in political economy, in agriculture, in the necessary arts of life, that the Chinese have made such advances towards perfection. All the rest they have been taught by us: in these we might well submit to become their disciples" (1901, 83).

[4] Leibniz's study on China was collected in the book *Writings on China* (1994). After reading Confucian philosophy, Leibniz was fascinated by Chinese culture and advocated for Confucian moral tradition.

[5] In *Despotisme de la Chine* (1767), Quesnay advocated for China's institutional system which he found was

philosophy—Confucianism. They highly praised China's civilization and thought that European countries should learn from China's perfection in morality and its institutional system. In *Wealth of Nations*, Smith thought that China had acquired a full complement of wealth that its laws and institutions permitted and hence reached a stationary state.[6] Smith praised that "China has been long one of the richest, that is, one of the most fertile, best cultivated, most industrious, and most populous countries in the world" (1904, 73). This statement was true for a long period of time, but China was falling far behind in the 18th century.[7]

While the Industrial Revolution struck Europe with unprecedented changes in socio-economic activities, there was little scientific advancement in China and the market economy was developing incredibly slow. After China's isolationist policy launched by the Qing emperor in 1757, the gap between this eastern agricultural civilization and western industrial civilization was becoming increasingly evident. When George Macartney (1737-1806) visited China in 1793 as the leader of the first British diplomatic mission, he wrote in his journal that the Chinese people had little knowledge of western countries and little curiosity about the "outside world".[8] European "sinomania" which peaked in the 17th and 18th century gradually cooled down. The attitude toward China changed dramatically in the 19th century. Western

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more efficient and well organized than Europe's (Maverick 1946).

[6] Smith probably borrowed these ideas from Quesnay (Sabbagh 2019, 16-18). In addition, Sabbagh pointed out that Rieter (1983, 73) used the term "stationäre" to describe the ideal economic system conceived by Quesnay (2019, 15).

[7] Modern study showed: In 1086, China's real GDP per person was 1244 (1990 Geary–Khamis dollar), while England was 754. In 1600, China was 852, while England was 1123. In 1700, China was 843, while England was 1630/1563. In 1850, China was 600, while England was 2997. (Crafts 2018, 13. Original source: Broadberry 2013)

[8] In this journal, Macartney introduced China's religion, government, law, and culture based on his observations through travels. These stories were collected in the book *An Embassy to China Travels in China* (2013).

intellectuals were now curious about China's decline and started to unveil the enduring impoverishment and long-standing debility of this ancient country. Writing from this revised perspective, Mill's views on China were different from the thinkers in the 18th century.

Although Mill did not explicitly draw the distinction, the term "stationary state" had two different meanings in his writings: One was what he used to describe the stagnant situation in China, while the other one was an almost ideal social state that he expected for an advanced society.

2.1 China's Stationary State

In Mill's works, he explained China's economic, social, political conditions by using the concept of stationary state. The earliest writing that reflected Mill's awareness of China's stationarity was his review of *De Tocqueville on Democracy in America* (1840). Alexis de Tocqueville described China as a nation with the vestiges of advanced knowledge and early scientific methods, but its science became immobilized. Its people kept the instrument but no longer possessed the art of creativity, and they were forced to follow the path of their fathers without knowing the meaning or reason (De Tocqueville 2012, 786).

Tocqueville's discussion echoed Smith. Smith considered that the causes of China's stationary state were mainly linked with the law, institutions, and the neglect of foreign commerce. China's law protected the wealth of the rich not the poor. The insecurity of the poor greatly limited their incentive to accumulate capital (Smith 1904, 96-97). By the time Mill wrote *Principles*, his statements resonated with Smith. Mill said the uncertainty about the future is the leading element for people to stop accumulation. Generally, the more secure

people feel, the more likely they will build wealth (1909, 166). In addition, he considered that "the disposition to save does not wholly depend on the external inducement," but also affected by various internal factors. Under the same pecuniary inducement, diverse individual personalities, as well as communities in different stages of social and civilizational progress possess unequal desire for accumulation (165). Mill argued that the strength of desire for accumulation is the crucial element to build capital and China's stagnancy is closely linked with the low desire for accumulation. Mill concluded stationarity as following:

> "When a country has carried production as far as in the existing state of knowledge it can be carried with an amount of return corresponding to the average strength of the effective desire of accumulation in that country, it has reached what is called the stationary state; the state in which no further addition will be made to capital, unless there takes place either some improvement in the arts of production, or an increase in the strength of the desire to accumulate" (172).

In *On Liberty* and *Considerations on Representative Government*, Mill broadened his argument on China's stationary state. He emphasized that this stationarity of China prevented any changes in the social convention inherited from the past, which jeopardized individual's liberal thought and intellectual development for a society's democratic advancement. The lack of moral courage and independence in individuality encouraged a centralized government to gain more power to control the economy and general mode of thinking. This consequently trampled on the rights of individuals in the name of society and the public good.

2.2 Mill's Ideal Stationary State

To classical economists, the scarcity of arable agricultural land is contrary to the growth of population and the stock of capital. When they think about what ultimate point economy is moving towards, the stationary state of capital and wealth is inevitable when the rate of profit falls to a minimum. To Smith, the stationary state is dull, while the progressive state is cheerful (1904, 83). If a country entered a wealthy steady state, both wages and profits would have a tendency to fall because of the competition for employment (96). Ricardo also suggested that wages would fall in a fully developed country as far as wages were regulated by the supply and demand of laborers (Ricardo 1888, 54).

However, different from Smith's and Ricardo's pessimistic attitudes toward stationary state, Mill stated that this ideally harmonious state is desirable when humanity is free from vicious competition or a race to the bottom (1909, 748). As a utilitarian thinker, Mill's understanding of this ideal stationary state was closely related to the "Greatest Happiness Principle." Mill argued that the growth in population and capital accumulation are of little importance if the public could not benefit from both. To ensure the wealth of the public and to create more equality of a society, an equitable income redistribution system guaranteed by legislation rather than a leveling mechanism or absolute equalitarianism is necessary. Mill believed that only when a society is under a fair institutional system and with a reasonable growth rate of the population can scientific advancement become the common property of the public. Mill regarded the quality of population as a much more important element than the quantity.[9] He

[9] Mill was a Malthusian. Mill mentioned Malthus's *An Essay on the Principle of Population* when he discussed his ideas on stationary state and the law of the increase of capital in *Principles*. Regarding Chinese population, Malthus thought that Smith's assumption—China's population was stationary—was irreconcilable with the early marriage tradition in China. If there was no redundant population in China, it must be repressed by occasional famines and by the custom of exposing children (Malthus 1798, 19).

argued that the increase in population should not exceed the growth of capital in order to prevent worsening the living condition of the lower class (747). In addition, Mill argued that a stationary condition of capital and population does not necessarily mean a stationary state of human improvement. When the main body of laborers was affluent, they were exempt from the coarser toils to enjoy the "art of living," including physical, mental, and moral progress (751). Overall, in Mill's works, the stationary state of China is different from the ideal stationary state of an advanced society. To Mill, when a capitalist society develops to a certain stage, the stationary state of capital and wealth is not detestable but rather desirable if the population is not over expanded, the property is equitably distributed, and the "art of living" still has much room for improvement. This made Mill's thought on stationary state different from other classical economists'.

In *Principles* (1848), Mill did not state the reason why a stationary state in an advanced country will not fall into the same trap of China's stationary state. Mill elaborated on his theory in his later works *On Liberty* (1859) and *Considerations on Representative Government* (1861). However, he never fully resolved the conflict between the two stationary states.

3. Capital Accumulation

3.1 Mill's Views on the Low Desire for Capital Accumulation in China

In *Principles*, Mill studied China's stagnancy from the aspect of capital accumulation. He demonstrated China as an example of weak desire and England as an example of strong desire for accumulation.

To Mill, the strength of desire for accumulation is the key element to increase capital.

However, people from diverse societies and cultures will act differently with the same pecuniary inducement (1909, 165). The leading elements that cause people to stop accumulation are: (a) their insecurity about the future, and (b) improvidence, or a lack of interest in future generations and public interests (166-167). Mill thought that a less developed civilization often lacks effective desire for accumulation.

> "From these various causes, intellectual and moral, there is, in different portions of the human race, a greater diversity than is usually adverted to, in the strength of the effective desire of accumulation. A backward state of general civilization is often more the effect of deficiency in this particular, than in many others which attract more attention" (167).

The case of China drew Mill's particular interest. He considered that the Chinese possessed a certain degree of prudence and self-control on the strength of their personal habits and social conditions, but their desire for accumulation was inferior to most nations in Europe (170).[10] To further understand the situation in China, Mill drew evidence of the level of desire for accumulation in China from John Rae's *Statement of Some New Principles of Political Economy* (1834). Rae listed three signs of China's level of productivity to indicate their lack of desire for accumulation.

First, "durability is one of the chief qualities, marking a high degree of the effective desire of accumulation" (1909, 170). Western travelers indicated that the agricultural tools and houses built by the Chinese lacked durability. Houses were made of unburnt bricks, and most

[10] Mill's thought was similar with Malthus's. Malthus considered that the Chinese led a remarkably frugal existence. This habit of living almost upon the minimum food was one of the contributors to famine because the population could rise without an increase in the means of subsistence (Malthus 1798, 41).

of the instruments were made from wood instead of metal. Second, famines were frequent between two harvests each year. Missionary Parennin[11] asserted that the deficiency in forethought and frugality was the cause of scarcities and starvations that frequently occurred. Third, swamps that could be drained for cultivation were left unused. In the observation of European travelers, the Chinese prefer to build little floating farms by the side of swamps, of which structures could perish in a few years, rather than reclaim swampland. Therefore, Rae considered that "the views of the Chinese are confined to narrower bounds; he is content to live from day to day, and has learnt to conceive even a life of toil a blessing" (170-172).

However, the "trait" that Rae found among Chinese peasants was in fact very common among laborers in many agrarian societies. In addition, Rae's description of Chinese peasant life was not comprehensive. First, the lack of durability in agricultural tools and houses was not sufficient evidence of Chinese peasants' shortsightedness, but an evident sign of their dire poverty. A study on fiscal revenue of the Qing government and demographic structure showed the extremely slow development of agricultural economy and the pauperization of peasants (Shen 2002). Second, instead of the lack of thriftiness of peasants, limitations in agricultural technology, grain storage, and transportation, along with food distribution system, exploding population, natural disasters, wars, debts, and heavy taxes, were the major contributors to famines (Bu 2007; Wu and Dang 2008). Third, the problem of land utilization rate in the Qing period was mainly caused by the conflict between over-rapid population growth and arable land area (Shi 1989; Zheng, Ma and Wang 1998). The severe policies and appraisal system of reclaiming wastelands launched by the Qing government were a drag for peasants (Guo 2010,

[11] Dominique Parrenin (1665-1741), a French Jesuit missionary who lived in China from 1697 to 1741.

20-22).

With nothing solid to rely on rather than western explorers' observation on China, Mill concluded that "it is defect of providence, not defect of industry, that limits production among the Chinese" (172). He further argued that the Chinese stopped accumulation when the return to capital was still very high. This was very different from the cases in Holland, Burma or the native states of India where governments and private individuals could borrow money at a very low interest rate (173). By comparing the different "tastes" for accumulation across countries, Mill thought that the Chinese preferred enjoyment over accumulation because of a lower estimate of the future.

> "No greater amount of capital than the country already possesses, can find employment at this high rate of profit, and that any lower rate does not hold out to a Chinese sufficient temptation to induce him to abstain from present enjoyment" (173).

Mill entirely attributed Chinese thinking and behavioral patterns toward the future to their "taste," but he overlooked the social environment that generated this "taste." People's views and behaviors are not inherent, but much shaped by external factors, such as political, cultural, and economic conditions. Economically, Chinese peasants were influenced by their income levels, productivity and productive relations in small-scale peasant economy. When Mill used England as the example of strong desire for accumulation, he argued that the following reasons contributed to England's strong accumulating propensity: (1) the long exemption of the ravages of war increased people's confidence in the safety of funds; (2) for geographical reasons, industry was a main driving force for national development and a great proportion of

population worked in the fields of manufactures and commerce; (3) a good political institution that allowed individual freedom encouraged the development of industrial enterprises and stimulated the desire for acquiring wealth; (4) the earlier decline of feudalism weakened the discrimination against the trading classes. "A polity having grown up which made wealth the real source of political influence" (174). (5) Wealth became equate to power and the chief stamp of success in life. The great aim of English middle-class was to get into the next upper rank in society through the acquisition of wealth; (6) the puritanism in England incapacitated people's desire for enjoyment (173-174). All of these were external factors. When Mill discussed Chinese low desire for accumulation, he failed to consider any of these critical external factors.

By examining China's situation the same way Mill analyzed England, this paper reveals the external factors that greatly contributed to the Chinese low tendency toward accumulation.

(1)With frequent changes of dynasties, this ancient land was never exempted from the ravages of war.[12] For a period of time, it was divided into several kingdoms; for another period of time, it was united as a country with a vast territory. In the Qing dynasty (1636-1912), China was ruled by the Manchu people.[13] Rebellions and foreign invasions were constant, especially after 1840 when China became a semi-colonial country. Private property was not secure from military violence or arbitrary spoliation. Even without wars, the authoritarian political system was antagonistic to the concept of privatization. The whole nation was regarded as the assets of the ruler. Common people's property could be violently taken away by the powerful

[12] In general, modern historians divide Chinese history (around 2070 BC to 1949) into 20 dynasties.

[13] Manchu people are the descendants of Jurchen people who earlier ruled the Jin dynasty (1115-1234) in China.

government. These factors contributed to a deep sense of insecurity.

(2) Geographically, China had always been a large agricultural country. The self-supporting and self-sufficient rural economy was quite stable. Chinese peasants who lived a simple style of life for centuries were habituated to subsistence farming. Unlike British experience in the Industrial Revolution when rural laborer was driven to the cities and factories, the main population in China stayed in agriculture.

(3) China's feudal institutions fettered individuality and creativity. There was no scientific theory to improve economic growth or successful business models to follow. China's industrial development lagged. Even during the Westernization Movement (from the 1860s to the 1890s), the Qing government rarely supported individual enterprises. Most of the large factory owners were the combination of landlords and bureaucrats of the imperial court.[14] China's national industrial development was arduous under the oppression of imperial competitors and bureaucrat-capitalists.

(4) Unlike the earlier decline of feudalism in England which encouraged the trading classes to expand new markets, the Chinese government forbade foreign trade and suppressed merchants.[15] "Focusing on agriculture and restraining commerce" was a core value of Chinese feudalism. While the "mercantile system" dominated western economic thought from

[14] The aristocracies known as the "Four Famous Ministers in the Late Qing Dynasty" who owned large factories were Li Hongzhang, Zhang Zhidong, Zuo Zongtang, and Zeng Guofan.

[15] The policies to restrain merchants mainly included: (1) Merchants were prohibited from trading in grain. The government monopolized trade in major commodities, such as salt, iron, tea, liquor, coal, spices, etc. (2) Merchants and their servants were burdened with exorbitant taxes and heavy Corvée. (3) Merchants were brought to a very low social status. There were restrictions and requirements on their wording, etiquettes, clothing, carriages, household objects, etc (Ding 1997, 194-196).

the 16th to the late 18th centuries, Chinese economic thought scarcely changed under the framework of the traditional doctrine. The autocratic imperial power plundered and suppressed private property right through legislation and political practice, such as the abuse of confiscation, imposing excessive taxes and levies, plundering private land, and implementing the policy of suppressing business (Deng 2005, 183-185). China's feudal system was almost impossible to break and the merchants were too feeble to demand reform.

(5) In feudal China, wealth was not equated to power. Power was supreme. The accumulation of wealth could not shake the hierarchy to its foundations. After formally establishing imperial examinations in the 7th century, the Chinese had the belief that "all occupations are degrading, except learning to become a scholar-official."[16] Therefore, the great aim of the Chinese middle-class was to get into the next upper rank in society by studying and taking the Imperial Examination.[17] Those in the lower class who on occasion did accumulate capital did not fight against the government for more power to protect their properties. Nor did they try to break the chains of suppression like the bourgeois revolutions in the West. Instead, they made every effort to enter the traditional privileged classes through the Imperial Examination or buying official positions (Jing 1980, 170). According to a survey of commercial capital in 18th century China, the average successful merchant's family severed its connection with that class in two or three generations. After salt merchants[18] accumulated

[16] This saying was originated from *Poems of Child Prodigy* written by Zhu Wang in the Song dynasty (960-1279).

[17] The Imperial Examination is a national examination system to select candidates for the state bureaucracy in China. This system dated back to 605 during the Sui dynasty and took shape in the Tang dynasty. It was the most important political select system in China until 1905. Through this system, Confucianism and traditional social value were enhanced for the unity of the empire. The social stratum of scholar-official was the product of this system.

[18] The salt merchants were one of the wealthiest monopolies in the 18th to 19th century.

capital to a wealthy level, the young members of their families were encouraged to embark upon scholarly careers through the Imperial Examination and ultimately take the path of politics (Ho 1954, 165). This social trend extended the population of bureaucrats in the middle class and stabilized feudalism. Rather than overthrow this feudal system, people who desired to accumulate wealth could simply take advantage of this hierarchy to achieve their goals (Jing 1980, 171).

(6) The last aspect was different from the previous five. Traditional Chinese ideology of Confucianism, which was similar to the puritanism in England, taught people to "refrain from luxury and uphold frugality." However, the actual obedience to this doctrine among people with capital was quite another matter. As Mill pointed out that even in a puritan country like England, people's taste for expense made accumulation more difficult (1909, 175).

3.2 High Interest Rate in China

A major piece of evidence that Mill probably drew from Smith's *Wealth of Nations* concerned the Chinese rate of interest.[19] Mill observed that the Chinese stopped accumulation "when the returns to capital are still [1848] as high as is indicated by a rate of interest legally twelve per cent, and practically varying (it is said) between eighteen and thirty-six" (1909, 173). According to the *Great Qing Legal Code*[20], the legal monthly interest rate was not

[19] Smith stated: "Twelve per cent accordingly is said to be the common interest of money in China, and the ordinary profits of stock must be sufficient to afford this large interest" (1904, 97). Both Smith and Mill did not cite the source of this interest rate in China.

[20] The *Great Qing Legal Code* was drafted based on the *Great Ming code* which was launched in the previous dynasty. The first edition of the *Great Qing Legal Code* was enacted in 1646, and it was amended several times by emperors. It contained several sections: The case law and the laws of Six Ministries Personnel which were the Rites Law, War Law, Justice Law, Works Law, and Revenue Law. This code strengthened the policy of physiocracy and restriction of trade.

allowed to exceed 3%, and the gross interest was not allowed to exceed the loan principal.[21] The statutory annual interest rate of loans was 26% in the Qing Dynasty (1636-1912). While the Qing Code was amended several times by emperors, this Code was not abolished in mainland China until 1910. The statutory annual interest rate remained 26% through almost the whole Qing Dynasty.

Mill's discussions lead us to inquire why was the interest rate so high in China? The high interest rate was a convention in China's history. China had been a country with high interest rates since the Han Dynasty (200 BC to 220 AD). During the Tang Dynasty (618-907), the interest rate dropped a little bit because of the flourishing of commerce and went back up afterward. The highest annual interest rate reached 150% in government loans of seed to peasants in the 9th century (Homer and Sylla 2005, 619). In the Ming Dynasty (1368-1644), in order to control land annexation and prevent peasants' revolt, the Hongwu Emperor legislated that the maximum interest rate of a loan was 3% per month for the first time in history. The succeeding Qing government followed this legislation. However, this regulation was far from enough to solve the financial problems in the Qing Dynasty, and the actual interest rates on private and public loans were often higher than the legal rate and varied in different regions (Bian 2005; Bai and Liu 2009; Liu 2012).

In a small-scale peasant economy, the risk of money lending is high. Peasants, as the major borrowers, relied on natural resources to support basic necessities and lacked sufficient repaying capability. In addition, when the harvest was poor or during the food shortage

[21] *No. 149 Prohibited Usury, Debt, The Revenue Law,* vol. 14 of *Great Qing Legal Code,* edited by Rongzheng Zhang, Yongqiang Liu, and Maochu Jin. 1993. Tianjin: Tianjin Gu Ji Publishing House. p. 269.

between two harvests, peasants' rigid demand for loans to survive was much higher than the supply of loans (Zhou 2006, 66). Also, since the increase of agricultural productivity in the Qing Dynasty, the rising demand for production inputs, especially the inputs of fertilizer and labor, worsened the shortage of capital for production (Fang 1994, 11). This raised the rate of interest.

The lack of financial organizations also contributed to the high interest rate. China adopted the silver standard from the Ming dynasty (in the 15th century) as a result of the increase in annual silver production and the tremendous influx of silver from the foreign trade surplus. Because of the common usage of both silver and copper money, beyond traditional pawnshops, such as *Qianzhuang* (native banks), *Zhangju* (account bureaus), and *Piaohao* (*Shanxi* banks), new institutions emerged in the following Qing dynasty.[22] However, on the whole, the traditional financial organization was not sufficient for the demand generated in vast rural areas, and its development was too slow to support the national commodity economy.[23] Though the traditional credit organizations served as banks in some aspects, their functions were limited. After the First Opium War, foreign banks swarmed into treaty ports and competed with Chinese traditional financial organizations.[24] However, the foreign banks

[22] The main business of *Qianzhuang* 钱庄 was the exchange of silver tael and copper coin. The main function of *Zhangju* 账局 and *Piaohao* 票号 was to lend credit to trade and commerce.

[23] These credit organizations stabilized the exchange rate of silver and copper money, regulated currency in circulation, assisted merchants with capital raising and remittance, and promoted the development of industry and commerce. However, these credit organizations had limitations: (a) Most of them were centered in booming business areas. (b) They were featured with insufficient cash flow, unstable credibility, and high business risk. (c) Their main business was to offer commercial financing for large traders or bureaucrats. The minimum requirements on loans of these credit organizations rejected many small loans to the public. (d) The costs of storing and ensuring money or goods in these credit organizations were high (Wang 2010).

[24] The first foreign bank that entered the mainland China was the Oriental Bank in 1847. Other banks like Chartered Bank (1857), Hongkong and Shanghai Banking Corporation (1864), Yokohama Specie Bank (1893),

failed to earn the trust of the Chinese, and they "never became dominant factors in the life of the majority of the population" (Homer and Sylla 2005, 616).

After discussing the historical background of the high interest rate in China, this paper further asks the question: Why this high interest rate did not stimulate the desire for capital accumulation? Mill argued that the Chinese stop accumulation when the returns are still so large, this "denotes a much less degree of the effective desire for accumulation, in other words a much lower estimate of the future relatively to the present" (1909, 173). In short, Mill explained that the cause of the low desire for accumulation is improvidence, but the external reasons that contributed to this improvidence are elements that worth digging. To understand this issue, this paper considers two perspectives: borrowers and lenders.

The borrowers were mostly peasants. As Mill defined, capital is for the purposes of reproduction. However, Most of the Chinese peasants' loans were used for living expenses rather than production and operations (Fang 1994, 13). Under this circumstance, the principal borrowers in China relied on loans to struggle for survival, not to use loans for productive expansion. It was common for owner-peasants and tenant-peasants[25] who could not pay the high interest of loan and ended up bankrupt. Owner-peasants who used their lands as collateral for loans descended to tenant-peasants. Their lands became the possessions of landlords, which accelerated land annexation. For tenant-peasants who were the majority of the peasant population, when they could not pay off their debts, instead of becoming free laborers in the industry like what happened in the British enclosure movement, they became homeless or

Banque de I'Indo Chine (1899) were established after 1850.

[25] Owner-peasant, or peasant proprietor, is the peasant who owns land and can be self-sufficient by land production. Tenant-peasant is the peasant who owns no land and is hired by landlord.

slaves who were personally affiliated with their owners (Zhou 2006, 66). These agricultural labors were not transformed into effective labor in the industry. This reinforced, rather than disintegrated, the feudal system.

The lenders were mainly bureaucrats, nobles, high military officers, squires, landlords, and big merchants. For them, the interest gained from usury was not the primary source of capital accumulation, but a supplement to rent and commercial profit (Fang 1994, 11). In the accumulation of wealth, the Chinese had more taste for the ownership of land than trade investment and money lending (Jing 1980, 171; Homer and Sylla 2005, 613). The capital collected by the lenders of the privileged classes was most often used in land purchasing or squandered in luxury consumption and bureaucratic corruption, not commerce.[26] Mill saw this taste as a sign of improvidence. Probably, he was not that wrong in his conclusion. However, in *Principles*, Mill failed to consider the many external factors in China's social and political environment that affected this taste.

In conclusion, Mill mistook a system of rural debt peonage for a capital market. It is hard to believe that any economic activity in China could produce surpluses this large. It was not a market, but a non-market mechanism to extend aid, supplement land rents and reinforce dependency. Most of the accumulated capital was not used in the development of a market economy but used in land purchasing that strengthened the peasant economy. This further slowed down the speed of commercial development. In this declining feudal system, the Chinese lack of motivation to accumulate capital was primarily affected by social and political

[26] Under China's government hierarchy and the imperial examination selection system, the capitals sucked by the bureaucrats most often used for bribery or advancement in the government.

conservatism. The autocratic ideology and a centralized government under absolute imperial power strangled the growth of a market economy and clamped down on merchants. This leads to the next argument that Mill made on China about "liberty and individuality."

4. Liberty and Individuality

4.1 The "Despotism of Custom" in China

In *On Liberty*[27], Mill thought that the "despotism of custom" in China, which means "being in unceasing antagonism to that disposition to aim at something better than customary," is a hindrance to the liberty of thought because it kills individual vigor and diversity (1977, 1: 272). Creativity exists when an individual is free to form and express opinions. Liberty is the "only unfailing and permanent source of improvement," and individuals are the engine of improvement in politics, education, and morals (272). Any nation that runs counter to creating such a liberal environment for individual advancement will suffer stagnation. In Mill's mind, China, a nation once prosperous and intelligent, ceased to progress when customs overruled individual freedom and became the "final appeal" of all things. Mill used the suffering of women in China, the foot-binding tradition, to argue that such customs constrained every aspect of human nature and forced an absurd homogeneity on the people.

> "Its ideal of character is to be without any marked character; to maim by compression, like a Chinese lady's foot, every part of human nature which stands out prominently, and tends to make the person markedly dissimilar in outline to commonplace humanity" (271-

[27] Mill, John Stuart. 1977. *Essays on Politics and Society Part I.* Volume XVIII of *The Collected Works of John Stuart Mill*, edited by John M. Robson. Toronto: University of Toronto Press; London: Routledge and Kegan Paul.

272).

The foresightedness of Mill's thought was reflected in his advocacy of women's rights and opposition to patriarchy. His persistence in supporting women's voting rights and gender equity, which was considered a defect in his time and caused him to lose his position in Parliament, precisely demonstrated his insightful perception of the spirit of liberty.

In ancient history, there was a period when China was not ruled by the "despotism of custom." From the 770 BC to 221 BC, during the Spring and Autumn period and the Warring States period, diverse schools of thought were flourished. In this golden era, people from different social strata were free to discuss their ideas and scholars were free to preach among the states. This flourishing period was known for the "Contention of a Hundred Schools of Thought," and was regarded as the Axial Age.[28] In Mill's view, "even the most enlightened European" must honor these Chinese thinkers with "the title of sages and philosophers" (273). China became a unified multi-ethnic centralized country with a vast territory starting with the Qin Dynasty (221 BC-206 BC). The first emperor of China of the Qin Dynasty imposed conformity by "burning books and burying scholars (who advocate different schools of thought)." The rulers of the following Han Dynasty (206 BC-220 AD) "dismissed the hundred schools" and only revered Confucianism. They effectively formed a dominant ideology and

[28] The German philosopher Karl Jaspers in his *The Origin and Goal of History* brought forth the concept of *Achsenzeit*, or the Axial Age. "Confucius and Lao-Tse were living in China, all the schools of Chinese philosophy came into being, including those of Mo Ti, Chuang Tse, Lieh Tzu and a host of others" (2). This was an era of blooming civilization when great philosophers were born in both the East and West. Socrates was born 9 years after Confucius's death. Aristotle was born around 12 years earlier than Mencius (a philosopher of Confucianism) and about 15 year earlier than Chuangzi (a philosopher of Taoism). Archimedes was 7 years older than Han Fei (a philosopher of the Legalist school).

reinforced the "despotism of custom." Moreover, literary inquisition, or speech crime, which was used to persecute intellectuals for their writings or speeches in each dynasty, reached a peak in the Qing Dynasty (1616-1912).[29] Under this terror, scholars were forced to compromise their integrity. To avoid persecution, they evaded sensitive subjects, escaped from reality, and only focused on ancient studies. Benjamin Constant, a French liberal thinker that Mill much quoted, discussed the influence of arbitrary power on the progress of knowledge in his *The Liberty of Ancients Compared with that of Moderns* (1819). He also referred to the case of China where no one is dared to open a new course or break down the conventions. This coerced silence upon the public blocked scientific progress. This is consistent with what Mill has pointed out that China has "succeeded … in making a people all alike, all governing their thoughts and conduct by the same maxims and rules; and these are the fruits" (273-274).

4.2 Diversity and Assimilation

Mill believed that the European nations escaped from the fate of China because of their remarkably diverse characters and cultures: "Individuals, classes, nations, have been extremely unlike one another: they have struck out a great variety of paths, each leading to something valuable" (1977, 1: 274). However, China was a country with multiple ethnic groups. Why did China not form various values? Though China did have a great variety of ethnicities, the culture of the Han Chinese had a dominant influence on all other ethnic groups within China and in the neighboring countries. Even when the northern nomadic tribes conquered the country (during the Yuan and Qing Dynasty), the emperors demanded their

[29] The Qing emperors instigated, not only accusation among government officials, but also the whole nation to spy on each other. Moreover, horrible excruciation, such as collective punishment, was used by the Qing government to intimidate citizens into silence.

people learn the Han Chinese language as well as the culture of Han Chinese, and they ruled the country with Confucianism. There was a striving toward cultural assimilation. Diverse characters were slowly drained out in this ancient land by imposed unity of thought and oppressive centralization.

Mill further discussed the opposite of diversity: Assimilation. Mill argued the effect of education on assimilation, as education "brings people under common influences, and gives them access to the general stock of facts and sentiments" (274-275). In China, the combination of patriarchal clan culture and feudal dogmatism became a deeply rooted hidebound tradition. Different classes or individuals who lived in this society could hardly escape from this assimilation. The education system under such cultural conservatism could hardly foster individuality and diversity. The Imperial Examination system in China strengthened the belief of feudal culture and obedience to the feudal monarchy.

These ideas of Mill on diversity and individual freedom had a significant influence on later events to modernized Chinese education. One major part of Mill's legacy for Chinese reformers. Yan Fu (1854-1921), who graduated from the Royal Naval College in England, was the first modern Chinese reformist to translate Mill's *On Liberty* (1903). As an enlightenment thinker in the late Qing Dynasty, Yan took many ideas from *On Liberty*. Yan emphasized that the freedom of thought and speech could improve Chinese people's intelligence and morality (Yan 1986, 134). By raising the educational level of the whole nation, individuality could be freed from patriarchal clan rules and feudal ethics, thus strengthening the power of people's free will. Yan contributed greatly to the abolition of the Imperial Examination. In 1895, Yan wrote a newspaper article *On Our Salvation* to assail the eight-legged essay of the Imperial

Examination which stifled intellectuals' independent thinking and detached them from applied science. This stereotyped educational system "imprisoned wisdom," "corrupted minds," and "created a bloated bureaucracy."[30] On September 2, 1905, the Imperial Examination system was officially abolished. The abandonment of the feudal education system laid the foundation for the New Culture Movement (1915-1923) which further promoted the ideas of liberty and individuality.

Mill stated that only in the earlier stages could the encroachment of assimilation be successfully stopped, as assimilation "grows by what it feeds on." It is often too late to resist uniformity in its late stage when the assimilation is ingrained in the society because by that time every different opinion and behavior that diverged from the existing model would be regarded as "impious, immoral, even monstrous and contrary to nature" (275). After China's failure in the First Sino-Japanese War (1894-1895), many reformists, such as Kang Youwei and Liang Qichao[31], advocated for political reform to promote social science, a new educational system, industrial development, and, most importantly, political reform. However, the Hundred Days' Reform (from June 11 to September 22 in 1898), which might have adopted a constitutional monarchy in China, was suppressed by the Empress Dowager Cixi in 1898. One of the main reasons for the failure of this reform was that the dominant force of the conservatives was challenging to be dislodged. The reformists, mostly scholar-officials, were too weak to break the long-established conservatism. This proved Mill's point. Thought liberation in modern China was spread through many attempts of reforms and movements.

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[30] Yan, Fu. 1895. "On Our Salvation." *Zhibao*, May 1-11.

[31] Kang Youwei (1858-1927) and Liang Qichao (1873-1929), both Chinese scholars, who were prominent reformers of the late Qing dynasty.

4.3 Imperialist Liberty?

On the question of how to change this stationary state in China, Mill's suggested that the influence of an outside force was necessary: "they have become stationary—have remained so for thousands of years; if they are ever to be farther improved, it must be by foreigners" (1977, 1: 273). Was Mill suggesting British intervention in China? It is one interpretation of his statement.

Concerning Mill's imperialism, western scholars hold different opinions. Uday Singh Mehta (2001) thought Mill's liberal argument was ironic as Mill supported imperialism and defended liberal values at the same time. Mehta indicated that Mill's principle of liberty was only meant for "civilized" countries and Mill was in support of the despotism for the "uncivilized." Alan Ryan (2012) suggested that Mill thought much of liberty was waved in colonies of lower civilization. However, Mark Tunick (2006, 588) argued that Mill was a "tolerant imperialist" and Mill did "not think the principle of liberty is waived for the uncivilized or that the West should forcibly reshape them in its own monistic image." To Mill, the improvement by foreigners should not "entail forced assimilation."

Although one interpretation of Mill's criticism on the "despotism of custom" in China was a justification for westernization, what Mill ideally anticipated is a form of society or a civilization in which people are free to form and speak for their ideas, the freedom of individuality is well preserved, and the boundary between individual and authority is clearly defined. He generally disapproved of any form of society that deprived liberty of its people. In the case of China where feudalism was very deeply rooted, the development of any new forces was incredibly slow. Mill did not come up with a solution to solve China's stationary

state other than the introduction of western system as an option for reform.[32]

Given time, would China adopt a new economic and political system by itself? The answer to this question we shall never know. By opening China's door with war and colonization, western civilization forced a transformation upon China in a brutal way. The progress of modernization in China was indeed accelerated, and industrialization bred new productive relations and new reform powers. The establishment of the Republic of China in 1911 ended the last feudal dynasty of Qing. However, the outcome of a social transformation conducted by the exogenous forces was entirely different from the one led by the endogenous forces. The patriarchal system was never thoroughly erased. It was a malformed society consisting of both feudal despotism and superficial liberty generated by the colonialists. The boundary between authority and individual was blurred. The lack of respect for individuality, diversity, and independent thinking was still a significant problem.

Overall, Mill's criticism of China's stationary state in a centralized feudal monarchy was further developed in *On Liberty*, and his analysis was more convincing than in *Principles*. The despotism of convention and tradition, the oppressive thought control upon the public without any tolerance to diversity in ideology, and the ossified education system impeded humanity's mental advancement by stressing assimilation over individuality. However, both liberty and individuality are better developed when a country's social transformation is not compelled by an aggressive or destructive force from the outside but driven by its inner power. In order to

[32] A Chinese philosopher, Liang Shuming (1893-1988), considered that China could not develop capitalism on its own even for another 5,000 years in his books *Eastern and Western Cultures and their Philosophies* and *The Substance of Chinese Culture* (Wang 2009). 5,000 year seems a little exaggerated, but Liang's words represented the thought of some radical reformers in modern China who were eager to solve China's development problem.

foster such inner power, a strong and democratic government, which can protect the country from any foreign invasion and enforce internal democracy, is necessary to a country.

5. Democratic Government

5.1 The Danger of Tyranny

Mill first commented on the Chinese government in his work *Guizot's Essays and Lectures on History*. After studying Guizot's works on the history of Europe, Mill compared Europe's politics with China's and argued that the Chinese government "unchecked by any power residing in the mass of citizens, and permitted to assume a parental tutelage over all the operations of life" resulted in a "darker despotism, one more opposed to improvement, than even the military monarchies and aristocracies" (Mill 1985, 270). He also stated that if the government imposes "silence upon all voices which dissent from its decisions or dispute its authority; we should expect that, in such countries, the condition of human nature would become as stationary as in China" (270). This statement roughly summarized China's political situation in the 19th century and predicted the authoritarian control that was to come in the 20th century in China.

In *Considerations on Representative Government*[33], Mill illustrated an ideal form of government and further elaborated on Chinese governments. Mill considered that the most important point of excellence that any form of government can possess is to foster people's virtue and intelligence, because these elements could prevent the "general tendency of things towards deterioration." An ideal set of political institutions should possess two merits: (1) The

[33] Mill, John Stuart. 1977. *Essays on Politics and Society Part II*. Vol. XIX of *The Collected Works of John Stuart Mill*, edited by John M. Robson. Toronto: University of Toronto Press; London: Routledge and Kegan Paul.

ability to promote the general mental advancement of the community; and (2) the ability to organize moral and intellectual vitality in order to deal with public affairs efficiently (1977, 2: 392). To determine whether a form of government is suited to its people, it is essential to "distinguish those that are the immediate impediment to progress; to discover what it is which (as it were) stops the way." Mill thought that the institutions in China had carried improvement to its furthermost point. No advancement can be made until this political system was changed.

> "... the paternal despotism of China, were very fit instruments for carrying those nations up to the point of civilization which they attained. But having reached that point, they were brought to a permanent halt, for want of mental liberty and individuality; requisites of improvement which the institutions that had carried them thus far, entirely incapacitated them from acquiring; and as the institutions did not break down and give place to others, further improvement stopped" (396).

Mill had reached the core issue of China's absolute monarchy. The hierarchy in Qing was built upon the patriarchal clan system. Though patriarchy is not exclusive to the Chinese political system, it was long well-established and extremely rigid in China. The patriarchy and clan authority arranged the social hierarchy of citizens with strict laws. Because commerce was regarded as menial work in this hierarchy, the preference for capital accumulated from land over trade or money lending was an endogenous product of this system. Such despotism seriously hampered the development of commercial economy and caused stagnation in every field. The slow disintegration of this hierarchy made China different from Western Europe and Japan in the process of antifeudal reform (Jing 1980, 168). If China wanted to fully develop a

market economy, a politic reform was indispensable.

A democracy requires an amount of mental competency sufficient for the superintendence and constraint of government power. However, in the monarchical or aristocratic governments, "the interest of the king, and of the governing aristocracy, is to possess, and exercise, unlimited power over the people; to enforce, on their part, complete conformity to the will and preferences of the rulers" (Mill 1977, 2: 441). The interest of the ruling class is to permit no censure of its unjust privileges or threat to its endless power. If the people are disaffected with this form of government, it is the interest of the rulers "to keep them at a low level of intelligence and education, foment dissensions among them, and even prevent them from being too well off" (441). The Chinese emperors achieved these goals by implementing the Imperial Examination System to control the intellectuals and by restraining commerce in a feudal setting.

Mill listed two possible defects of any form of government: (1) General ignorance, incapacity, and insufficient mental qualifications of the controlling body of the government; and (2) the government is under the influence of interests which are not identical with the general welfare of the community (436). To Mill, non-representative governments that possess the high political skill, whether under monarchical or aristocratic forms, are essentially bureaucracies (438). A bureaucratic government has great advantages in some respects because it "acquires well-tried and well-considered traditional maxims." However, Mill pointed out that this form of government is not favorable to individual energy of mind, because "a bureaucracy always tends to become a pedantocracy." Individual vigor withers under the immutability of a mechanical routine. Moreover, the "frightful internal corruption" of a

bureaucratic government raised permanent hostility to any improvement in the existing political form. Mill indicated that "the Chinese Government, a bureaucracy of Mandarins, is, as far as known to us, another apparent example of the same qualities and defects" (439). One special feature of the Chinese hierarchy was that it was legal for the government to sell official positions for money. In the Qing dynasty, *Juanna*[34], which means buying government positions for open prices, was an important system that complemented the Imperial Examination System in the selection of bureaucrats.[35] This *Juanna* system effectively absorbed people who accumulated wealth into bureaucracy, thus stabilizing feudal hierarchy and breeding corruption.

5.2 Mill's Legacy in Modern China

Regarding China's political conditions in modern times, Mill's views on democracy were highly edifying but arduous in practice. Under the centralized feudal monarchy in China, the autocratic system and obscurantist policy which had been implemented for centuries were the main causes of turning the public into "slaves." To transform into a more advanced political form was the dominant trend in the late 19th and early 20th century China. However, the stubborn feudal system made this transformation process incredibly slow and painful.

In 1906, Zhang Junmai (1887-1969) translated Mill's *Considerations on Representative Government* into an abridged Chinese version with editorial notes and comments. As a constitutionalist, Zhang absorbed many ideas from Mill when he drafted the Constitution of

[34] *Juanna*, 捐纳, was a long-implemented system that started with the Qin dynasty (221 to 206 BC).

[3535] A survey shows that local officials in the Qing dynasty, who bought positions by money, occupied 22.4% of all the government officials in 1764, 29.3% in 1840, 51.2% in 1871, and 49.4% in 1895 (Ho 2013, 54).

the Republic of China. In order to protect individual liberty, the Constitution was designed to limit the president's power and to prevent the dictatorship of the Nationalist Party. Only when private property and private ownership are protected by the constitution can independent personality be formed. When citizens no longer live in fear of totalitarianism, liberty and democracy will follow. However, President Jiang Jieshi violated the democratic and liberal spirit of the constitution by passing a series of regulations to grant the president with extraordinary powers (He 2007). As a result, China did not form a democratic government based on the principles of the Constitution of the Republic of China and remained as a despotic nation. This is consistent with Mill's statement that a representative government is not suited to every society since the form of government should match the stage of development in that society. Even in the Republic of China, its social state was still too immature to fully practice Mill's thoughts on democratic government. A democratic government was an alienated and idealistic conception in modern China.

To conclude Mill's views on the Chinese government, Mill stated that the paternal despotism restrained mental liberty and individuality, and that the pedantocracy and internal corruption of a bureaucratic government inhibited individual vigor and originality. Additionally, the stage of social development should be taken into consideration when defining whether a given government form is suitable for a given society. Mill's criticism of dictatorship and bureaucratism was highly enlightening for China's reformers.

6. Conclusion

As a liberal economist, China's closed economy drew Mill's interest. Mill developed a second concept of a stationary state based on his analysis of China's capital accumulation,

liberal, and democratic situations.[36] Mill considered that China's stagnant economy as closely linked to its the low desire for accumulation. However, he failed to discuss the external factors that could influence this taste in his *Principles*. After exploring the reasons behind China's high interest rate and its relationship with Chinese investment preference, this paper argues that the capital made from high interest rate was usury capital which was eventually used in land investment or wasted in luxury and corruption. It was not available for industrial and commercial investment. This paper argues that Mill misinterpreted a rural debt system for a capital market mechanism. Capital accumulation under a non-market system only enhanced the feudal economy rather than promoting capitalism. In Mill's subsequent works, he supplemented his theory of China's stationary state by analyzing the disastrous impacts of cultural autocracy and paternal despotism. The highlight of Mill's thoughts on China is his criticism of the restraints of absolute authority over the development of individual intelligence and the trampling of dictatorship over public rights. In China, where centralized control has been played for centuries, the inner will to promote liberty and democracy within the country is far more critical than any external influences. Mill's thought on China, which may seem a cliché from modern perspectives, was actually quite progressive in the 19th century.

Mill's radical ideas to promote economic development, liberty and individuality, and political democracy were instructive to China's social and political improvement in modern times. Chinese reformists who benefited from Mill's thought greatly contributed to the modernization process. A full study of Mill's influence in China remains to be done.

[36] Mill's other known stationary state was the one he optimistically anticipated for the future Britain when the profit rate fell close to zero.

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