THE TAO OF MARKETS: SIMA QIAN AND THE INVISIBLE HAND

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Abstract. Adam Smith's famous doctrine of the Invisible Hand, introduced in the Wealth of Nations in 1776, was anticipated by the great Han Dynasty historian Sima Qian (145–87 BC) in his Records of the Historian. Sima Qian's statement is deeper in that, unlike Smith, he links the "invisible hand" explicitly to the price mechanism. Their analyses had a common philosophical foundation: the characteristically Chinese concept of a general, spontaneous natural order. They arrived at their similar conclusions by applying this concept to a similar contemporary issue in political economy — the appropriate extent of government intervention. More intriguing, if more equivocal, is the possibility of a direct intellectual debt through the agency of A. R. J. Turgot and two Chinese who were visiting Paris as guests of the Jesuits just before Adam Smith's famous visit to the same city.

1. INTRODUCTION

The most important and famous passage in economics is surely that in which Adam Smith introduced the concept of the "invisible hand" in The Wealth of Nations in 1776:

by directing that industry in such a manner as its produce may be of greatest value he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. (Smith, 1934, p. 423)

Smith's formulation of the insight that selfish individual choices can lead to an unforeseen, but socially desirable, outcome is a milestone in modern thought.

A search for antecedents might be led to China's copious literature simply by the Law of Large Numbers, if not by her long record of upstaging the West in everything from printing to gunpowder to paper to ice cream. And in China, we

1 Whereas the Romance of the Three Kingdoms began with a meeting under a peachtree, this paper began over an excellent dinner of Peking Duck in February 1993 which I enjoyed in Hong Kong in the company of Professor Ronald Jones, Dr Elbert Y. C. Shih and Professor Eden S. H. Yu. During this dinner, I mentioned that many years before, I had discovered the priority of Sima Qian (see Rao, 1985). I am grateful to my co-diners (not to mention the Duck) for their continued encouragement for this enterprise and to two referees of this journal for their helpful comments.

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indeed find a striking antecedent, not by some obscure scribbler, but by China’s
greatest historian, Sima Qian (145–87 BC), whose magnum opus, Records of
the Historian, was familiar to all educated Chinese down to our own time and
was perhaps second only to Confucius’ sayings in its impact on Chinese
civilization. In his chapter on “The Biographies of the Money Makers,” Sima
Qian says:

There must be farmers to produce food, men to extract the wealth of mountains
and marshes, artisans to process these things and merchants to circulate them.
There is no need to wait for government orders: each man will play his part, doing
his best to get what he desires. So cheap goods will go where they will fetch more,
while expensive goods will make men search for cheap ones. When all work
willingly at their trades, just as water flows ceaselessly downhill day and night,
things will appear unsought and people will produce them without being asked.
For clearly this accords with the Way and is in keeping with nature. (Sima, 1993,
p. 433)

With the hindsight conferred by two centuries of advances in economic
thought, casual readers often jump to the conclusion that Adam Smith’s
“invisible hand” refers to the price mechanism. However, this is unwarranted:
the allocative role of prices is not mentioned in the cited passage nor, indeed,
in the surrounding chapter, which is mainly an argument for free trade. Rather,
the “invisible hand” is simply Smith’s metaphor for the principle that
individually selfish actions can bring about a socially desirable outcome. The
full explication of the allocative role of prices had to await a later generation of
economists – Walras, Pareto and the Austrians.

Although Sima Qian also uses a metaphor for the socially desirable outcome
of individually selfish actions – water flowing downhill – he goes well beyond
Smith in explicitly identifying the price mechanism as the agency which brings
this about (“So cheap goods will go where they will fetch more while
expensive goods will make men search for cheap ones”). Thus, by the first
century BC, he had already provided a deeper statement than Adam Smith.

This paper argues that Adam Smith and Sima Qian started from a common
philosophical base – the characteristically Chinese concept of a general,
spontaneous natural order – and that they arrived at their similar conclusions
by applying this concept to a similar contemporary issue in political economy
– the appropriate extent of government intervention. More intriguing, if more
equivocal, is the possibility of a direct intellectual debt through the agency of
A. R. J. Turgot and two Chinese who were visiting Paris in 1766 as guests of
the Jesuits during Adam Smith’s famous visit to the same city.

2. ADAM SMITH, THE NATURAL ORDER AND MERCANTILISM

Jesuit missionaries arrived in China in the sixteenth and seventeenth centuries
and came to occupy important posts at the Emperor’s court because of their
linguistic skills and scientific knowledge. Eminent European scholars such as

2 For a detailed discussion of Sima Qian’s background and thinking, see Spengler (1964).

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Leibniz maintained an extensive correspondence with these Jesuits and their reports were widely circulated and read, leading to a "craze" for chinoiserie: blue-and-white china, furniture and knick-knacks, as well as Chinese gardens and architecture. Another consequence, well-known to historians of economic thought, is that the importance attached to agriculture in Qing China inspired the Physiocrats to assert the primacy of agriculture over industry and commerce, which they regarded as sterile for the economy as a whole (Gernet, 1982, p. 523).

However, China had a much wider and deeper impact on eighteenth-century Europe through the philosophical and political thought of the philosophes of the Enlightenment. Jesuit reports of the Qing Dynasty, then at the zenith of its dynastic cycle, told of a vast, prosperous Chinese empire run by competitively selected scholar bureaucrats on a secular basis. Here, it seemed, was an advanced society uncluttered by privileges of birth and ecclesiastical institutions, being instead organized along rational lines. Equally important to the philosophes was the philosophical foundations of Chinese thought: the concept of a general, spontaneous order, found not only in Taoism but also in official Confucianism (Gernet, 1982, p. 524). Just as China provided a critically important alternative model of society to set against the ancien regime of royalty, clergy and nobility, so the Chinese concept of a spontaneous "natural order" provided a critical ideological weapon and an alternative source of legitimacy to set against the theological buttresses of that regime. In the political sphere, this emerges clearly in those archetypal Enlightenment documents: the French Universal Declaration of the Rights of Man and the American Declaration of Independence with their references to "Nature" and "Nature's God."

The central role of the concept of natural order in the birth of modern economics emerges in the very name of its first school: "Physiocracy" is derived from the Greek "physis" meaning "nature" and "kratis" meaning "power." Some important Physiocratic writings were entitled: Physiocratie, oue constitution naturelle du government le plus avantageux au genre humain published by Du Pont de Nemours in 1767, Le droit naturel published by Quesnay in 1765 and L'ordre naturel et essentiel des Societes Politiques published by Mercier de la Riviere in 1767. The Physiocrats believed that civil societies mirror the natural order and are characterized by natural laws which can be studied to provide the foundation for the proper administration of the country (Vaggi, 1987, p. 873). Through the agency of the Physiocrats, Chinese concepts were to be at the root of the development of political economy (Gernet, 1982, p. 524).

It is in the context of the concept of "natural order" that we must understand Adam Smith's political economy. Thus, in his introduction to the 1934 Edition

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3 Several voluminous works based on the information collected by the missionaries were published in France during the eighteenth century: Lettres edifiantes and curieuses (Paris, 1703–76, 34 vols), Description de la Chine and la Tartarie by J. B. du Halde (Paris, 1735, 4 vols), Description Generale de la Chine by J. B. Grosier (Paris, 1785), Memoires concernant l'histoire, les sciences, les arts, les moeurs et les usages des Chinois (Paris, 1776–1814, 16 vols).
of *The Wealth of Nations*, Max Lerner summarizes Smith's argument as follows:

First, Smith assumes that the prime psychological drive in man as an economic being is the drive of self interest. Secondly, he assumes the existence of a natural order in the universe which makes all the individual strivings for self interest add up to the social good. Finally, he concludes the best program is to leave the economic process severely alone – what has come to be known as *laissez faire*, economic liberalism, or non-interventionism.

In arriving at this conclusion, Smith had a more specific target: Mercantilism, the contemporary doctrine which argued for government intervention in the economy to strengthen the power of the state. In this battle, Smith was allied with the Physiocrats who had first adopted the slogan of *laissez faire*. However, Smith challenged the central place that the Physiocrats assigned to agriculture, placing equal emphasis on the contributions of industry and commerce.

3. SIMA QIAN, THE NATURAL ORDER AND MERCANTILISM

The preceding section has argued that (1) the concept of “natural order” was imported from China; (2) Adam Smith’s invisible hand was an application of this concept to political economy to (3) address the contemporary issue of the appropriate extent of government intervention. None of these propositions is novel or controversial, (1) and (2) being found in history textbooks in their chapter on the links between China and Europe in that period, while (3) is a commonplace in the history of economic thought. What lends the propositions particular interest is that, nearly twenty centuries earlier, the same (indigenous) philosophical tradition had already (1) led Sima Qian to apply the concept of “natural order” to political economy to (2) formulate an explicit statement of the invisible hand as the price mechanism to (3) address the contemporary issue of the appropriate extent of government intervention by a Han Dynasty “Mercantilist.” He even had Chinese “Physiocratic” allies, propounding the very doctrine which was to inspire the French Physiocratic allies of Adam Smith (see Fan, 1954).

Sima Qian’s exposition of the price mechanism, quoted in the Introduction, concludes by asking: “Does this not accord with the Way?”. “The Way” is the Taoist term for the natural order of the Universe which the sage has but to perceive. Indeed, “Tao” means “the Way” and Sima Qian’s metaphor for an economic order guided by the price mechanism – the downhill flow of water – was a classic Taoist metaphor for the Way. This provenance is brought home by a reading of the chapter “The Biographies of the Money Makers,” from which the above quotation from Sima Qian is taken. This chapter begins by quoting the founder of Taoism, Lao Tzu, according to whom the ideal form of government is a small state with a few people, then notes that this is unrealistic since people desire material goods from diverse regions of the empire and must
trade to obtain these goods:

... ears and eyes have always longed for the ultimate in beautiful sounds and
forms, bodies have delighted in ease and comfort, and hearts have swelled with
pride in the glories of power and ability. So long have these habits been allowed to
permeate the lives of people that, though one were to go from door to door
preaching the subtle arguments of the Taoists, he could ever succeed in changing
them. Therefore the highest type of ruler accepts the nature of the people, the next
best leads people to what is beneficial, the next gives them moral instruction, the
next forces them to be orderly, and the very worst kind enters into competition
with them ... (Sima, 1993, p. 434)4

After a paragraph of geographical information, Sima Qian proceeds to the
paragraph quoted in the introduction. Thus, in his two quoted paragraphs, Sima
Qian argues that, while it is only realistic to expect individuals to pursue
selfish, material ends, a proper understanding of the natural order would bring
the recognition that these selfish pursuits lead to a socially desirable outcome
without the need for government intervention in economic activity. This
argument is virtually identical to Max Lerner’s above-quoted summary of the
argument of The Wealth of Nations – with the bonus that Sima Qian makes the
role of the price mechanism quite explicit.

Just as Adam Smith’s conception of the invisible hand must be seen in the
context of Mercantilism, so Sima Qian’s analysis must be seen in the context
of the contemporary policies of Sang Hongyang, the activist Privy Councillor
for fiscal affairs to Emperor Han Wu Di. To raise revenue, garner scale
economies and drive merchants out of commerce into the supposedly more
fundamental activity of agriculture, Councillor Sang set up government
monopolies in salt, iron and wine and organized the Balanced Standard, a
bureau which sought to stabilize prices by buying commodities cheap and
selling them dear. Sima Qian’s remark that “the very worst kind [of ruler]
enters into competition with [the people]” is an indirect criticism of this
degree of government intervention. Moreover, in his earlier chapter on The
Balanced Standard, Sima Qian records the Stigleresque remark of another
official, Bu Shi during a drought:

The government officials are supposed to collect what taxes they need for their
food and clothing, and that is all. Now Sang Hongyang has them sitting in the
market stalls buying and selling goods and scrambling for profit. If your Majesty
were to boil Sang Hongyang alive, then I think Heaven might send us rain!

In 81 BC, shortly after Sima Qian’s death, a famous debate took place before
the Prime Minister in which Sang Hongyang defended his policies before some
sixty Confucian scholars, a debate recorded for posterity as the Discourses on
Salt and Iron. The scholars stressed the primacy of agriculture and argued for

4 The translator inserts a footnote that this is “A reference to Emperor Wu’s economic policies,
which put government policies into competition with the people for profit ...”

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minimal government intervention as in keeping with the natural order of things. However, these traditionalists were also disdainful of commercial activity. By contrast, Sima Qian introduces “The Biographies of the Money Makers,” as follows:

Though only commoners with no special ranks or titles, they were able, without interfering with the government or hindering the activities of the people, to increase their wealth by making the right moves at the right time. Wise men will find something to learn from them. Thus, I made “The Biographies of the Money Makers.” (Sima, 1993, p. 434)

This sets the tone for a chapter with many positive, realistic remarks on the fortunes made through intelligent commercial activity. Thus, Sima Qian, like Smith, agreed with the contemporary “Physiocrats” that government participation in the economy should be minimized but parted company with their denigration of commerce. His relationship to the other protagonists is strongly reminiscent of the position of Adam Smith with respect to the Physiocrats and the Mercantilists.

4. DID SIMA QIAN INFLUENCE ADAM SMITH DIRECTLY?

In view of the close parallels between the arguments of Sima Qian and Adam Smith, it is natural to speculate on whether there was a closer connexion than their application of a common philosophical tradition in a similar socio-political context.

Adam Smith spent February 1766 to November 1766 in Paris as tutor to the Duke of Buccleuch. As the author of The Theory of Moral Sentiments and the friend of David Hume, he was warmly welcomed into the salons of the Physiocrats and of A. R. J. Turgot, whose writings bridged the Physiocratic and Classical Schools. The resulting intellectual exchanges were so close that, in his Introduction to The Wealth of Nations, Edwin Cannan (Smith, 1934, p. lv) says “... few authors are less open than Adam Smith to the reproach of having rifled another man's work. That charge has never been seriously brought against him, except in regard to Turgot's Réflexions ...” Turgot's Réflexions on the Production and Distribution of Wealth are dated November 1766, so Turgot must have been working on them at the very time that he was entertaining Adam Smith. Indeed, Lundberg (1964, pp. 44–45) has speculated that Smith might have been the unknown translator of the Réflexions into English. These controversies indicate the intimacy of Adam Smith's involvement with Turgot's Réflexions but are not directly related to our theme. What is germane is that two Chinese visitors, in Paris at the same time as Adam Smith, stimulated Turgot to write the Réflexions in the first place!

5In a letter to the Duc de la Rochefoucauld, Smith says of Turgot that “But tho' I had the happiness of his acquaintance, and, I flattered myself of his friendship and esteem, I never had that of his correspondence.” (Smith, 1977, p. 248).
6Cannan himself disbelieved the charge.
7An English translation of this work appears in Groenewegen (1977).
In explanatory notes to his 1977 translation of the Reflections, P. D. Groenewegen writes:

The Reflections were completed in November 1766 for reasons explained by Turgot in a letter to Du Pont in the following month, which may be quoted in full:

"I have scribbled on a great deal of paper since I last saw you ... I have completed some questions for the two Chinese of Whom I have spoken, and in order to clarify their objective and meaning, I have preceded them with a type of outline of the analysis of the working of society and the distribution of wealth. I did not want to include any algebra in it, and there is only the metaphysical part of the Tableau Economique; moreover, I have left out many questions which should be treated to render the work complete, but I have treated rather thoroughly the formation and the movement of capitals, the interest of money, etc. It is a brief outline."8

The issue of the origin of what has frequently been described as the most important treatise on economics prior to Adam Smith's Wealth of Nations must be further discussed since it has appeared ludicrous to some commentators that such an important work should have been written as an aid to a catechism on China to be answered by two Chinese students visiting Paris in order to provide more information about this largely unknown country which fascinated the intellectuals of the eighteenth century. Yet all the evidence seems to point in that direction so that economics appears to owe the existence of the Reflections to the accident of a visit to Paris of MM. Ko and Yang as guests of the Jesuits. (Groenewegen, 1977, pp. xvii–xviii)

Thus, at the very time that Turgot was addressing economic questions to the two Chinese students, Kao Lei-su and Yang Te-wang, and writing his Reflections to explain these questions to them, he was also engaging Adam Smith in economic discussions so intimate that some scholars have speculated that Smith plagiarized some ideas from the Reflections or was involved in translating them into English. All educated Chinese would have been familiar Sima Qian's classic Records of the Historian. In their discussions with Turgot on Chinese economics, Kao and Yang could well have harked back to Sima Qian's economic treatise, especially since its central conclusion was so close to Turgot's laissez faire. Thus, Sima Qian's ideas could have been transmitted to Adam Smith via Turgot.9,10


9 A referee has pointed out that personal contacts between Smith and the Chinese are unlikely since they reportedly left France in 1765, before Smith arrived in Paris. Smith had begun writing the Wealth of Nations in Toulouse a year and a half before.

10 In the Wealth of Nations, Adam Smith displays a detailed knowledge of China, on such topics as the practice of exposing female children, the importance of the land tax for government revenue, the responsibility of magistrates for the maintenance of roads and the payment of taxes in kind. For example, on p. 72 of the chapter on "The Wages of Labor" in The Wealth of Nations, he cites J. B. du Halde's Descriptions geographique, historique, chronologique, politique et physique de l'empire de la Chine et de la Tartaries chinoise. Even prior to his visit to France, Smith had considerable knowledge of China from reports of missionaries and the writings of Montesquieu. This can be seen from his Lectures on Jurisprudence, given in 1762–63. Montesquieu himself had had detailed conversations with an earlier Chinese visitor to France, Arcadio Huang (see Spence, 1992).
5. THE IMPACT

The *Records of the Historian* reviews Chinese history from legendary times. It provides the definitive record of the first Chinese Empire, the Qin Dynasty, and of the early part of the Han Dynasty, upon which all later dynasties modelled themselves. Its terse, objective style, severely separating fact from opinion, became the model for historiography, not only in China but also in Japan and Korea. Each dynasty upon secure accession would commission a team of scholars to compose an official history of the preceding dynasty which followed closely the Records, not only in style, but also in structure. Consequently, each official history had a chapter on economic issues in the manner of Sima Qian.

These official histories were intended not simply as records but as guides to statecraft to be diligently studied by the scholar-bureaucrats who ran the government. Sima Qian remained the towering exemplar, with an authority that grew as centuries and dynasties rolled by. Thus, his views on the price mechanism and the appropriate role of government intervention and the realistic balance that he struck between agriculture and commerce must have deeply influenced subsequent generations of scholar-bureaucrats. To translate his impact into a Western context, we must imagine, not only that all civil servants from Adam Smith’s time forward made a close study of the *Wealth of Nations* and wrote treatises modelled upon it, but also that these same civil servants controlled the conception and implementation of economic policy.

Although Sima Qian was no more successful in halting government intervention than Adam Smith, the Chinese state became notable for exceedingly limited government after the heavy-handed intervention of the Qin and various economic experiments during the Early Han which he recorded. The scholar-bureaucrats who ran the government were always spread thin, with one magistrate sometimes presiding over a county of a million souls, assisted only by a few clerks and runners. In these circumstances, there was little scope, even if there had been the inclination, for government activism: the bulk of economic activity was perforce governed by the market. The depth and breadth of the commercial culture which grew up as a result has been manifested in recent times in the economic success of the Overseas Chinese, as well as in the alacrity with which avowed communists by the hundred million have switched overnight to commerce in China itself.

Insofar as Sima Qian’s writings played a critical role in sustaining the commercial culture which allowed the Chinese Empire to flourish as the most populous, successful and enduring of all empires, he deserves to be regarded as the Chinese Adam Smith. Insofar as that Empire’s success, reported by the Jesuits, inspired the Enlightenment *philosophes* and proponents of *laissez faire* and enhanced their credibility, Sima Qian also deserves credit for assisting at the birth of the industrial democracies. Insofar as he directly inspired Adam Smith, Sima Qian deserves to be known as the true Adam and the true Smith of economics.

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6. TWO IRONIES

(1) In the West, Taoism is known mainly as yet another Eastern philosophical fad ("Go with the flow, man") espoused by un washed hippies and motley dropouts from the capitalist rat race, the very rat race whose *laissez faire* creed was first enunciated by Sima Qian as an application of Taoism to political economy and governance: know the Way and get out of the way. Would the hippies or the capitalists be more aghast to discover their common philosophical roots? Berkeley, meet Chicago.

(2) The great Chinese inventions such as gunpowder and the compass never had the direct impact on Chinese society that they had on the West. They had to circumnavigate the globe and revolutionize the West before returning to revolutionize China — behind the gunbarrels of Western gunboats. The only remaining trophy of gunboat diplomacy in China, soon to revert, is Hong Kong. How fitting, therefore, that it should be through Hong Kong that yet another Chinese invention — *laissez-faire* — should now return to revolutionize China after revolutionizing the West.

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